



MB

Civil Service 5

Ref. A04787

PRIME MINISTER

Cabinet: Civil Service Dispute

BACKGROUND

The Lord President of the Council will report orally to Cabinet on the Civil Service pay dispute. His Private Secretary's letter of 23rd April to Mr. Sanders summarises the offer he made to the unions on 23rd April and covers copies of the unions' reply, of briefing given to Departments, and of the Press notice.

2. In accordance with the decisions taken by Cabinet on 14th April (CC(81) 16th Conclusions, Minute 2) the Lord President offered:-

- (i) 7 per cent for 1981.
- (ii) Pay negotiations for 1982 without a predetermined limit on the cost of the settlement.
- (iii) For the longer term, an authoritative outside inquiry.

3. The Cabinet had further agreed that the Lord President should not enter into a commitment to let the 1982 claim go to arbitration unless this was necessary to secure a settlement of the current dispute, and then only with the agreement of the Chancellor of the Exchequer. The Lord President did not in the event offer arbitration.

4. The unions did not accept this package. In particular, they want more than 7 per cent for 1981 (achieved either through "realistic" negotiations or independent arbitration), and they say that they see no need for an independent inquiry: there is in their view nothing wrong with the old Pay Agreement. But that is clearly not the last word: there have been some informal discussions subsequently, and the Lord President will report on the outcome of these to Cabinet.

5. The judgment in earlier discussions was that the introduction of satisfactory longer-term arrangements was much more important to the unions than the pay settlement for this year. This almost certainly remains a true



assessment; but union opinion is clearly hardening - and is likely to continue to harden the longer the strike goes on - in favour of insisting on something more than 7 per cent in 1981.

6. It is possible that the union leaders would prefer to defer reaching agreement until after the union conferences in May. There are eight separate conferences between 4th and 22nd May, with the most important over by 15th May. If they were to reach agreement now, they could then be faced with hardline conference motions from their militant members calling for rejection. On the other hand, if for this or any other reason decisions were to be deferred until the end of May, the costs and disruptions from the dispute would obviously escalate, with the risk of further action at air and sea ports at the time of the Spring Bank Holiday.

7. In the meantime the Official Group, MISC 54, has completed its review of the options for longer-term arrangements for the Civil Service, and their possible application to the National Health Service, and their report has been circulated to the Economic Strategy Committee under cover of E(81) 50. The Lord President does not, however, want it to be discussed just yet. If the plans for a longer-term inquiry go ahead, then it can be discussed in due course with a view to preparing the Government's evidence to the inquiry. If there were not to be an inquiry, the report would be discussed as a basis for direct negotiations with the unions. The Lord President will be letting you have shortly his proposals for the terms of reference of the inquiry; you will presumably wish to confine discussion of these to a small group of Ministers (at any rate at this stage).

HANDLING

8. After the Lord President has made his statement, other Ministers could give their assessment of the current impact of the dispute on their areas of responsibility. In particular you might invite the Chancellor of the Exchequer to comment on the action in the Revenue Departments and its effects on the PSBR, the Secretary of State for Trade on the effects of the action by the Air Traffic Controllers, and the Secretary of State for Social Services on any developments in

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the social security area. You might also ask about the recovery period which will be needed after the strike to get back to normal. Some of the reports from Mr. Hayhoe's Committee suggest that a considerable "re-entry problem" is building up in some areas - do they matter?

9. Depending on the course of discussion, you could then bring it to an end with the Cabinet simply "taking note" of the position reached. The alternative - and this must be very much a matter for the Lord President's judgment - would be for the Cabinet to consider whether there are any further steps they wish to take or any further negotiating authority which they might wish to give to the Lord President.

10. The most obvious point at which further movement might be contemplated is on the amount for 1981. Last time the Cabinet discussed the matter, it was agreed that there should be no increase in the offer of 7 per cent. Earlier, however, some Ministers were prepared to contemplate going up to $7\frac{1}{2}$ per cent - the figure at which the local authority manuals' pay claim was settled - if that would secure a settlement. It should be possible to accommodate a $7\frac{1}{2}$ per cent increase within the 6 per cent cash limit. The Cabinet may wish to consider whether to authorise the Lord President to offer a further $\frac{1}{2}$ per cent might be sufficient to break the deadlock, or whether it seems likely that union ambitions could be satisfied only with a much larger and more serious breach of present policy. In thinking about this the Cabinet would need to consider the implications for other current negotiations, and in particular for those in the National Health Service, where the ancillaries have now settled for 6 per cent and the Secretary of State for Social Services is looking for something similar for the other NHS groups.

11. At the same time the Cabinet may also wish to take into account the impact on attitudes which will occur when the reports of the Review Bodies (to be discussed as the next item on the agenda) are published. They, and in particular the evidence of pay movements in the past 12 months which they provide, could harden the resolve of the Civil Service unions to try to get more for their members this year. The dates of publication of these reports could therefore have a direct bearing on the tactical handling of the Civil Service dispute.

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12. For 1982 the Lord President still has the arbitration card up his sleeve - see paragraph 3 above. It might be worth playing that now. If there were to be arbitration in 1982 you will recall that, in summing up the discussion of 14th April, you said:-

"If that offer was made, the Lord President of the Council should make it clear to the unions that the Government would endeavour to find means of financing an award following arbitration within the planned overall levels of public expenditure, for which purpose the numbers of civil servants employed would have to be considered, and should go on to explain that, if in the last resort the Government did not feel able to be bound by the award because of its consequences for the level of public expenditure, it would not modify it without seeking and obtaining Parliamentary authority".

The Cabinet also invited the Lord President to consider further, in consultation with other Ministers concerned, whether, in the event of the Government wishing to seek Parliamentary authority to modify an award by the Civil Service Arbitration Tribunal in 1982, it would be acceptable to seek authority only from the House of Commons. Has he anything to report?

13. For the longer term the offer of an independent inquiry has now been made. Whatever the unions may now be saying, an inquiry now seems inevitable, and discussion should proceed on the terms of reference and membership.

CONCLUSIONS

14. In the light of the discussion you will wish -
either to take note of the present position (thereby confirming the negotiating authority given to the Lord President on 14th April)
or to record any specific points bearing on the handling of the dispute, including any changes in the negotiating remit to the Lord President, on which the Cabinet may have agreed.

ROBERT ARMSTRONG

29th April, 1981