



PRIME MINISTER

## 1980-81 CASH LIMITS AND PAY

Unfortunately I have to be in Canada on 20 September when E Committee takes the Chancellor's paper (E(79)34), although I hope that Paul Channon may attend on my behalf. I have had a word with Geoffrey Howe about his paper and I am writing now to emphasise the crucial importance for the Civil Service of the Committee's decision.

2. I can go along with the Chancellor's proposal. The cardinal feature that makes it acceptable, by preserving some reality for pay research, is that it allows us to delay the settling and publication of the cash limit until March, when we should have a fair idea of what the pay research evidence points to. What I would strongly deprecate is any earlier settling of the cash limits which would make pay research into a sham.

3. The proposal still enables the Government to settle the cash limit before the negotiations with the Staff Side. We shall be free to decide in the light of the pay research evidence and the situation at the time, that the cost of a pay research settlement would be too high and could not be met or must be compensated for by other savings. What the proposal avoids is the risk of settling the cash limits blind, getting them badly wrong and then having no option but to take yet another cut at the numbers we already plan to pare down to the minimum.

4. Failure to reconcile cash limits and pay research would, in my judgment, have the most serious consequences for the morale of the Service and our relations with our employees and their unions. The present mood of militancy, which we all deplore and must seek to change, has not a little to do with the habit of previous Administrations of messing about with the Civil Service pay system to meet the needs of the incomes policy of the day. We are clearly in for further trouble over staff reductions, and we must stick to our guns on that. We have no prospect of separating the staff from the union militants if pay research is abandoned or seen to have become meaningless as a result of the way we organise the timing of the cash limits.

5. Copies of this minute go to all Cabinet colleagues and Sir John Hunt.

Prime Minister - To note. <sup>2</sup>

For E Committee: the  
Lord Soames supports  
the Chancellor on  
deferring a decision on  
the civil service cash  
limit until March.

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