

PTB

PO CH/GH/0161
PART B

PO CH/GH/0161
PART B

PAY OF NON INDUSTRIAL CIVIL SERVANTS 1980-81

DD's 25JB 13-397
NKG

1981

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

31-381

[Handwritten mark]



01-405 7641 Extn 3201

Handwritten notes: "The Rayner", "19/12", "PA 1", "79", "1336"

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

17 December 1980

The Rt Hon Lord Soames CH, PC, GCMG GCVO CBE
Lord President of the Council
Civil Service Department
Whitehall SW1

CH/EXCH/OUTR
REC. 17 DEC 1980
NAME MR BUCKLEY
CST
FST
MSTC
MSTL
SIR D. MASS
MR RYRIE
MR MIDDLETON
MR LITTLE
MR BRIDGEMAN

MR DIXON
MR ROBSON
MR RAYNER

Dear Lord President

SINGLE OUTSIDE ANALOGUE GRADES

I have seen your paper on this - E(PSP)(80)4 - to be taken at E(PSP) tomorrow. I am concerned with paragraph 4(a) where you say that some of the pay links in question are legally binding and that legislation would be the only safe course if we decide to proceed as the Chancellor suggests.

Whether a pay link for a particular category of SOA worker is legally binding or not will depend mainly upon his written terms and conditions of employment. I have not been able to examine these for the categories listed in Annex A to your paper and I think it would be more suitable for this to be dealt with by the legal advisers to the Departments concerned, where the material will be readily available, than by me. But I shall of course be ready to help if any difficult questions arise once the material has been examined.

Some work on the legal issue was carried out by the previous administration, but not I think for all the categories you have listed. This would certainly support the conclusion in some cases that pay links were legally binding, although the contractual terms may have altered since then.

In my view the best course for E(PSP) at its meeting tomorrow, assuming it decides not to maintain the links for the 1981/2 pay

/round



01-405 7641 Extn

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

- 2 -

pay round, will be to arrange for Departments to look as a matter of urgency at the contracts in which they are interested; and for the Committee to decide now in principle to legislate to overcome any legal problems which are disclosed as a result. I do not think it would be proper or satisfactory to break such links as are legally binding and then to leave the employers unprotected by failing to block off the employees' ordinary remedies. I cannot say what the legislation would have to contain, but I think it would be a short Bill.

I have copied this to all members of E(PSP) and Sir Robert Armstrong.

Yours sincerely

*John Mallison
for
Attorney General*

*(Approved by the Attorney General
and signed in his absence)*

cc: PST
PST
MST L
S: D Wass
M yrie
Mr Middleton
Mr Dixon
Mr F E R Butler
PS/IR
PS/C&E
PS/DNS
Mr McConnachie (IR)



Mr Buckley
Pay 19/12
Rayner 3
Pep

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

16 December 1980

The Rt. Hon. Lord Soames CH PC GCMG GCVO CBE
Lord President of the Council

Derek Rayner

The points raised in our correspondence about performance-related pay have become less urgent as a result of your proposal to examine a scheme for Assistant Secretaries and Principals in 1982 rather than for under Secretaries in 1981. But in reply to your letter of 1st December I ought to make clear that I did not envisage reducing absolute levels of pay. Pay levels are reviewed each year and have been invariably increased. Increases could be given, at least in part, in the form of merit payments rather than by jacking up the whole scale: the level of basic pay in real terms would be reduced by inflation but the amount available for merit payments - which I am convinced need to be substantial if the scheme is to be effective - would be increased. I apologise for not making myself clear on this point.

I have also now seen Derek Rayner's letter of 1st December about his experience as Chairman of the Pay Research Unit. This raises some interesting points about comparisons between the Civil Service and the private sector which would be worth our discussing at some time; but again they are not of immediate application.

GEOFFREY HOWE

[Signature]

24
9/12

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Littler
Mr Bridgeman
Mr Dixon
Mr Robson
Mr Rayner

SINGLE OUTSIDE ANALOGUE GRADESBRIEF ON E(PSP)(80)4

This note by the Lord President discusses the cash limit treatment of the pay of Civil Servants whose pay is directly linked to specific outside rates ("SOA grades"). It recommends that the links should be maintained, but the additional cost contained within the appropriate cash limit.

We recommend you to support the conclusions; but there are a number of points to be noted.

Agricultural workers

Paragraph 4 of the note is wrong in saying that you proposed that pay links should be broken. This is not so: what you proposed was in fact fully in line with what the Lord President is now recommending. More importantly, ^{the note} does not discuss in operational terms what is to be done about negotiations between the Forestry Commission and their agricultural workers. It seems to us that the note demonstrates not only the need both to resolve the issues discussed in it, but also to settle as soon as possible the pay factors for the Civil Service as a whole (E(PSP)(80)3 discusses this).

Effect on other Civil Service settlements

The most important point for the Treasury is that the Civil Service cash limits should be fixed in a way which is consistent with an increase of 6% (or whatever other figure Ministers may decide) in earnings per head, on the basis of the

staff numbers separately agreed by Ministers. No net additional cash should be provided to accommodate the cost of higher pay increases for SOA grades. Any other attitude would be inconsistent both with the Government's general policy, and with what local authorities have been told in the context of the RSG.

It is a matter of less moment whether any savings needed to accommodate the cost of pay settlements for SOA grades come from additional staff savings, reductions in other expenditure, or a marginal reduction in the pay settlements for other grades. But we cannot accept the last sentence of paragraph 8 of the note if it means that the last of these courses is ruled out a priori: in the last resort, if staying within the cash limit can be achieved only by lower settlements for some grades, that must be accepted.

Organisation and timetable

The Lord President appears to envisage that the pay factor for each individual cash block should be the same. We support that line. But some Ministers may argue that they have cash blocks in which expenditure on the pay of SOA grades bulks so large that this is impossible. In theory, the point could be met by increasing some blocks, and making offsetting reductions in the pay element of others. It is in the first instance for the Lord President to consider whether such an approach would be feasible. But we greatly doubt the ability of the CSD and other departments to carry out such an exercise - certainly if more than a very small number of blocks were affected - on the timetable required for the Estimates. If the Lord President agrees to consider the possibility of increasing some cash limits in which the pay of SOA grades bulks large, officials should be instructed to consider whether this is feasible; Treasury officials must be closely associated with that consideration; and it must be conducted urgently.

Recommendation

You are advised:

- (a) to support the Lord President's recommendation.
- (b) To point out that the need to fix cash limits in conformity with whatever pay factor may be agreed is paramount; and that if additional increases for SOA grades can be accommodated only by reducing other Civil Service pay settlements, that must be accepted.

(c) To support the approach of having a single pay factor for all cash limits; if it is suggested that some limits should be increased (with offsetting reductions elsewhere) to accommodate settlements for SOA grades, officials, including Treasury officials, should be instructed urgently to consider the feasibility of such an approach within the Estimates timetable.

The general lines of this brief have been discussed with GE.

L.S.B.

M S BUCKLEY

17 December 1980

1. SIR DOUGLAS WASS
2. CHANCELLOR OF THE EXCHEQUER

Mr. Buckley
7/2 1971
cc Chief Secretary
Financial Secretary
Minister of State
Mr. Ryrie
- Mr. Dixon
PS/Inland Revenue
PS/Customs & Excise
PS/DNS

PAY AND PERFORMANCE - C(81)2

1. The Lord President's paper proposes that the CSD should be given a remit to devise proposals for performance-related pay covering Principal, Senior Principal and Assistant Secretary grades and report back to colleagues in the summer.
2. These proposals cover the points which the Chancellor has been making in correspondence and subject to the general reservations in the following paragraph, I advise the Chancellor and Chief Secretary to go along with the Lord President's proposals.
3. The paper may prompt a wider discussion of merit pay and I offer these general thoughts. Views among Permanent Secretaries about the principle of merit pay are divided, as I suspect that they are among Civil Servants generally: there is certainly some support for it. It is not clear what attitude the unions will take in general: they will certainly pick at the details of any scheme and the negotiations will not be easy. It will be difficult to devise a scheme which is fair in practice, for example between individuals in different Departments; and this will cause contention. Whatever scheme emerges, it will impose a considerable extra burden on management in the Civil Service. The question is whether it will produce a commensurate improvement in motivation and efficiency. I doubt it, and if the ratio of administration to benefit is not likely to be particularly favourable, it is a serious question for Ministers whether it is wise to tackle this issue now, especially when it will come on top of all else the Government are doing about the terms and conditions of the Civil Service.

LINE TO TAKE

4. Subject to the view which the Chancellor and the Chief Secretary take on the desirability of pursuing the question of merit pay at the present time, I suggest that they should support the Lord

2/15

President's proposals. The following are detailed points which they might make:-

- (i) The Lord President's paper does not say, but it is an important point, that the scheme must not lead to inflation of the Civil Service pay bill.
- (ii) However well the scheme is devised, there will be lessons to be learnt after it goes into operation: it may be wise to run it as a pilot scheme for a year or two in one or two selected Departments before extending it to the Civil Service generally.
- (iii) The paper is right to say that the differentials will have to be significant if it is to be effective. It may be easier to achieve this, and be less invidious, if an element of discretion is introduced into the award of annual increments rather than by differentiating the Civil Service pay award. But a solution would have to be found to any legal difficulties about interfering with rights to increments.
- (iv) The timetable of reporting back in time for a discussion in the summer must not be allowed to slip. Ministers need a good look at the details of the scheme before negotiations have to be opened with the Civil Service Unions. It is on the details which a scheme of this sort can founder.

F.E.R.B.

F E R BUTLER
14 JANUARY 1981

PS/CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State (L)
Sir D Wass
Sir A Rawlinson
Mr Ryrrie
Mr Bailey
Mr Littler
Mr Bridgeman
Mr F E R Butler
Mr Dixon
Mr Robson
Mr Ridley
Mr Cardona

CONTROL OF CIVIL SERVICE PAY AND NUMBERS

You asked me this morning to set down some thoughts on this subject in preparation for this afternoon's meeting with the Lord President. In the time available, it has not been possible to consult other divisions or senior officials; and the Chancellor will wish to canvass ~~the~~ ideas in this minute, if at all, on a completely non-committal basis.

2. There are a number of points it may be helpful to make first.
 - a. Civil Service (CS) pay and numbers are both CSD responsibilities: any problems do not result from the split between central departments.
 - b. The problems are increased by having published targets for CS staff numbers. However, there is a good case for having such targets since, because CS pay rates are settled nationally, there is relatively little pressure on, or scope for, departmental managers to make trade-offs between pay and numbers. In any event, it seems politically very difficult to appear to abandon publication of the targets.
 - c. The differences between the CS and local authorities should not be overstated. The RSG settlement, in particular, assumed a substantial reduction in the number of local authority

60

staff. But the authorities do have loopholes - notably their ability to raise rate income - not open to ~~the~~ government departments.

3. The approach to pay determination described in the paper submitted with Mr Ryrie's minute of 19 December should help to ensure that pay increases are determined in the light of all relevant factors (including staff numbers and costs) and that staff numbers and costs reflect what can be ~~approved~~^{afforded}. However, this does not solve the problem that if the Government is committed to a (fairly demanding) target on numbers and announces a pay factor for cash limits, calculated on the basis of the numbers target, it has very little flexibility.

