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SUBJECT.

10 DOWNING STREET

From the Principal Private Secretary

19 May 1981

Dear Jim,

Civil Service Dispute

The Prime Minister held a meeting this morning to discuss the Civil Service dispute. The following were present in addition to the Lord President: the Chancellor of the Exchequer, the Secretary of State for Employment, Mr. Hayhoe, Sir John Herbecq, Mr. Bill Ryrie, Mr. Douglas Smith, Mr. Lawrence Oates and Sir Robert Armstrong.

The Lord President said that following the Conference season of the various Civil Service unions, it was now expected that there would be a meeting of the Council of Civil Service Unions on 26 May to decide whether to call an all-out strike, and if so for what period. In his view, a one-day strike was unlikely because it would do little damage, and a five-day strike, which was quite possible, would probably not be well supported. However, it was possible that in the meantime there would be informal indications from the unions, as there had been recently, that they wished to have private talks with Ministers; the Lord President therefore suggested that the meeting ought to consider both what could be said to the unions if they wished to talk, and what the Government ought to do if faced with intensification of the industrial action. In the event that private talks took place, he thought it would still be wrong to go beyond the 7% offer for this year, but there was a danger that the unions would become aware of the fact that the cash limit could accommodate a little more, as a result of manpower savings. It would, however, be necessary, in his view, to offer arbitration for the 1982 settlement, subject to the provision that the Government could seek Parliamentary approval to override the outcome. If, on the other hand, the unions continued or escalated the action, possible steps open to Government to increase the pressure on the unions to negotiate a settlement were outlined in the attachment to his Private Secretary's letter of 15 May.

The Chancellor said that each month of continuing industrial action drove the Government further and further into a cloud which obscured the underlying monetary and fiscal position. However, the CCSU had unwisely claimed over the weekend that one of their objectives was to keep interest rates up, and he thought that more public use should be made of that. The Prime Minister strongly

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agreed, and indicated that she would, if questioned, take the line that it was shocking that the unions should want to do that.

The Secretary of State for Employment said that it remained his view that, if the dispute was not having severe effects on the economy, the Government should avoid precipitate action and let the unions wear themselves out.

In discussion, the following issues were covered:

- (i) The possibility of offering an increased amount, perhaps as high as 8%, within the cash limit for 1981/82. Ministers were agreed that this would be objectionable in principle, since the unions would presumably not accept that pay should be reduced in years of overspend; and it would also erode the credibility of the Government's position, which was widely supported by the public.
- (ii) The possibility of imposing a 7% settlement. It was generally agreed that simply imposing the 7% settlement that had already been offered would not at present bring the industrial action to an end, that it might be construed as a sign of weakness on the part of the Government, and that it would increase the likelihood of industrial action next year. But there might be a case for looking again at imposing a 7% settlement if the industrial action started to crumble at a later date.
- (iii) The possibility of changing the operative date. The Prime Minister said that it was in her view out of the question to penalise those civil servants who had worked loyally during the period of the dispute by postponing the operative date of the settlement for all civil servants. Various forms of selective postponement of the operative date were therefore discussed. The advice from the Attorney General's Office was that although selective postponement was possible, it would be preferable to do it in the form of postponing for all, and compensating those who were not taking action by awarding them an equivalent bonus. It was generally agreed that selective postponement should be preceded by a warning, which might not necessarily make it clear that the postponement would be selective rather than general, to the effect that the operative date would change unless the industrial action stopped. The Lord President and Mr. Hayhoe advised that a decision to go down this road should be communicated to the unions privately beforehand, and that it would be best to wait until we saw what decision the CCSU took on 26 May before raising it with the unions.
- (iv) The possibility of introducing legislation to enable white-collar workers to be laid off if there was insufficient work as a result of industrial action. The Prime Minister suggested that such a provision would be a useful weapon in the Government's armoury, and was desirable on general grounds and not just in the context of the Civil Service dispute; on the other hand, it might be difficult to introduce legislation in this session, and one possible way forward

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would be to tell the unions that in the light of the Government's experience with industrial action in this pay round, suitable legislation would be introduced at the beginning of the next session. The Lord President said that it would be very difficult to get such legislation through the House of Lords in this session, especially if there was no obvious immediate reason to do so, such as might have been provided by events at the DVLC at Swansea.

