

SUBJECT

Master



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Civil Service

## 10 DOWNING STREET

From the Principal Private Secretary

2 April, 1981.

Dear John,

Civil Service Pay

The Prime Minister held a meeting this morning with the Chancellor, the Lord President, the Secretary of State for Employment, the Attorney General and Mr. Hayhoe, to discuss Civil Service pay on the basis of the paper attached to the Lord President's minute of 27 March. Robert Armstrong was also present.

The Lord President said that in his view some solution along the lines of the approach recommended in paragraph 19 of the paper was now necessary. He could see no end to the present industrial action in the Civil Service, other than through further confrontation and escalation which would irreparably damage management's relations with the civil servants, unless the unions were given an assurance of access to binding arbitration for 1982. The alternative posed in the paper, of a 1982 settlement indexed to the 1981 offer, was in his view less acceptable. The mood of the Civil Service was souring; even at Principal level, officers were now refusing to serve notice of Temporary Relief from Duty (TRD), and the feeling that the Government wanted to control Civil Service pay through the cash limit system was now widespread. Unions were organising the industrial action skilfully, so that there were never more than 3,000 people on strike, and the cost to union funds was therefore manageable. He foresaw that an independent inquiry might be necessary to look at arrangements after 1982. The outcome of arbitration for 1982 might well be acceptable to the Government, given that factors such as Civil Service pensions and job security would be taken into account, and that the record of the Civil Service Arbitration Tribunal was an encouraging one.

The Chancellor said that the most serious industrial action was taking place in his Departments, notably the Inland Revenue and Customs and Excise. Nonetheless, he expected to be able to gather the same proportion of revenue as at present. On the other hand, insufficient pressure was being brought to bear on the

unions' cash flow, since they could afford to pay out up to £750,000 a week, which is what it could cost them if all their members in these Departments came out on strike. He agreed with the Lord President that bitterness was growing among the civil servants, and that we should now try to find a way out of the dispute. But it would be wrong either to hand over the problem to an outside inquiry, or to commit ourselves to the outcome of arbitration for 1982. The Government must retain the ultimate right to set aside the outcome of the pay determination procedure if necessary. In his view, the Government should now open discussions with the unions on the basis of some kind of non-binding formula for 1982.

The Secretary of State for Employment agreed with the Lord President that an independent inquiry along the lines of the Priestley Commission was needed for the longer term, and that although it might be too soon to offer the unions a formula for 1982, he also agreed that arbitration would be preferable to indexation.

In further discussion, some of the possible courses of action were reviewed:-

- (i) An independent inquiry. Although the time might well have come for a full-scale Commission of Inquiry into Civil Service pay, given the length of time that had elapsed since the Priestley Commission, it would be best to wait and see the outcome of Misc 54 before taking that decision; and, unless the Government were prepared to commit themselves to the outcome of such an inquiry, its establishment could not contribute to resolving the present dispute.
- (ii) Raising the offer for 1981. It was generally agreed that although increasing the offer to 7½% with a further manpower squeeze might be a useful contribution to a settlement, it would not in itself be enough, and it should certainly not be offered at this stage.
- (iii) Non-binding arbitration for 1982. Similarly, it was recognised that an offer of access to arbitration for 1982 would not be taken by the unions as a sufficient reason for ending the dispute, unless the Government were to commit itself to implement the outcome.
- (iv) Manpower. One possible way of reconciling the outcome of arbitration for 1982 with the likely cash limit for that year would be a further manpower squeeze. Such an option would have to be agreed by Cabinet, since all Departmental Ministers would have to accept the consequences.

- (v) Retrospection. It would be possible to make it known that there would be no retrospection to 1 April 1981 of this year's settlement, since it was the industrial action that was holding up agreement. But it was agreed that, since the Government could not legally discriminate between those taking industrial action and those working normally, it would not be fair to deny retrospection to the Civil Service as a whole.

The Prime Minister, summing up this part of the discussion, said that Ministers were agreed that none of the proposals suggested in paragraph 19 of the Lord President's paper should be put into effect at this stage. Although offering arbitration for 1982, on the basis that the Government would put in the strongest possible evidence about pensions and job security, might be a possibility, there could be no question of the Government binding itself to the outcome. Indexation between 1981 and 1982, so as to freeze the present relative position of the Civil Service, might also be a possibility to be considered at a later stage. The question of a new independent inquiry could also be considered later in the light of the report from Misc 54, but there were serious drawbacks in putting this issue into the hands of an outside body. Meanwhile:-

- (i) Sir Robert Armstrong should re-examine the interim formula urgently with Sir John Herbecq and his group of officials, possibly in conjunction with Mr. Alan Lord, the Managing Director of Dunlop; and
- (ii) on the basis of advice from this group, the Lord President should put a paper to Cabinet for discussion on 9 April.

There was also a brief discussion of the arrangements for picketing the Inland Revenue offices at Bush House. The Chancellor reported that the small number of Inland Revenue officers working normally at Bush House were being intimidated by a demonstration which could be regarded as a de facto extension of the picket line. The Lord President and the Secretary of State for Employment considered that the demonstration was more likely to be unlawful under criminal law, because it caused an obstruction, than to be an offence under the Employment Act 1980, and should therefore be dealt with by the police. The Attorney General said that if the demonstration did create a measure of intimidation, it would be possible to apply for an injunction to stop it. It was agreed that no action would be taken until it became clear to what extent intimidation did in fact take place.

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There was also a brief discussion of the application of TRD. The Chancellor reported that the procedure, involving oral, then written warnings to each officer, which in one case was in the hands of one official covering 12 regional offices, was too clumsy to be effective. The Lord President said that he was sure there were ways round this, such as giving general notice. The Attorney General confirmed that if a pattern of behaviour which justified the TRD became apparent, it could be dealt with by, for instance, putting a general notice in a public place. It was agreed that this issue would be resolved by the Chancellor, the Lord President and the Attorney General.

I am sending copies of this letter to Jim Buckley (Civil Service Department), Richard Dykes (Department of Employment), Jim Nursaw (Law Officers' Department), Geoffrey Green (Office of the Minister of State, Civil Service Department), David Wright (Cabinet Office), and to Jeremy Colman (Sir Ian Bancroft's Office).

*Yours ever,*

*Alvin White,*

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HM Treasury.