4. Two possible approaches might alleviate this problem.

5. First, the numbers target might be calculated on the basis of approved levels and standards of service and some assumption of improved efficiency, but not such a stringent assumption as to make improvement on it virtually unattainable. The CS unions could then be offered additional pay increases in exchange for improvements in efficiency ~~pay~~^{benefit} and the basic assumption (but subject, of course, to maintaining approved standards of service).

6. Secondly, more attention might be focused on staff costs and less on staff numbers. The intention would be to provide more stimulus to reducing the average grade level at which work takes place than is provided by concentrating on numbers. This approach can be considered as a special case of that described in paragraph 5: lowering the level at which work is done is one way of increasing efficiency.

7. But the essential point remains. If numbers and pay are both rigidly determined, there can be, as a matter of arithmetic, no flexibility. To introduce flexibility requires the introduction of some leeway into one or both factors. At first sight, the most promising approach seems to be to try to make the assumption on staff numbers less stringent.

M.S.B.
M BUCKLEY
19 January 1981

1. MR RUCKLEY ^{hrs}
2. CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir Douglas Wass
 Sir Anthony Rawlinson
 Mr Ryrie
 Mr Bailey
 Mr Middleton
 Mr Bridgeman
 Mr Dixon
 Mr Fitchew
 Mr Gulvin
 Mr Morris
 Mr Robson
 Mr Ridley
 Mr Cardona

BRIEF ON E(PSP)(81)3: SINGLE OUTSIDE ANALOGUE GRADES: SPECIAL CASES

E(PSP)(80)1st meeting agreed that the outside pay links of single outside analogue grades in the Civil Service should be maintained, the additional cost met within cash limits, and any special cases where this could not be done identified and brought to Ministers. This paper represents the results of a trawl round Whitehall.

In our view, the starting-point for approaching these cases must be the Government's underlying philosophy. This is that pay settlements have to fit the cash available to finance them, not vice versa. This can be achieved either by trimming the direct cost of the settlement itself, or by reducing staff numbers. On this approach, a case would have to be exceptional indeed to justify an increase in the cash limit solely to finance it.

This raises an important issue on the meaning of the decision taken at E(PSP)(80) 1st meeting. It has been generally interpreted by officials as meaning that the outside pay links of single outside analogue grades should be maintained under all circumstances. We doubt whether this was what Ministers intended. Instead,

we suspect that the sense of the decision may have been that links should be maintained where they can be financed within the cash limit: but where they cannot, the possibility of breaking the link should certainly not be excluded. This would be more consistent with the underlying philosophy indicated above, and needs to be got clear at the outset. Some links will be legally binding, and in practice very difficult, if not impossible, to break. But other links are not of this nature, and are not sufficiently firm to justify contemplating an increase in cash limits to finance them.

On the individual cases, we recommend you to resist any increase in the Forestry Commission's cash limit. The Forestry Commission (or at least the Forestry Enterprise part) is a trading service: the net cash figure for the Enterprise for 1981-82 (after taking account of the receipts) is just over £46 million. On a budget of this size, we believe it ought to be possible before the financial year starts to make plans *to find* the £0.9 million to fund the excess cost on Forestry workers' wages from within it. We would not regard the Forestry policy statement (which Forestry Ministers may well pray in aid) as a reason for allowing the Forestry Commission to escape from the constraints of cash limits: though it must be recognised that such a further squeeze probably does mean that we would be at the end of the road in making suggestions about finding savings within the cash limit if we are faced with the same problem in 1981-82 as we were in 1980-81 arising out of the short-fall in harvesting and marketing receipts.

In any event, as suggested above, we do not think that it can be assumed that the Forestry workers should necessarily follow the agricultural workers. It may be that the Forestry Commission can mount a case for wanting to maintain broad parity: there may also be legal problems in breaking the link. But these are matters for the Forestry Commission. Accordingly, we recommend that the cash limit should stand, and it should be for the Forestry Commission to decide how to remain within it.

The Northern Ireland police are a different problem. You will wish to note that what is in dispute is not the 1980 settlement, but the 1981 settlement, which is not due until September. Also important is the question of whether police expenditure in Great Britain should be cash limited, and this is currently under consideration. If GB police expenditure remains non-cash-limited, and police pay remains index-linked, then we have considerable sympathy with increasing the Northern Ireland cash limit, providing the excess cannot be met from savings elsewhere, which seems unlikely. But in view of the uncertainties, it seems best to leave the question open until the Autumn.

13
118

Finally, there are a whole series of other possible cases where the departments might well wish to seek cash limit increases. We suggest that these are best dealt with on the basis that cash limits are intended to constrain pay increases. Although no Minister can be prevented from re-opening the debate about his cash limit at any time, the presumption must generally be against any increase. Certainly, there would be no question of any increase unless all possible alternatives had been explored - and this includes abandoning the link with the outside analogue as well as making savings elsewhere.

Incidentally, you may wish to note the particular case of NHS electricians (paragraph 6 of Annex C - see also the monitoring report). Although this case is not formally covered by the E(PSP) decision, it is a very similar case and should be viewed along similar lines.

This brief has been agreed with GEP2.



P M RAYNER

2 February 1981

1. MR DIXON *By 10/2*
2. MR RYRIE
3. CHANCELLOR OF THE EXCHEQUER

cc Mr Unwin
Mr Bridgeman
Mr Robson
Mr Rayner
Mr Ridley

Copies attached for: Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Littler
Mr Middleton

LONGER TERM POLICY ON PUBLIC SERVICE PAY: THE NON-INDUSTRIAL CIVIL SERVICE

BRIEF ON E(81)16

This memorandum by the Lord President discusses the future of Civil Service pay determination. It is relevant to your own paper (E(81)12) and to the current Civil Service pay negotiations, in which we understand that the trade unions have expressed considerable interest in the Government's future approach to pay bargaining.

The Lord President's memorandum raises three main questions.

- (1) Should there be an agreed system for bargaining on Civil Service pay?
- (2) Should this be backed by arbitration?
- (3) Should there be an outside review to advise on the future system?

An agreed system

The Lord President appears somewhat to have misunderstood your paper. That does not argue for having no settled arrangements. On the contrary, it expressly prefers "constrained bargaining" - that is, bargaining within accepted ground rules. What your paper objects to is the establishment of a system purporting to generate precise results, independent of general economic policies and ability to pay, and prima facie binding on the Government.

The real issue, no doubt, is that the Lord President and his officials wish to get back to something which, in essence, is Pay Research, even if reformed Pay

Research. This is not acceptable.

- (a) Pay Research commands little public confidence.
- (b) It enshrines comparability.
- (c) It elevates the results of the comparison process above ability to pay.
- (d) For this and other reasons, it has had repeatedly to be overridden in the past. There is no reason to think that it would fare better in future.

In short, by all means let there be ground rules and orderly procedures - but on the lines set out in your own paper.

Arbitration

There is no objection to arbitration arrangements, on two conditions.

- (i) There should be no unilateral access to arbitration, but only access by agreement between the two parties.
- (ii) The results of arbitration must not automatically take precedence over cash limits. No doubt the Government might, in appropriate circumstances decide to increase a cash limit if necessary to accommodate an arbitration award; but it should not be obliged invariably to do so.

These conditions are consistent with previous discussion in E Committee.

Advice from an outside review

As put forward, the Lord President's proposal to establish an outside review is tantamount to bringing a new Priestly Commission into being; it implies that the Government is content to let an outside body decide (or at least play a large part in deciding) the arrangements for bargaining on pay between itself and its employees. Paragraph 11, in particular, of the Lord President's memorandum seems to put into commission the finding of answers to all manner of fundamental questions.

In our view, the Government should decide the main outlines of its policy in this area. It is possible that it might then decide to look for outside advice on detail aspects or methods of implementation. But it is clear, for example, that the Government would be bound to reject any recommendation from an outside body which subordinated ability to pay to comparability; and it would be dangerous and dishonest to pretend otherwise. It is no answer to say that the Government would not be bound in advance to accept the outcome of the review. In practice, it would be very difficult to reject the Review Body's recommendations.

The Lord President should therefore be asked to give further consideration to the future of Civil Service pay bargaining in the light of the Committees discussion of your own paper; to bring forward proposals on the essential outlines of an appropriate new system; and to recommend how the outline could be developed. But it is only when the outline is clear that it would be right to bring in outside advice.

Conclusion

You can therefore go along with the recommendations in paragraphs 15(b) (i) and (ii) of the Lord President's memorandum (no return to pay research in 1982, but a declared intention to return to an ordered system backed by arbitration). But the Government needs to develop its own thinking about the future of Civil Service pay determination on the lines recommended in your paper E(81)12, and to decide on the broad outlines of an acceptable system. It should not seek outside advice until it has done this.

M.S.B.

M S BUCKLEY

10 February 1981

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Littler
Mr Middleton
Mr Bridgeman
Mr Dixon
Mr Unwin
Mr Buckley
Mr Robson
Mr P Rayner
Mr Ridley

FUTURE ARRANGEMENTS FOR PUBLIC SERVICE PAY - E COMMITTEE ON 12TH FEBRUARY

I submit briefs by Mr Buckley and Mr Dixon on the papers. Mr Buckley's brief on E(81)16 will give you some useful material to speak from.

2. Lord Soames has presented a coherent counter-proposal which will no doubt command a good deal of support. In speaking on it, I suggest you might concentrate on the following points:-

a. Lord Soames goes far (further than before) in recognising how unsatisfactory the present system is. The reasons why it has not worked well are fundamental (set out in your paper). But Lord Soames seems to be recommending a repair job. Will this really make it work? If, on the other hand, he intends the review he proposes to consider the whole problem in its widest sense, is this not simply saying that because it is difficult we should throw it to a Committee and ask them to find the answer? The issues can and should be faced now.

b. The issues are central to Government policy - not Royal Commission material. Pay is at the heart of the appalling problem we now face on controlling public expenditure and the PSBR, an important cause of our troubles this year. Both the Priestley approach (fairness) and the approach during most of the 1960s and 1970s (treating pay as simply as an adjustable "price" in public expenditure) are out of date.


18

CHANCELLOR OF THE EXCHEQUER

cc Sir Anthony Rawlinson
Mr Ryrie
Mr Middleton
Mr Bridgeman
Mr Robson
Mr Buckley
Mr P Rayner

CIVIL SERVICE PAY

The Policy Unit suggests that civil service pay may have lagged behind the analogues in the last decade. This may seem inconsistent with our assertions that the pay of government employees^x has improved in relation to that of the private sector. We have not yet been able to check the figures for the civil service and analogues; but the two statements are not necessarily inconsistent. Civil service analogues may have done better than the private sector generally. Also it could depend on the treatment of fringe benefits.


P V Dixon
11 February 1981

c. Lord Soames' paper does not recognise the difficulty of giving the Civil Service an orderly system, with a Government commitment to implement, but not doing so for the rest of the public services where cash limits must prevail unless control of public expenditure is to be seriously weakened.

d. Arbitration. See Mr Buckley's points. Lord Soames is arguing against the line that E Committee has previously taken.

3. I have no helpful comment to offer on Mr Hoskyns' note which raises a great many questions but offers virtually no answers.

WSR,

W S RYRIE

11th February 1981

Mr Bridgeman 1/2

131
20



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

Mr Buckley 1/2

CST

FST

11 February 1981

MST C

MST L

Sir D Warr

Mr Payne
Sir R. ...
Mr Middleton
Mr ...
Mr ...