- (v) The possibility of a ballot. The Prime Minister enquired what might be the result of a management organised ballot on the present offer. Sir John Herbecq said that in his view it would probably go the wrong way, and it was agreed that this should not be pursued.
- (vi) The possibility of dismissal of those who had taken, or who would in the future take, industrial action. The advice from the Attorney General's Office was that either selective dismissal (as opposed to dismissal of all those who had taken part in any form of industrial action since 9 March) or selective re-instatement would lay the Government open to the risk of unfair dismissal claims. Since over 300,000 civil servants had taken some form of industrial action since 9 March, it was agreed that dismissal was not a useful option.
- (vii) The possibility of changing the normal settlement date from 1 April to 1 January. The Lord President explained that this had been aired in the press recently, but that it was merely a device thought up by the unions to enable a larger offer to be made within this year's cash limit, and that it would not work because there would be no money available within the cash limit for the increased pay in the period 1 January to 1 April. The Prime Minister said that there could be no question of making any change in the settlement date which had the effect of staging the settlement, so as to provide a higher floor for the following year's claim.
- (viii) The possibility of arbitration for 1982. The Lord President explained that it remained his strong view that some form of arbitration for 1982 would be an essential ingredient in any settlement; but the Prime Minister said that the Government had already made two major concessions to the unions, in the form of non-predetermination of next year's cash limits, and the Inquiry, and could not be pushed further into an arbitrated settlement for next year.

Summing up this part of the discussion, the Prime Minister said that Ministers ruled out for the moment any change in the settlement date, any increase in the offer for this year, and any offer of arbitration for 1982; and they accepted that neither a ballot nor dismissal of strikers was an option open to Ministers for responding to further industrial action. Ministers were however agreed that a selective change in the operative date of the settlement in favour of those who had worked normally, and the introduction of a lay-off provision into the legislation programme for the next session,

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were options that should be looked at again when the outcome of the meeting of the unions on 26 May was known. Ministers did not see at present any advantage in the imposition of a 7% settlement, but did not rule that out if circumstances should change substantially.

Ministers then considered the terms of reference for the Inquiry into long-term arrangements for Civil Service pay, and a draft prepared by Sir Robert Armstrong was circulated. The Prime Minister explained that there had been a chapter (no. 111) in the Report of the Priestley Commission regretting the limitations of their terms of reference; and some of the problems of the Scott Report had a similar origin. She did not accept that widening the terms of reference to include the structure and organisation of the Civil Service in respect of pay and grading would necessarily result in the Inquiry taking a long time; and she quoted from paragraph 55 of the Priestley Report. Sir Robert Armstrong stressed that his draft proposed that the structure and organisation be looked at only in respect of pay and grading, and not against other criteria. The Chancellor said that in his view the Priestley arguments were decisive; and Sir Robert Armstrong's draft was accepted by Ministers subject to closer examination. I should be grateful if any comments from Ministers who were represented at the meeting could reach me by close of business on 22 May.

The desirability of including the TSRB within the remit of the long-term Inquiry was also discussed. The Lord President said that on balance he felt the TSRB should remain separate, but he did not feel strongly; other Ministers felt that it would be preferable to allow the new Inquiry to make recommendations about methods of determining the salaries of senior civil servants, while retaining the option to keep the TSRB if they concluded that was right. It was agreed that, if the Inquiry was established, this would be made clear in a letter covering the terms of reference.

It was agreed that the membership of the Committee of Inquiry would be considered separately.

I am sending copies of this letter to all those present at the meeting and I should be grateful if they could limit any further circulation as necessary within their Departments.

Yours sincerely,

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Jim Buckley, Esq.,
Lord President's Office.

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