

SECRET

PRIME MINISTER

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You have seen some Ministers' reactions to Mr Channon's request for contingency planning on additional Civil Service cuts. Some preparation of Cabinet may discussion is required.

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Was prime met

Ask Chancellor to put in hand, as in para 4, for Feb 28 Cabinet discussion?

Civil Service Pay and Cash Limits

A number of Ministers have now commented on Mr. Channon's letter of 24th January, in which he warned of the steps which might be needed if pay research produces an unacceptably high figure.

2. Mr. Channon may have made his own case more difficult by issuing his letter too quickly; equally, the Ministers who had commented are crying before they have been hurt. The relevant facts are these:

- (a) The Chancellor will receive this weekend the latest Treasury pre-Budget forecast, which will show how tight a volume squeeze is implied in any given cash limit; the cash limits for services other than the central Civil Service have of course already been set.
- (b) CSD will receive, in the course of next week, the evaluation of the PRU evidence.

The gap between these two may not be quite as wide as was earlier feared; there is always some scope for negotiation on the meaning of the PRU evidence (with perhaps one percentage point at issue); and it is just conceivable (though not very likely) that, faced with a choice of pay or jobs, the Civil Service Unions might be prepared to compromise (e.g. by staging the settlement, thus reducing its year-on-year cost). But Ministers cannot very well consider these options, or the size of manpower cuts which might be necessary if the gap were wider, until the figures are available.

3. That points to some Ministerial consideration in the week beginning 25th February. We had originally planned to take this complex of issues at Cabinet on 28th February. But you may feel that some preliminary working-over would be useful. I do not think that a meeting of E would help very much. For one thing, there would be something to be said for your standing back from the first round of discussions and holding yourself in reserve, to impose a compromise at a later stage. For another, so many additional Ministers

SECRET

would need to be invited to E that the result would be indistinguishable from a full Cabinet. Thirdly, some smaller group of those more directly concerned might make better progress.

4. If you agree, you might consider asking the Chancellor of the Exchequer to take the chair of a small group, consisting of the three big employer Ministers (Defence, Environment and Social Services) together with the Minister of State, Civil Service Department. An alternative is to ask the Home Secretary to take this on as a 'neutral'. (He is not himself among the largest employers.) Such a group could see just how much room there was for manoeuvre, and identify the key issues for Cabinet.

5. We should not, however, postpone the Cabinet discussion long. It could, though with difficulty, be allowed to slip from 28th February till 6th March, at the cost of increasing difficulty for the CSD in the conduct of the pay negotiations. It would be preferable to avoid this delay, unless it is absolutely necessary because of a failure of Ministers to agree.

RA

(Robert Armstrong)

13th February 1980