Mr Dixon
Mr Kemp
Mr P. ...
Mr Ridley

Dear Geoffrey,

CIVIL SERVICE PAY NEGOTIATIONS

On Monday morning I met representatives of the Civil Service non-industrial unions. They confirmed their rejection of the offer of 6% made to them by officials last week. I undertook to consider their representations. But I held out no hope that we would move from our tabled offer.

The unions made it clear that they also attach great importance to what can be said to them now about the future arrangements for settling Civil Service pay. That is dealt with in the two E papers which we have circulated to our colleagues and which will be discussed at Thursday's meeting. I suggest we also reconsider at that meeting the level of pay increase which we are prepared to go to for the Civil Service.

My judgement is that some industrial action in the Civil Service is pretty well certain; but that a step up from 6% to 7% coupled with a statement on the lines I suggest in E(81)16 would bring about a qualitative change in the intensity of that action in that it would strengthen the hand of the moderates. This outturn would still I believe be widely seen in national terms as a considerable achievement.

So I ask for authority to go to 7% with the unions together with a formula on the future, as and when in my judgement this would be helpful. I would not necessarily use them both together.

I have seen Patrick Jenkin's letter about the NHS pay negotiations. I believe we have to look at the two groups together and deal with the pay factor on the same basis for both. Clearly if Patrick Jenkin is able to negotiate a settlement in the NHS at 7% this would greatly strengthen my hand in persuading the Civil Service to accept similar treatment.

I am copying this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

Yours ever
Christopher



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

1031
Z

13 February 1981

The Rt Hon William Whitelaw, CH, MC, MP
Secretary of State for the Home Department
50 Queen Anne's Gate
LONDON SW1H 9AT

- Mr Byrne
- Mr Liddle
- Mr Middleton
- Mr Bailey
- Mr Bridgeman
- Mr Dixon
- Mr Lewis
- Mr Polson
- Miss Noble
- Mr P Payne
- Mr Ridley

- Mr Buckley 13/2
- CS7
- FS7
- MS7 C
- MS7 L
- Sir D Wain
- Sir A Broadwinson

Dear Willie

CIVIL SERVICE PAY

I explained to colleagues in E Committee why I thought it necessary to offer 7% to the Civil Service unions and I was authorised so to do. I intend to put this to them next week.

The authorisation was on the understanding that the additional costs would have to be found within the existing cash limit factors of 6% and 11% and this is to warn colleagues that they will therefore need to contain expenditure on staff and staff-related matters within the cash limits now set.

Copies of this letter go to the Prime Minister, all Ministers in charge of Departments and Sir Robert Armstrong.

Yours ever

Christopher

SOAMES

Sir D Warr
 Mr Byrne
 Sir A Newbould
 Mr Bailey
 Mr Dixon
 Mr Middleton
 Mr Little
 Mr [unclear]

Prime Minister

Mr Bridgeman
 Mr [unclear]
 Mr P Payne
 ICS

CONFIDENTIAL

EXCHEQUER	
REC.	13 FEB 1981
ACTION	Mr Buckley
COPIES TO	CSJ
	FST
	MST C
	MST C

13
 22

I was dismayed at the reports in this morning's Times, Financial Times and Guardian, which the outside world will see as resulting from some kind of official guidance, about the Government's proposals for dealing with NHS and Civil Service pay. The decisions reached at yesterday's meeting of E Committee left me with some difficult handling problems; but the press reports make them immeasurably worse.

My provisional intention had been to inform both Sides of the Ancillary Staffs and Ambulancemen's Whitley Councils that the Government had now decided to announce a cash limit for the NHS based on a pay factor of 6 per cent. At the same time, I should have explained privately to the Management Sides that the limited flexibility presented by a prices factor of 11 per cent gave some scope for a settlement slightly in excess of 6 per cent, and that, if satisfied beyond reasonable doubt that it would be impossible to secure settlements at 6 per cent, they would be justified in moving somewhat above that figure. But I should have pressed them to aim for the lowest possible increase (ie something as near to 6 per cent as possible); and I should have kept in close touch with the progress being made. Had there been any signs of something in excess of 7 per cent being contemplated - a highly unwelcome development which I should have done my utmost to avoid - I should at once have reported back to colleagues.

These tactics have now become unrealistic. The Staff Sides will see them as no more than a charade, because they will assume that a 7 per cent increase is there for the asking, and 7½ per cent if ~~they exert a modest amount of pressure. It thus seems most~~ improbable that negotiations could be reopened on the basis of a straight 6 per cent offer; and even if the Management Sides were

13
23

willing to try to do this - and I should not blame them if they were not - they would almost inevitably quickly be pushed to 7 per cent, and strongly pressed to go further. The prospects of securing pay settlements on terms which do not involve an unintended and politically damaging squeeze on health services are thus substantially worse than colleagues supposed them to be at the time of the meeting of E Committee.

I should greatly welcome an early opportunity of discussion with you and other Ministerial colleagues how we can best deal with these embarrassing developments. I am sending copies of this letter to Geoffrey Howe, Christopher Soames, Jim Prior George Younger, Nicholas Edwards, Leon Brittain and to Sir Robert Armstrong.

13.2.81



(Dictated by the Secretary of State and signed in his absence)



CH. EXCHEQUER	
REC.	17 FEB 1981
TO	Mr Buckley
COPIES	CT
TO	FST

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

From the Private Secretary

16 February 1981

John Wiggins
Private Secretary to the Chancellor of the
Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

*Mr. Middleton
Mr. Dixon
Mr. Underwood
Mr. P. Kennedy
Mr. Buckley
Mr. Candona*

Dear John,

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Last Thursday E Committee agreed that the Lord President should make a statement of the Government's intentions on a new long-term framework for pay settlements, during the course of the present negotiations. The wording was to be agreed with the Prime Minister, Chancellor and the Secretary of State for Employment.

The Lord President would like to use the following words:

"The Government intend that arrangements for determining the pay of the non-industrial Civil Service be reviewed with the object of establishing as soon as practicable an ordered and agreed system which takes account of all factors which experience has shown to be relevant."

Would you let me know, please, if the Chancellor has any comments?

I am copying this, for their views, to Tim Lankester at No.10, Richard Dykes in Employment and David Wright in Sir Robert Armstrong's Office.

Yours sincerely,
Jim Buckley.

J BUCKLEY

25

Copy on C128

CHIEF SECRETARY

MCS

cc Principal Private Secretary
 PS/Financial Secretary
 PS/Minister of State (C)
 PS/Minister of State (L)
 Sir Douglas Wass
 Mr Ryrie
 Sir Anthony Rawlinson
 Mr Bailey
 → Mr Middleton
 Mr Littler
 Mr Dixon
 Mr Kemp
 Mr Bridgeman
 Mr Unwin
 Mr Robson
 Mr Rayner
 Mr Monaghan

NHS AND CIVIL SERVICE PAY

I understand that the minute of 13 February from Mr Jenkin to the Prime Minister is to be discussed tomorrow; the letter of 13 February from the Lord President to the Home Secretary is also relevant.

Mr Jenkin's minute looks alarmingly like the first move in a campaign to have the NHS cash limit reopened. It is vital to prevent this. There are two points that should be made.

First, so far as we have been able to discover, the press reports to which Mr Jenkin refers were not in any way based on official guidance. Indeed, the No 10 press people think that the most likely source is the public service unions themselves! In any event, it is pretty exaggerated to suggest that the negotiating tactics of NHS management should be greatly influenced by mere press speculation. Once it has been announced that the NHS cash limit will be based on a 6% pay factor, a 6% offer will certainly be taken seriously.

Secondly, and more importantly, none of this alters Mr Jenkin's responsibility to keep within his cash limit for 1981-82 on the basis of the factors decided by Cabinet. Throughout the discussion, Mr Jenkin has shown a tendency ^{both} to argue in terms that would be appropriate only if the Government intended to establish a pay norm for the NHS, and to put proposals to his colleagues about the appropriate level of pay settlements. The level of individual NHS pay settlements, however,

$$\frac{1027}{2}$$

is his business provided that he keeps within his cash limit. It would be disastrous for the Government's policy to amend the NHS cash limit for 1981-82 now; and there is no alternative to Mr Jenkin working on the basis of what Cabinet has decided and obtaining (or imposing) settlements that will allow him to stay within his cash limit.

As for the Lord President's letter, somewhat similar considerations apply, though there is no indication that Lord Soames is trying to reopen existing decisions. If he can secure further manpower savings from departments sufficient to finance a 7% pay offer to the civil service, there is no Treasury objection. We would say only that there must be genuine prospects of finding the savings: it would not, for example, be satisfactory to rely on a vague hope that in the event expenditure will be below budget because it usually has been in the past (some CSD officials have indicated that such an argument has been put forward in some quarters).

In short, Cabinet has now taken its decisions; and it is up to the Ministers concerned to put those decisions into effect, without being deflected by press rumours.

M S BUCKLEY

16 February 1981

MR BRIDGEMAN

cc Mr Buckley
Mr Robson

CIVIL SERVICE PAY: INFORMATION FOR MR DU CANN ETC

I am worrying about who is dealing with X/ of the attached. The new Table 7 of CSM is relevant inso far as it will show the Estimates provision for new settlements separate from the pay bill in 1981-82 from other causes. But no one has offered me any text. Is another vehicle intended?

MPB

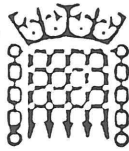
PATRICIA BROWN

16 February 1981

29
16/2

28

CH/EXCHEQUER	
REC.	2, NOV 1980
ACTION	M. BRIDGEMAN
COMES TO	CST
	FST
	Sir D. LAM
	M. BROWN



HOUSE OF COMMONS

LONDON SW1A 0AA

- | | |
|--------------|-------------|
| M. HANSFORD | M. JAVID |
| M. BRIDGEMAN | M. BOTTILL |
| M. P. JAGGER | Mrs GILMORE |
| M. V. KEMP | Mrs LLOYD |
| | M. RIDLEY |
| | M. CANDLER |

26 November 1980

M. RYAN
Sir A. HAMILTON

Mr. F. E. J. Bush
F(EXT)

Thank you for your letter of 24 November about the way in which Civil Service pay is to be controlled in future.

Let me say at once that the Committee warmly welcomed the way in which you have gone a long way to implement the recommendations made in their Fifth Report. We had noted the Treasury's observations on the Fifth Report with some concern and we had intended to publish a further report which would have been critical of these observations. This will not now be necessary, and the Committee is glad that it is not. However, the Committee wished to make certain observations which we hope will be helpful to you. The Committee read your letter as meaning that a full explanation will be given at the relevant time explaining any difference there may be between the actual percentage increase between 1980/81 and 1981/82 in the provision for pay and the announced provision for increases in earnings from due settlement dates. As you point out there could be a number of reasons for any such differences and the Committee are convinced that it would be most helpful for a proper understanding of Government policy if the reasons for these differences were spelt out in full.

The Committee particularly welcomed your assurance that the Government will, in future, avoid the staging of awards which has given rise to confusion in the past and made control of total spending the more difficult. They are also glad to see that where a staged award is made by a public services employer, the Government, when setting the relevant cash limit for the subsequent year, would not allow for that part of the award which had been fitted into the previous year's cash limit by delaying or staging.



CH. EXCHEQUER	
REC	17 FEB 1981
FROM	Mr Buckley
COPIES TO	CS FS

Ips

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

From the Private Secretary

16 February 1981

John Wiggins *Mr Dixon*
 Private Secretary to the Chancellor of the
 Exchequer *Mr Viner*
 HM Treasury *Mr P. ...*
 Parliament Street *Mr ...*
 LONDON SW1P 3AG *Mr ...*

Dear John,

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Last Thursday E Committee agreed that the Lord President should make a statement of the Government's intentions on a new long-term framework for pay settlements, during the course of the present negotiations. The wording was to be agreed with the Prime Minister, Chancellor and the Secretary of State for Employment.

The Lord President would like to use the following words:

"The Government intend that arrangements for determining the pay of the non-industrial Civil Service be reviewed with the object of establishing as soon as practicable an ordered and agreed system which takes account of all factors which experience has shown to be relevant."

Would you let me know, please, if the Chancellor has any comments?

I am copying this, for their views, to Tim Lankester at No.10, Richard Dykes in Employment and David Wright in Sir Robert Armstrong's Office.

*Yours sincerely,
Jim Buckley.*

J BUCKLEY

1100/2

DRAFT LETTER TO: THE PRIVATE SECRETARY TO THE LORD PRESIDENT

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Thank you for your letter of 16 February.

The Chancellor has asked me to make two comments on the draft statement to the unions.

First, he suggests that it would be better to say "The Government intend to review the arrangements...". E Committee specifically decided to hold open the question of whether there should be an outside review. The use of the passive voice in the draft strongly implies that the Government will ask someone else to do the job, and so prejudices the eventual decision, whereas the active leaves the question more open, since it does not preclude the Government from later asking for outside advice.

Secondly, he suggests that there should be added at the end of the statement "and which will command the widest possible acceptance". This reflects a point explicitly made in the Prime Minister's summing up at E Committee.

I am sending a copy of this letter to Tim Lankester, Richard Dykes, and David Wright.

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Dixon
Mr Unwin
Mr Rayner
Mr Ridley
Mr Cardona

→ PCS

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

... I attach a self-explanatory draft reply to the letter of 16 February from the Lord President's Private Secretary. There is one additional point that I should make.

The E Committee conclusions, while emphasising the desirability of securing agreement from the unions on a new system, explicitly leave open the possibility that such agreement may not be obtained. There is therefore a case for inserting "if possible" before "agreed" in the fourth line of the draft. However, this would be fairly provocative; and since the third line says that the review will be "with the object" of establishing a new system, it leaves open the possibility that the object will not be achieved. I therefore recommend leaving the draft as it is in this respect.

M S BUCKLEY

17 February 1981

10/30



ELIZABETH HOUSE,
YORK ROAD,
LONDON SE1 7PH
01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Lord Soames
The President of the Council
Civil Service Department
Whitehall
London SW1A 2AZ

- MR BUCKLEY
- CST
- FST
- MSTC
- MSTC
- SIR D WASS
- SIR A THORNTON
- MR RYAN
- MR LITTLE
- MR MADDISON
- MR BAKER
- MR BILLYMORAN
- MR DIXON
- MR GIBSON
- MR HODGSON
- MISS NORRIS
- MR P RAYNER
- MR R. JONES

17 February 1981

Dear Christopher,

CIVIL SERVICE PAY

I noted from my copy of your letter to Willie Whitelaw on 13 February that you were expecting to offer 7% to the Civil Service unions in the course of this week; and I understand through our Private Offices that this is likely to be on Friday or perhaps even next Monday. As you probably know negotiations begin this coming Wednesday on teachers' pay in the Burnham Committee and both sides there will be watching closely developments in the Civil Service and the NHS. Thus your timing and Patrick Jenkin's are of considerable interest to me and my representatives in Burnham and I should be grateful if you and he could keep us closely in the picture if there is any thought of bringing forward the offer to your unions or his or if there is any risk of its becoming public before Friday in advance of any formal meeting.

Copies of this letter go to the Prime Minister, all members of E Committee, Francis Pym, Patrick Jenkin and Sir Robert Armstrong.

John ...

MARK CARLISLE

CONFIDENTIAL

33
Ryd



EXCHEQUER
18 FEB 1981
MR BUCKLEY
CST
LST
SIR D. WASS
From the Private Secretary
MR RYRIE
SIR A. RAWLINSON
MR BAILEY

10 DOWNING STREET

MR DIXON
 MR MIDDLETON
 MR LITLEN
 MR KEMP
 MR BRIDGEMAN
 MR UNWIN
 MR P. RAYNET

17 February 1981

Den Den

The Prime Minister held a meeting this morning to discuss further the National Health Service and Civil Service cash limits and pay negotiations. In addition to your Secretary of State, the following were present: the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Employment, Scotland, Wales, the Chief Secretary and Sir Robert Armstrong. They had before them Mr. Jenkin's minute of 13 February.

Mr. Jenkin said that he had been dismayed at the reports in last Friday's newspapers about the Government's proposals for dealing with NHS and Civil Service pay. These reports had cut the ground from under the NHS negotiators. In reaching their decision on the six per cent pay factor, Ministers had assumed that if a settlement was reached at seven per cent, the volume of spending would be protected to some extent by savings on account of the 11 per cent price factor. But in fact, volume was unlikely to be unaffected unless the pay settlement could be held to six and one-third per cent. NHS management were taking the view that once they began to offer money from the non-pay cash limit towards the settlement, it would be very hard to avoid further concessions. They did not wish to see volume cut, and accordingly they seemed prepared to stick at a six per cent pay offer even though this would almost certainly result in industrial action. If they did decide to move to 7%, the consequent volume squeeze would cause considerable political difficulties for the Government. For it would fly in the face of the pre-election commitment to maintain the growth of volume spending. He would be seeing the TUC Health Services Committee later that day at one of his regular meetings with them. He would put to them all the arguments about the need for restraint on pay if volume spending was not to be affected. But he thought it most unlikely that they would listen to these arguments. Because of the link with the local authority manuals, it seemed improbable that the unions would accept an offer of less than 7½%.

Lord Soames said that there was bound to be industrial trouble on a major scale if the Government tried to stick to 6% in either the NHS or the Civil Service negotiations. By offering 7%, there was some prospect of avoiding this.

/In view

CONFIDENTIAL

In view of the reports in last Friday's press, it was necessary for the management side to put the 7% figure on the table rightaway. Given the fact that it had been decided to set the pay factor at 6%, it ought in his view to be possible to finance 7% settlements by a slight manpower squeeze (though in the case of the Civil Service this would be on top of the reductions already agreed) and possibly by some transfer of funds from non-pay expenditure.

In discussion the following points were made:

- I Given that manpower in the NHS had risen by some 25,000 since the election, the squeeze consequent on a 7% settlement should not cause too much difficulty. When other programmes were being cut back, many people would be surprised to know that the health service was still expanding. Moreover, the recent report by the Controller and Auditor General seemed to indicate that there was scope for manpower savings.
- II On the other hand, it was pointed out that the pre-election commitment had been quite clear, and hitherto Ministers had taken it fully into account in their public expenditure deliberations. The 25,000 manpower increase was an automatic consequence of allowing the volume of spending to increase, and most of the additional posts were medical staff rather than ancillaries or administrators. The increase in spending was itself justified by the UK's ageing population and the resultant increase in the number of patients that the NHS had to cater for. As regards the C&AG's report, DHSS officials were confident that most of its criticisms could be effectively rebutted: for example, the report failed to distinguish the staffing requirements of teaching hospitals from the staffing requirements of ordinary hospitals.
- III Whatever the difficulties, the Government could not afford to increase the pay factor above 6%. If the unions insisted on taking out more than 6% in pay, they should be made to take the responsibility for any consequent volume squeeze. The argument should be turned against them to make it clear that they - and not the Government - were cutting volume and causing unemployment.
- IV If the pay factor was to be held at 6%, the sooner it and the 11% prices factor were announced the better.

Summing up, the Prime Minister said that there could be no going back on the decision to set the pay factor for cash

/limits

limits at 6% and the prices factor at 11%. Pay settlements for the NHS and Civil Service would have to be negotiated within the cash limits thus set. In both cases, it seemed likely that the management sides would have to offer 7%; and if so, there would have to be some minor volume savings. The cash limit factors should be announced by Written Answer by the Chancellor of the Exchequer tomorrow (Wednesday).

I am sending copies of this letter to John Wiggins (HM Treasury), Jim Buckley (Lord President's Office), Richard Dykes (Department of Employment), Godfrey Robson (Scottish Office), John Craig (Welsh Office), Terry Mathews (Chief Secretary's Office) and David Wright (Cabinet Office).

I would be grateful if you and copy recipients could ensure that this letter has the same limited circulation within departments as the relevant minute of last Thursday's E Committee meeting.

W u

Tu Labor.

Don Brereton, Esq.,
Department of Health and Social Security.

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Dixon
Mr Unwin
Mr Rayner
Mr Ridley
Mr Cardona

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

... I attach a self-explanatory draft reply to the letter of 16 February from the Lord President's Private Secretary. There is one additional point that I should make.

The E Committee conclusions, while emphasising the desirability of securing agreement from the unions on a new system, explicitly leave open the possibility that such agreement may not be obtained. There is therefore a case for inserting "if possible" before "agreed" in the fourth line of the draft. However, this would be fairly provocative; and since the third line says that the review will be "with the object" of establishing a new system, it leaves open the possibility that the object will not be achieved. I therefore recommend leaving the draft as it is in this respect.

M.S.B.

M S BUCKLEY

17 February 1981

11812
PL HPA
PJ

DRAFT LETTER TO: THE PRIVATE SECRETARY TO THE LORD PRESIDENT

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Thank you for your letter of 16 February.

The Chancellor has asked me to make two comments on the draft statement to the unions.

First, he suggests that it would be better to say "The Government intend to review the arrangements...". E Committee specifically decided to hold open the question of whether there should be an outside review. The use of the passive voice in the draft strongly implies that the Government will ask someone else to do the job, and so prejudices the eventual decision, whereas the active leaves the question more open, since it does not preclude the Government from later asking for outside advice.

Secondly, he suggests ^{adding} ~~that there should be added~~ at the end of the statement ^{the words} "and which will command the widest possible acceptance". This reflects a point explicitly made in the Prime Minister's summing up at E Committee.

I am sending a copy of this letter to Tim Lankester, Richard Dykes, and David Wright.

cc: PS/CST
 PS/FST
 Sir D Wass
 Mr Ryrie
 Mr Middleton
 Mr Dixon
 Mr Unwin
 Mr Rayner
 Mr Ridley
 Mr Cardona
 Mr Buckley



1PCS
 Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

18 February 1981

J. Buckley Esq.
 Private Secretary to the
 Lord President of the Council

Dear Jim,

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Thank you for your letter of 16 February.

The Chancellor has asked me to make two comments on the draft statement to the unions.

First, he suggests that it would be better to say "The Government intend to review the arrangements ...". E Committee specifically decided to hold open the question of whether there should be an outside review. The use of the passive voice in the draft strongly implies that the Government will ask someone else to do the job, and so prejudices the eventual decision, whereas the active leaves the question more open, since it does not preclude the Government from later asking for outside advice.

Secondly, he suggests adding at the end of the statement the words "and which will command the widest possible acceptance". This reflects a point explicitly made in the Prime Minister's summing up at E Committee.

I am sending a copy of this letter to Tim Lankester, Richard Dykes, and David Wright.

Yours ever

John Wiggins

A.J. WIGGINS
 Private Secretary

psp
D/B6



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

From the Private Secretary

18 February 1981

Peter Shaw
Private Secretary to the Secretary of State
for Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

SECRET
8

MR BUCKLEY
CST
FST
MST L
MST C
SIR D WALES
SIR A RAWLINSON
MR RYRIE
MR LITTON
MR MIDDLETON
MR BAILEY

MR BRIDGEMAN
MR DIXON
MR UNGWIN
MR ROSSON
MISS NOBLE
MR PRAYNER
MR RIDLEY

Dear Peter,

CIVIL SERVICE PAY

This is just to confirm what I told you on the phone earlier today in response to your Secretary of State's letter of 17 February.

We must ^{indeed} keep in touch about the progress of our respective negotiations. The Lord President is now due to meet the Civil Service Unions next Monday afternoon and there is no intention of moving beyond our existing offer of 6% before then. I understand that our officials are in close touch and will be keeping each other informed of any developments.

Copies of this letter go to the Private Secretaries of Ministers who received your letter.

Yours sincerely,
J Buckley

J BUCKLEY

vk

CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213.....6400 GTN 213
Switchboard 01-213 3000

Jim Buckley Esq
Private Secretary to the
Lord President
Civil Service Department
Whitehall
LONDON SW1

18 February 1981

Mr Buckley 19/2

CST

FST

Sir D Wass

Mr Payne

Mr Middleton

Mr Dixon

Mr Unwin

Mr P Rayner

Mr Ridley

Mr Cardona

Loa Jim

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Thank you for sending Richard Dykes a copy of your letter of 16 February to John Wiggins.

The Secretary of State is content with the wording of a statement on the Government's intentions as proposed in your letter. I am copying this to Tim Lankester, John Wiggins, and David Wright.

Yours sincerely

J. Anderson

J ANDERSON
Private Secretary

cc: PS/CST 41
 PS/FST
 Sir D Wass
 Mr Ryrie
 Mr Middleton
 Mr Dixon
 Mr Unwin
 Mr Rayner
 Mr Ridley
 Mr Cardona
 Mr Buckley



Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

18 February 1981

J. Buckley Esq.
 Private Secretary to the
 Lord President of the Council

→ ~~by long~~
 RA

Dear Jim,

CIVIL SERVICE PAY: FUTURE ARRANGEMENTS

Thank you for your letter of 16 February.

The Chancellor has asked me to make two comments on the draft statement to the unions.

First, he suggests that it would be better to say "The Government intend to review the arrangements ...". E Committee specifically decided to hold open the question of whether there should be an outside review. The use of the passive voice in the draft strongly implies that the Government will ask someone else to do the job, and so prejudices the eventual decision, whereas the active leaves the question more open, since it does not preclude the Government from later asking for outside advice.

Secondly, he suggests adding at the end of the statement the words "and which will command the widest possible acceptance". This reflects a point explicitly made in the Prime Minister's summing up at E Committee.

I am sending a copy of this letter to Tim Lankester, Richard Dykes, and David Wright.

Yours ever

John Wiggins

A.J. WIGGINS
 Private Secretary



10 DOWNING STREET

From the Private Secretary

20 February 1981

pa
165
Mr Buckley
CST
FST
Sir D Warr
Mr Pyrie
Mr Middleton
Mr Dixon
Mr Ansell
Mr P Rayner
Mr Ridley
Mr Carlong

Civil Service Pay: Future Arrangements

The Prime Minister has now considered the Lord President's proposed form of words which he would like to use in the pay negotiations on Monday concerning the future arrangements for Civil Service pay. (Jim Buckley wrote to John Wiggins about this on 16 February.) She has seen the Chancellor of the Exchequer's comments as contained in John Wiggins' letter of 18 February.

As I told you on the telephone, the Prime Minister would like the phrase - "which experience has shown to be relevant" - to be deleted, since she believes this could be misinterpreted to mean that the new arrangements will exclude factors for determining pay which have not hitherto been made use of. Thus, taking in the Chancellor's suggestions, the statement would read as follows:-

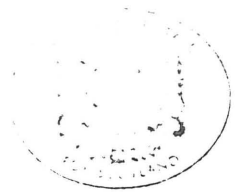
"The Government intend to review the arrangements for determining the pay of the non-industrial civil servants with the object of establishing as soon as practicable an ordered and agreed system which takes account of all relevant factors and which will command the widest possible acceptance."

I am sending copies of this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

I. P. LANKESTER

Miss Vivien Life,
..Lord President's Office.

CONFIDENTIAL



SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AZ

Mr Wick's	Mr Middleton
PPS FST	Mr Bingham
MST MST(U)	Mr Dixon
Sir D Warr	Mr Erwin
Mr Ryan	Mr Kerr

83
Raj
Mr Braham
Mr Bradley
Pg 26/2

RESTRICTED

The Rt Hon Lord Soames CH PC GCMG GCVO CBE
 Lord President of the Council
 Civil Service Department
 Whitehall
 LONDON
 SW1A 2AZ

EXCHEQUER	
REC	25 FEB 1981
ACTION	CST TO DEAL
COPIES TO	

25. February 1981

Dear Christopher,

NII RECRUITMENT

I have seen a copy of David Howell's letter to you of 13 February about the need for steps to be taken to make it possible for the NII to attract additional recruits of suitable calibre to bring its complement up to strength.

As I indicated in my letter of 7 August on this subject (copied to Paul Channon), the need for confidence in the effectiveness of nuclear safety arrangements to be sustained justifies our seeking to take exceptional measures to ensure that the Inspectorate is, and continues to be, adequately staffed. The need for action to be taken was highlighted last week by the Select Committee on Energy which expressed alarm about the current shortfall in the strength of the NII and recommended that the position should be reviewed as a matter of extreme urgency with particular attention being given, among other considerations, to the salaries paid to the Inspectorate. In these circumstances I strongly support David Howell's proposals that a comparison of functions and salary levels of Nuclear Inspectors with those of comparable staff in the nuclear industry should be undertaken and that we should be ready to find the money to finance increased NII pay rates if the comparison should show this to be necessary. I also agree that relocation expenses should be examined at the same time.

I am sending copies of this letter to the Prime Minister, David Howe, Geoffrey Howe, Jim Prior, Michael Heseltine, John Nott and Sir Robert Armstrong.

Howe
 Currey
 13/27

REC
Mr. Dixon
PS / CST
PS / EST
PS / 14 ST (C1)
PS / 14 ST (2)
Sir D. Wass
Mr. Rynie



PRIME MINISTER

CIVIL SERVICE INDUSTRIAL ACTION

We are now entering a critical phase as we approach the one-day strike called by the Civil Service unions for 9 March as a precursor to further action.

We have made it clear to the unions and the public that we stand absolutely firm on the 6% cash limit and that a 7% pay settlement is the most that can be squeezed out of that. Here we must now stand.

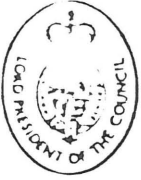
On the other hand, I am anxious to do what we can to prevent industrial action gaining a momentum of its own and becoming harder to stop. So we must seek to build on our formula for the future. The unions have welcomed what we have said about the establishment of an ordered and agreed system but have said that this will not influence their plans unless we can say something about a number of specific matters.

I would like to respond constructively, though we must not of course in advance of our review commit ourselves to the detailed system we might want to introduce for the future; but that should not prevent us putting some flesh on the bones of our formula if it would help us limit serious industrial action in the period ahead.

I am enclosing a copy of the letter I sent today to Mr Kendall. I expect his response tomorrow and he may ask for the meeting within a day or two. If so I would then like to say something on the following lines:

- a. We have already said that an ordered and agreed system would take account of all relevant factors. ~~For instance,~~ it is not the Government's intention that the pay of its employees should permanently fall behind the appropriate market rates, so the new arrangements would need to have regard to the pay of staff engaged on similar work outside;
- b. Providing we can arrive at a satisfactory and ordered system, arbitration would have a part to play in normal times;
- c. A new system would be established as soon as practicable but whether all or some of it could be used for the 1982 pay settlement would depend on the progress of the review and the circumstances prevailing at the time.

I am sending a copy of this minute to the Chancellor of the Exchequer the Secretary of State for Employment and Sir Robert Armstrong.



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

W L Kendall Esq
Council of Civil Service Unions
19 Rochester Row
LONDON SW1P 1LP

March 1981

Dear Mr Kendall,

Your letters awaited me on my return from Brussels on Friday evening.

I must tell you that the Government deeply deplores the decision by your Council to call for industrial action by your members. On the basis of the proposals which we have put to you we consider such action would be quite unjustified.

I am surprised and disappointed by your reaction to the meeting which took place at your request with my officials on 24 February on the future pay arrangements for the Civil Service. I find it hard to understand how on the strength of only one meeting you can dismiss the discussions as abortive. It was surely quite unreasonable to expect snap answers to some of the questions you raised. After all, we are only at the beginning of the work on new arrangements for Civil Service pay.

I am anxious that there should be no misunderstanding of the Government's positive intention to establish an ordered and agreed pay system. You may think therefore that it would be wise for your negotiating committee to have an early meeting with the Minister of State.

Yours sincerely
Christopher Soames

cc PS/CST
PS/FST
PS/MST(L)
PS/MST(C)
Sir D Wass
Mr Ryrie

Mr Middleton Mr Buckley
Mr Unwin Mr Rayner
Mr Ridley
Mr Cardona

Ryrie

CONFIDENTIAL

Principal Private Secretary

CIVIL SERVICE INDUSTRIAL ACTION

Sub-paragraph a of Lord Soames's draft statement, even as amended by the Prime Minister, goes too far from our point of view in establishing comparability, but by referring to "normally" would not go far enough for the unions. We would suggest replacing it with the following:-

"Like any employer the Government must always take account of economic circumstances and the ability to pay. The ordered and agreed system at which we are aiming would take account of all relevant factors, including the relative attractiveness of all the terms and conditions of service of those in employment elsewhere"

2. We have no comments on b and c.

PV

P V Dixon
3 March 1981

CONFIDENTIAL

46



10 DOWNING STREET

From the Private Secretary

3 March, 1981

CH/EXCHEQUER	
REC	- 3 MAR 1981
M. Dixon 3/3	
GT	Sir D. Little
HT	Mr. Heyhoe
AST (C)	W. Middleton
AST (L)	W. Unwin
	W. R. Jackson
	W. P. ...

W. R. Jackson
W. P. ...

Dear Jim

CIVIL SERVICE INDUSTRIAL ACTION

The Lord President minuted the Prime Minister last night on the above subject, and they had a word about it this morning.

The Lord President explained that Mr Kendall had now asked for a meeting; he had not yet decided whether he or Mr Heyhoe would take the meeting. While he had no intention whatsoever of conceding anything on the 7% pay figure, he wanted to be able to give the unions some sort of a lifeline in terms of the future arrangements for pay determination. The latter had already been discussed by Ministers collectively; he now wanted the Prime Minister's agreement to the form of words suggested in his minute which might be used at the forthcoming meeting.

The Prime Minister said that, in her view, the suggested form of words in paragraph 5a of the minute gave too much emphasis to the idea that Civil Service pay should not fall behind pay outside the emphasis ought to be on pay and conditions of service. She also hoped that it was implicit that, amongst the relevant factors to be taken into account in the "ordered and agreed system", would be supply and demand conditions.

The Lord President agreed that supply and demand considerations were indeed implicit. To meet the Prime Minister's point about pay and conditions, they agreed that the form of words in paragraph 5a should be amended as follows:-

"We have already said that an ordered and agreed system would take account of all relevant factors. In introducing such a system, it would be the Government's intention that the terms and conditions of service of its employees should not normally fall behind the terms and conditions of those employed outside."

/I am

CONFIDENTIAL

- 2 -

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

me. em.

Ti Lohr.

J Buckley, Esq
Lord President's Office

CONFIDENTIAL



CONFIDENTIAL

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

POL/80 160/25/21

4th March 1981

Dear Peter,

Civil Service Pay Arrangements

Thank you for sending me a copy of your letter of 20th February to Gordon Burrett about the setting up of MISC 54.

I appreciate your wish to limit the circulation of papers as far as possible, but there could be some special problems over prison services staff, where the position is particularly sensitive. We should therefore be grateful if you would arrange for copies of MISC 54 papers to be sent to John Chilcot in our Prison Department at Eccleston Square.

May I add that I agree with the points which Edward Simpson raised in his letter of 24th February. We should not assume too readily that whatever is right for the Civil Service can be applied to the other public services. This is certainly not the case for some of the Home Office services, especially the police.

I am copying this to the other members of PSP(O).

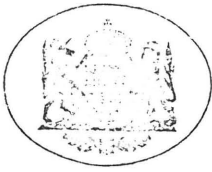
Yours sincerely,

(R. J. ANDREW)

P. le Cheminant, Esq., CB,
Cabinet Office,
70 Whitehall,
LONDON
SW1A 2AS

CONFIDENTIAL

21
6/3



Mr. [Signature]
47
17
KAG

SCOTTISH OFFICE
WHITEHALL, LONDON S.W.1

01 233 3569

CONFIDENTIAL

P Le Cheminant Esq
Cabinet Office
Whitehall
LONDON SW1

4 March 1981

[Signature]

CIVIL SERVICE PAY ARRANGEMENTS

In your letter of 20 February you informed the members of PSP(O) of the setting up of a new committee - MISC 54 - membership of which will not extend to the Scottish Office.

You asked, however, about receipt of papers. Given especially Scottish Office responsibility for the NHS in Scotland which falls within the proposed terms of reference (as well as the wider public service pay questions such as teachers' salaries to which Edward Simpson drew attention in his letter of 24 February) I should like to put in a firm bid to receive papers on a regular and continuing basis. It would be helpful if two copies could be sent on the same basis as PSP(O) papers but both addressed to me at this office.

I am copying this reply to the other members of PSP(O).

Yours sincerely

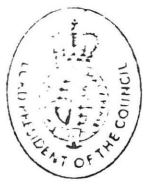
[Signature]

A H BISHOP

26/6

50
PSP

- Mr Byrne
- Mr Little
- Mr Middleton
- Mr Bailey
- Mr Bridgeman
- Mr Dixon
- Mr Unwin
- Mr Peabson



- Mr Buckley 13
- CST
- FST
- MST L
- MST C
- Sir A Wass
- Sir A Pawlinson

PRIME MINISTER

- Miss Noble
- Mr P Baynes
- Mr Ridley

CIVIL SERVICE PAY

The Civil Service unions yesterday came to see Barney Hayhoe at their request. As you know I had offered them a meeting when I wrote to Mr. Kendall on 2nd March.

Barney Hayhoe made it quite clear that there was no prospect of increasing the 7% figure.

As to the future arrangements, he emphasised that it would take time to work out the changes and it was therefore impossible to give assurances now about the new system. Since it was clear that yesterday's meeting was not going to lead to them calling off the industrial action, he did not go so far as giving them a particular form of words, but speaking generally said that he would expect matters such as independent fact-finding, comparisons with outside rates and arbitration to be included in the review. He gave no assurances about what would happen in 1982.

The unions are evidently committed to industrial action. I believe that they now accept that there can be no increase on 7% and they appreciate that it is to more progress on the future 1982 and beyond - that they must look for further movement.

I see advantage in taking every opportunity to get our message across, and I would like to make a statement on the lines of the attached in the Lords tomorrow. Barney Hayhoe would repeat it in the Commons.

I am sending copies of this minute to Cabinet colleagues and Sir Robert Armstrong.

A large, stylized handwritten signature, likely 'S', representing Soames.

SOAMES

4th March, 1981

DRAFT STATEMENT BY THE LORD PRESIDENT

My Lords, I want to take this opportunity to explain to the House and to the country the present situation regarding the threatened Civil Service strike on Monday. The Government have offered to non-industrial civil servants an increase of 7% from 1 April together with a clear statement of our desire and intention to establish for the future a new, ordered and agreed system for determining Civil Service pay.

For 1981-82 all the public services are operating within pay factors of 6% for their cash limits. For the Civil Service, where the Government is the direct paymaster, it will be possible albeit with considerable difficulty to squeeze a pay increase of 7% from the resources available within the cash limit. That is simply as far as we can go. Other groups like the local authority manual workers and the teachers in England and Wales and in Scotland are settling at about the same level within the constraints imposed by the cash limit. It is evident from this that there is no question of discrimination against the Civil Service.

There are many people in private industry, and in the public sector too, who would feel that such an offer at this time could be classed as a good one, given the general economic climate and civil servants' relative job security.

I know that civil servants are concerned as much about future arrangements for determining Civil Service pay as they are about

50

this year's cash offer. In August last year I explained to the union leaders that, given the overriding need in the broad national interest for increases in pay to be very restricted, the emphasis in 1981 would have to be on cash limits, reflecting what the Government felt the nation could afford. It was not therefore possible for the Government to operate the existing pay research arrangements in the normal way and in October I suspended them.

A further cause for concern is the pay research system itself which is now more than 25 years old. Over the years it has become top heavy and cumbersome in its operations. It no longer commands general confidence. What is now needed is a thorough overhaul - and this is something I believe to be recognised by the unions as well as by ourselves.

I recognise that civil servants fear that the imposition of increases based on cash limits this year coupled with the suspension of the present arrangements could mean that the Government intends that Civil Service pay should be imposed by fiat each year. But this is not the case. I told the union leaders on 23 February:

"The Government intends to review the arrangements for determining the pay of non-industrial civil servants with the object of establishing as soon as practicable an ordered and agreed system which takes account of all relevant factors and which will command the widest possible acceptance".

53

Evidently that review has to take place before we can see clearly how the new system will be shaped. We have made every effort to clarify the Government's position and, so far as possible at this stage, to explain our intentions to the union leaders. Recognising their concern about such matters as independent fact-finding, comparisons with outside rates and arbitration, we have made clear to them that these and other relevant factors would be covered in the review. We will welcome further discussions as the review proceeds.

The Government therefore finds it hard to understand how in these circumstances the union leaders justify their recourse to the extreme step of recommending industrial action to their members. Surely it would be in the best interests of the Civil Service if the union leaders concentrated on making their contribution to the thinking on the new system rather than calling for industrial action from which no-one can gain and from which the country is bound to suffer.

Page 1

Mr. Jenkins



PS/CST
PS/FST
PS/MST L
PS/MST C
Sir B Wass
Mr Ryrie
Mr Middleton
Mr Uwnin
Mr Ridley
Mr Cardona
Mr Buckley
Mr Rayner
Mr Dixon

casury Chambers, Parliament Street, SWIP 3AG
01-233 3000

5th March 1981

J Buckley Esq.
Private Secretary
Lord President's Office

Dear Jim,

CIVIL SERVICE INDUSTRIAL ACTION

For the record, the preferred form of words which John Wiggins read over to you over the telephone read as follows:

"Like any employer the Government must always take account of economic circumstances and the ability to pay. The ordered and agreed system at which we are aiming would take account of all relevant factors, including the relative attractiveness of all the terms and conditions of service of those in employment elsewhere".

I note from your letter of today that the negotiations did not reach the point where a form of words needed to be put forward.

I am copying this to Tim Lankester.

Yours ever
Peter

P.S. JENKINS
Private Secretary

26
513



cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Minister of State (C)
 PS/Minister of State (L)
 Sir D Wass
 Sir A Rawlinson
 Mr Ryrie
 Mr Littler
 Mr Middleton
 Mr Bailey
 Mr Bridgeman
 Mr Dixon
 Mr Unwin
 Mr Robson
 Miss Noble
 Mr P Rayner
 Mr Ridley

MR BUCKLEY — *Mr Rayner*

CIVIL SERVICE PAY

As you may have heard, the Lord President's draft statement was discussed in Cabinet this morning. Changes were agreed to the last two paragraphs. These were as follows:-

- i. penultimate line, penultimate paragraph. Amend to read "recognising their concern about such matters as independent fact finding, comparisons with outside terms and conditions of service and arbitration, we have made clear to them that these as well as other relevant factors like job security would be covered in the review.
- ii. last paragraph, last sentence. Amend to read "I hope that the union leaders will think it in the best interests of the Civil Service to concentrate on making their contribution to the thinking on the new system rather than calling for industrial action from which the country is bound to suffer".

2. The amendment which you proposed in your minute of 5 March to the second paragraph has been accepted by the Lord President and will appear in the statement.

PSJ
 P S JENKINS
 5 March 1981

Charman
I gather this was discussed at Cabinet, 4
various amendments were agreed. Since the amendments
suggested below are really technical (and clearly
right) I have already telephoned it through.

8] 5.3

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Ryrie
Mr Littler
Mr Middleton
Mr Bailey
Mr Bridgeman
Mr Dixon
Mr Unwin
Mr Robson
Miss Noble
Mr P Rayner
Mr Ridley

CIVIL SERVICE PAY

The draft statement attached to the Lord President's minute of 4 March to the Prime Minister seems unexceptionable. It mentions such difficult matters as "independent fact-finding, comparisons with outside rates and arbitration", but says only that they will be covered in the current review of Civil Service pay arrangements, without committing the Government to a particular outcome.

2. There is, however, one drafting point which it would be worth making to the Lord President's office. The first sentence of paragraph 2 of the draft encourages the misguided notion that there is a 6% pay norm, and that there is some special allocation for pay within overall cash limits. It would be better to say:

"For 1981-82 all the public services are operating within cash limits set on the basis of factors of 6% for pay and 11% for prices".

3. If the Chancellor agrees, a telephone call should suffice.

M.S.B.

M S BUCKLEY

5 March 1981

PS/CHANCELLOR OF THE EXCHEQUER

IP
1/1A
pwp
D/B
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Mr Ridley
Mr Copper
Mr Cardona

FUTURE OF CIVIL SERVICE PAY NEGOTIATING ARRANGEMENTS

I understand that at "morning prayers" the Chancellor asked about progress on the study of future Civil Service pay arrangements.

2. MISC 54, the official committee under CSD chairmanship, has met once, and will have its next meeting on Wednesday 11 March. The Chairman has indicated that his aim is to complete the exercise no later than the end of April. The CSD will be producing papers for the meeting on 11 March covering both the list of factors to be taken into account (this includes all those suggested by the CPRS in their paper to E Committee, plus a few others) and on mechanics (this covers such important questions as arbitration, outside fact-finding, and regional variation in pay rates).

3. The CSD see little prospect that the work of MISC 54 will lead to results which can avert industrial action by Civil Servants in the immediate future. As the Chancellor will be aware, it is necessary to be very cautious in offering assurances on future systems: anything said before considered decisions have been taken is all too likely to prove embarrassing. But, as I have said, it is the intention to press ahead as quickly as the complexity of the subject allows.

M.S.S.

M S BUCKLEY

6 March 1981

SB
15

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Ryrie
Mr Middleton
Mr Dixon
Mr F E R Butler
Mr Bridgeman
Mr RaynerCIVIL SERVICE PAY DISPUTE

We understand that the Lord President intends to raise orally at Cabinet tomorrow the question of the current Civil Service pay dispute. CSD officials have no indication of what he is likely to say (they are meeting him at 6.00 pm this evening).

2. On the pay front, as you know, there are two issues.

- (1) The current offer of 7%; and
- (2) the future system of pay determination.

The unions say that both matters are crucial; and that the Government's position on both is unacceptable. It follows, of course, that the Government should not make offers on either until it is confident that doing so will settle the dispute.

3. There is little to be said about the 7% offer. It is possible that an increase to 7½% (coupled with a satisfactory understanding on the future pay system) might have some significance; and the Lord President might be asked to investigate the feasibility of such an offer within existing cash limits. But such an investigation should not be undertaken at this stage unless the Lord President is confident that news of it would not leak: otherwise, it would be taken as evidence of a weakening of the Government's resolve.

4. As for the future system, the official committee which is studying the matter (MISC 54) is well aware of the importance of making as rapid progress as

possible. Ministers should, however, beware of trying to move too quickly.

(a) Nothing could be worse than to rush into undertakings which could not in the event be honoured.

(b) There is likely to be a wide gap between what the Government and the unions would regard as acceptable. In particular, the unions will tend to put the main weight on comparability and having an automatic system; the Government will not. This need not mean that there is no prospect of negotiating satisfactory heads of agreement on a new system; but the negotiations will certainly need very careful handling.

5. In short, we would advise against any immediate action on the pay front. Events will have to take their course for a while so that, for example, Ministers can judge the strength of feeling among the staff and therefore the chances of success of the various possible actions that might be taken.

M.S.B.

M S BUCKLEY

11 March 1981

EXCHEQUER

13 MAR 1981

Mr. Bouchey

CST

Sir D. LAM

As

Sir A. Rankin

MS(C)

W. Ryan

MS(L)

W. M. D. LIT

W. Dixon

W. P. D. LIT

W. P. D. LIT

W. P. D. LIT

PRIME MINISTER

THE CIVIL SERVICE PAY DISPUTE

We are to meet tomorrow. This note sets out a framework for our discussion.

Industrial Action

In the one-day strike on 9 March an estimated 275,000 non-industrial civil servants took part (52% of the Civil Service). The unions are now taking selective and disruptive action and some 1,300 are on strike. So far, there is no sign of their weakening and selective and disruptive action will probably be extended next week. If - but it is an if - their money-raising is as successful as they say, the unions can keep up this level of selective action for some time and appear ready to do so.

Departments are dealing with industrial action firmly but are using only the management responses which are known and understood by the unions. We are not seeking to escalate at this stage, and, provided serious damage is not being done, some time can go by before we need to decide whether or not to escalate.

Review of Pay System

The review which you commissioned last month is going ahead (MISC 54) under CSD Chairmanship as quickly as possible. Many inputs from a number of sources need to be considered and evaluated. The Chairman has told me that he hopes to complete his work by mid-April but it would not be sensible to bring this forward and to rush it through. What we are seeking here is the possible basis for a long-term ordered and agreed system of Civil Service pay determination. It is important to get that right. Once the work of MISC 54 is cleared, with or without alterations, by Ministers we can open discussions with the unions.

Ending the Dispute

We must therefore consider what is likely to lead the unions to bring the present dispute to an end. We must be clear about timing and about content. I believe that it would be a mistake to make any move towards the unions too soon. We need to let a bit of time go by: movement on our side which might be productive in a couple of weeks time might today simply inflame matters. When the time does come I suspect we will need to look to telling the unions that for 1982, if we cannot negotiate a settlement, we will agree to a reference to the Civil Service Arbitration Tribunal.

I am copying this to Geoffrey Howe, Jim Prior and Sir Robert Armstrong.

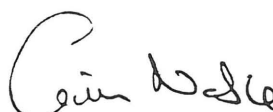
FAG 61

CHANCELLOR OF THE EXCHEQUER

cc Minister of State (C)
Sir Douglas Wass
Mr T Burns
Sir Anthony Rawlinson
Mr Ryrie
Mr Middleton
Mr Bridgeman
Mr M P Brown
Mr H P Evans
Mr Monck
Mr Collinson
Mr Turnbull
Mr Ward
Mr Denham
Mr Shields
Mr Adam Ridley

WEEKLY MONITORING OF CENTRAL GOVERNMENT TRANSACTIONS

1. I attach the report on central government transactions for the week ending Friday 13 March.
2. The outturn for the week was £40 million better than the forecast. Any effects of Monday's one day strike seem to have worked themselves out within the week.
3. The shortfall of £140 million in receipts from Inland Revenue was largely due to problems in attributing the forecast for the month to particular weeks. We would not expect the strike at the Inland Revenue offices at Shipley and Cumbernauld to have a significant effect on the figures until this Friday and the first few days of next week, when the monthly PAYE receipts are due to come in.
4. Customs and Excise receipts were £60 million higher than forecast last week. This was largely due to VAT received by direct transfer on Monday. We have no firm information on the effect of the continuing strike at Customs and Excise. We think we may currently be losing anything up to £30 million of VAT a day, but this should improve when we start to receive money through the special arrangements which are being set up.
5. There is still no real upsurge in lending to local authorities and public corporations. Lending to local authorities was fairly low, and very much as forecast. Lending to public corporations was about £70 million higher than forecast, but this is just a timing effect.



G M NOBLE

	Inland Revenue	Customs	Net Lending		Other	CGBR ⁽²⁾
			(i) LAs	(ii) PCs		
Financial year to 13 March 1981 - outturn	+31,569	+21,260	- 999	-3,590	-60,016	-11,776
Financial year to 14 March 1980 - outturn	(+26,691)	(+17,055)	(- 713)	(-3,109)	(-48,344)	(- 8,420)
% increase on a year ago ⁽³⁾	18.3	24.7			24.1	
Latest forecast for 1980-81 ⁽⁴⁾	+33,400	+22,135	-1,155	-2,270 ⁽⁵⁾	-64,870 ⁽⁵⁾	-12,760
Outturn 1979-80	(+28,153)	(+18,032)	(- 817)	(-3,152)	(-50,443)	(-8,227)
% increase on a year ago	18.6	22.8			28.6	
1980 FSBR forecast for 1980-81	+32,860	+24,000	- 900	-2,762	-62,511	-9,313
% increase on a year ago	16.7	33.1			23.9	
Week or period ending 13 March 1981 - outturn	+ 63	+ 319	- 41	- 68	- 1,126	- 853
- difference from forecast in the 1981 FSBR	- 137	+ 59	- 3	- 68	+ 189	+ 40
Calendar month to 13 March 1981 - outturn	+ 1,789	+ 748	- 45	- 86	- 1,983	+ 423
- difference from forecast in the 1981 FSBR	- 111	+ 108	- 56	- 152	+ 227	+ 16
Banking - March to 13 March 1981 - outturn	+ 3,500	+ 1,063	+ 7	- 159	- 4,307	+ 104
- difference from forecast since 2 March	- 111	+ 108	- 56	- 152	+ 227	+ 16
Banking - to - outturn						
- difference from forecast since						

(1) + indicates a receipt, net receipt or difference which reduces CGBR
 - indicates a payment, net payment or difference which increases CGBR

(2) The CGBR is only assessed in full at the end of banking and calendar months; at intervening points the figures shown are based solely on the cash transactions directly monitored by the Accounts Division

(3) The comparison is not fully between like and like due to calendar variations between the two years

(4) The latest forecast is that implicit in the 1981 FSBR

62

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Ryrie
Mr Middleton
Mr Dixon
Mr F E R Butler
Mr Bridgeman
Mr Rayner

CIVIL SERVICE PAY DISPUTE

There is little specific briefing that we can offer you on the note which the Lord President has circulated as preparation for this afternoon's meeting. In general, we agree with his view that, for the time being, there is not much to be done except "sit tight". It is, for example, too soon to judge whether the unions will get continuing support from their members, or whether their action is likely to have significant adverse effects on the working of the Government machine.

2. There are two points which you will wish to bear in mind.

(a) It would be a mistake to be too hasty in offering formulae based on the review of the pay system - particularly from the Treasury standpoint. The unions will want something which puts the maximum weight on comparability and offers them the maximum commitment to implementing the results. Your preference will be for the opposite. But the more anxious the Government is for a quick settlement, the more concessions it will have to make to the unions' position.

(b) It would be wrong to accept at this stage that there must be a promise of access to arbitration in 1982. To take only the most obvious point, on what basis would the arbitration proceed: the existing Pay Agreement (already suspended this year, and regarded by Ministers collectively as unsatisfactory for the long term)? Or some future agreement, of a nature which at this stage is quite unpredictable? It does not seem possible to offer arbitration at least until Ministers have been able to consider the results of the review of the pay system.

M.S.B.

M S BUCKLEY

13 March 1981



10 DOWNING STREET

From the Principal Private Secretary

Sir D. Loshmore - CBE
 Sir L. Denny - FR

Dear John,

CIVIL SERVICE PAY

The Prime Minister held a meeting this afternoon with the Chancellor, the Lord President and Mr. Hayhoe, to discuss future arrangements for Civil Service pay in the light of the current Civil Service pay dispute. Sir Robert Armstrong and Douglas Smith were also present.

The Lord President reported that the Civil Service unions were successfully executing a programme of selective and disruptive industrial action, designed to cause considerable inconvenience to the machinery of government in an unpredictable way. How long they could continue would depend on their success in raising funds from their membership; but it was probable that they could carry on for several weeks since they were raising some £2-£3 million a week by contributions of £2 per head, and were spending only £250,000 a week in strike pay. Therefore, although this decision was not immediate, the time would probably shortly come when the Government would have to decide whether to try to settle the dispute, or to escalate it. Possible means of escalation were outlined in his note to the Prime Minister circulated before the meeting, and were not further discussed during the meeting. In the Lord President's view, the way to a settlement would be through the agreement with the unions on longer-term arrangements for pay determination, and specifically on arrangements for the 1982 settlement. He foresaw that the most likely outcome would be that the Government would tell the unions that they intended to negotiate freely for next year's settlement, that both sides could introduce what elements they wished into the negotiations, and that if a negotiated settlement could not be reached, the Government would guarantee access to the Civil Service Arbitration Tribunal, the decisions of which were binding but were not generally as unacceptable to the Government as other arbitration decisions. If, on the other hand, it was the Government's intention to go into the 1982 pay round with a fixed cash limit and to allow no negotiations, then he foresaw no prospect of settling the current dispute.

The Prime Minister said that there was no way to avoid the fact that the Government had to decide on the total sum it could

/ afford

Mr Bouclay
CST

FR

MST (C)

MST (L)

13 March 1981

Sir D. UMS

Sir A. P. Anderson
w. P. M. E.

w. Middleton

Mr Dixon

w. F. Butler

w. D. G. M. M.

w. P. R. W. H.

Ref 16/3
64

afford for the Civil Service pay bill, so that the negotiations had to concentrate on who should get more, who should get less, and how the manpower numbers should be adjusted.

The Chancellor confirmed that the Government had to retain an effective cash constraint. The problem was that the unions wanted a bargaining procedure referable to measured market rates; but the Government had to set the cash constraint before bargaining began. The Government could not subcontract pay determination to an arbitration procedure, but some arbitral arrangement was needed.

Further discussion concentrated on the following issues.

(1) How to achieve a settlement of the current dispute.

It was suggested that the work currently being undertaken by the Official Group (MISC 54) on elements for a new pay determination system could not possibly be completed early enough for its conclusions to help in the resolution of the current dispute and those conclusions might not in any case be welcomed by the unions. Therefore, there would be advantage in preparing interim conclusions, in the form of a broad outline of any new arrangement, which could be presented at an early date to the unions. On the other hand, there was a clear danger that such a procedure would result in expensive concessions being made over future arrangements, and which could even lead to the worst possible outcome, namely the Government having to suspend the new procedure in its first year of operation.

(2) The relationship between pay and manpower.

The Prime Minister made it clear that in her view it was necessary to negotiate with the unions simultaneously on pay and manpower. But it was recognised that the Government had already set, and announced, its target of 630,000 civil servants by 1984. Possible techniques for relating the two needed further investigation.

(3) Reconciliation of any new system with cash limits.

It was suggested that the difficulty in reconciling a new system, which contained an element of negotiation with the unions, with the Government's overriding responsibility to set cash limits for pay in the public service, resulted from the way in which cash limits were set at an early stage, and either announced or leaked. The Chancellor confirmed that he was ready to consider whether the procedure for the timing and announcement of cash limit decisions might be changed so as to enable negotiations to take place with unions before they were aware of the Government's upper limit. But he was surprised to learn that MISC 54 had not been invited to consider the reconciliation of the new elements with cash limits, and asked that this should be looked at again.

(4) The timing of MISC 54's work.

It was felt that these issues were so urgent as to justify MISC 54's work being undertaken even more quickly than at present planned; the Lord President, however, made it clear that if the present deadline of mid-April were brought forward, there would be a

/ considerable

considerable risk of the Group having to put forward proposals which were not adequately thought through.

The Prime Minister, summing up the discussion, said that Ministers were agreed that no immediate action should be taken to resolve the Civil Service industrial dispute; that work on the new Civil Service pay determination system should not be jeopardised by haste; and that Sir Robert Armstrong should consult Sir Ian Bancroft and Sir Douglas Wass on the machinery for :

- (i) considering the possibility of including manpower as an element in pay negotiation;
- (ii) reconciling cash limits with new elements in the system; and
- (iii) establishing a possible interim formula should its use become necessary.

I am copying this letter to Jim Buckley (Lord President's Office) Richard Dykes (Department of Employment) and to Sir Douglas Wass, Sir Ian Bancroft and Sir Robert Armstrong.

Yours ever,

Alwi Shuman.

A.J. Wiggins, Esq.,
HM Treasury.



cc CJ
 FST
 MST(c) RAp
 MST(L)
 Sir D. LAM
 Mr. H. H. H.
 Mr. Dixon
 Mr. B. B. B.
 Mr. F. F. F.
 Mr. P. P. P.

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

CONFIDENTIAL

PRIME MINISTER

CIVIL SERVICE PAY

ATTACHED

I have seen Sir Michael Haver's minute to you of 16 March about the Cabinet conclusions on civil service pay (item 4). I did not intend to suggest that lay-offs without pay of staff whose work had dried up because of strike action by others could be achieved without a change in the law. I was aware of the Law Officers' advice on this question; the point I wished to make was that we may soon face a situation where it becomes desirable to take and exercise the powers in the draft contingency legislation that has been prepared.

2. I am copying this to all members of Cabinet, Michael Joplin the Lord Advocate and Sir Robert Armstrong.

GH

GEOFFREY HOWE
 16 March 1981



EXCHEQUER

15 MAR 1981

ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn

THE PRIME MINISTERCIVIL SERVICE PAY

I have just seen the conclusions of the Cabinet meeting on 12 March and refer to the last paragraph (item 4 on Civil Service pay).

2. I am troubled by the statement, in connection with withdrawal of data processors from work in the VAT computer at Southend, that those not now on strike will "have to be sent home without pay" when they reach the stage of having no useful work to do as a result of industrial action by others.

3. Such a step would be an extension of the procedure known as "TRD" (temporary relief from duty) which is discussed in the legal Opinion of the Law Officers and Treasury Counsel (sent to colleagues on 1 October 1979). The broad conclusion then reached was that TRD would not stand up in the courts unless the staff to whom it was applied were in breach of contract by reason of failing to perform their normal duties. This advice has, I believe, been consistently followed to date and I have no reason to modify it.

4. I do not have the precise details of what has been happening at Southend, but I understand that the non-striking staff, to whom the Chancellor suggests that this procedure might be applied, are not in breach of contract. Sending them home without pay would probably be held by the courts to be unlawful and I advise most strongly against it.

5. The only safe way of achieving lay-off without pay in circumstances like these would be to take and exercise the powers which are found in the draft contingency legislation recently prepared on the instructions of E(CS).

6. I am copying this to all members of Cabinet, Michael Jopling, the Lord Advocate and Sir Robert Armstrong.

MH

16 March 1981

SECRETARY OF THE EXCHEQUER

cc Chief Secretary
 Financial Secretary
 Minister of State (L)
 Minister of State (C)
 Sir Douglas Wass
 Sir A Rawlinson
 Mr T Burns
 Mr Rylie
 Mr Middleton
 Mr Monck
 Miss Brown
 Mr Unwin
 Mr Buckley
 Mr Pirie
 Mr Turnbull

DAILY REPORT ON THE EFFECT OF THE STRIKE


1. The position at close of business yesterday was as follows:

Inland Revenue. Receipts from Inland Revenue (including National Insurance contributions) are, cumulatively, £700 million below forecast due to the strike. This updates the estimate of £737 million which Inland Revenue gave yesterday, and has been agreed with them. The figure is the difference between the actual amounts banked by Inland Revenue since the strike began on 16 March and the forecast of about £2,400 million for the relevant period agreed with them at the time the Financial Statement and Budget report was put together. This means that, since the strike began, Inland Revenue have now banked about 70 per cent of the money we would have otherwise expected; and money is still coming in. The forecast for March as a whole, which we had agreed with Inland Revenue, was £5.097 million of which £1,397 million related to petroleum revenue tax.

Customs and Excise. Since the strike began, Customs and Excise have banked a total of just under £900 million, including £225 million of VAT. Some £200 million thought to be "locked in the system" in cheques which have been received but which cannot be banked because of the strike. It is difficult to tell how much money has simply not been paid, but Customs estimate that the amount outstanding is unlikely to exceed £100 million. This means that since the strike began, Customs have received and banked at least 40 per cent, perhaps 50 per cent, of the VAT money due to them. If we take into account the fact that VAT repayments are not being made, we would put the net effect of the strike at about £200 million. This means that Customs are almost certainly banking over 60 per cent of the VAT money we would have expected to receive from them. The forecast for all Customs receipts for March as a whole, which we agreed with them at the time of the Budget, was just over £1600 million.

The total strike effect to date is therefore put at about £900 million or about one third of the revenue affected.

2. Our forecast for the CGBR in March was £560 million, which was consistent with the estimate of £12,760 million for the year as a whole published in the Financial Statement and Budget Report. The CGBR is now cumulatively some £500 million above forecast. This updates the estimate of £600 million given yesterday, and is much less than the £900 million because of offsetting effects quite unrelated to the strike.



G M NOBLE

16 March 1981



John Wiggins
 Private Secretary to the
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 LONDON SW1P 3AG

EXCHEQUER	
REC	17 MAR 1981
Mr Buckley ←	
Sir D Wall	
Mr Ryle	
Mr FER Butler, Mr Dixon	
PS/IR, PS/CCE	

Mr Ryle

Civil Service Department
 Whitehall London SW1A 2AZ
 01-273 4400

17 March 1981

Dear John,

The Chancellor is reported in the minutes of last Thursday's Cabinet (11th conclusions, item 4) as having mentioned the possibility that some staff at Southend might shortly have to be sent home without pay because there was no work for them to do. We spoke about this on Friday.

You will of course recall earlier Ministerial discussions. But for the guidance of colleagues I should record that in the case of non-industrial staff there are legal difficulties which mean that such a course of action is not a readily-available option.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, members of the Cabinet and Sir Robert Armstrong.

Yours sincerely,
Jim Buckley.

J BUCKLEY

23/12



E.17

Mr. Boscawen
Kevin Kiley
72

CHANCELLOR

PUBLIC SECTOR PAY

I have been trying to work out my ideas on this given the obvious urgency of the issue. The attached very hurried notes set out the first fruit of my musings, which were stimulated by dinner last night with Barney Hayhoe. I'm also sending him a copy on a purely personal basis. You may find it all incoherent, incomprehensible and more of a hindrance than a help. But I trust that, nonetheless, it helps clarify one or two issues usefully.

AR

ADAM RIDLEY
16 March 1981

29
17

NOTES ON CIVIL SERVICE PAY

We have spoken recently about the urgent need to think more about how Civil Service pay is to be settled henceforward. I remain convinced that it would be at the very least prudent to carry forward thinking on all this as fast as possible. It could be that the current dispute will end with the unions dismayed, and slinking back to work. But even if that is possible, it may not be the most desirable outcome, since there may be a heavy price to pay in permanently worsened labour relations in years to come; and the best outcome might nonetheless be to aim for a negotiated settlement. However it is equally probable that the dispute will rumble on fairly inconclusively, with neither side giving up. In these circumstances, the atmosphere will surely worsen and the scope for an acceptable outcome diminished greatly until it perhaps recedes to nothing. Accordingly I have been thinking about the kinds of way a new system might operate, in advance of the report from officials which is, I gather, only going to be available at the end of April, by which time it may be too late. In so doing I have been provoked by reports of the Chancellor's recent conversation with Lord Soames; and a neighbourly discussion with Barney Hayhoe at dinner over the weekend.

2. I think our starting point is as well defined as it could be by Jim Prior's press release of 14 August 1978, of which a copy is attached. Building out from that a number of key points emerge:

- It is inconceivable, as has already been recognised, that a pay settlement system can be re-established which does not rest substantially on a fact-finding process relating to pay levels, terms and conditions of employment inside the Civil Service and in the private sector. Without such a point of reference, the Civil Service unions will feel hopelessly insecure and adrift; and will most certainly have recourse to increasingly bogus comparisons which will make the Government's task progressively more difficult and, perhaps swiftly, quite impossible.

- The present system of pay research will have to be radically altered. ^{[You may recollect} a selective list of criticisms and indications of possible lines for improvement

which I sent you last summer.] It needs to be made simpler; more open; more acceptable to the outside world; and it needs to have the blessing, explicitly, of organised industry, the unions and probably the TCSC.

- Reconciliation with cash limits is only possible if the cash limits constrain but do not threaten to consistently override. This is not, on the face of it, all we might ask for. But it should deliver what we in practice look for. Provided that the levels of pay established hereafter are at fairer and lower levels, provided that they do not move unduly swiftly, and provided that the system is/^{not}so formal and rigid that it never can be changed, such a degree of influence is all that one need ask for; and certainly all that one can hope to achieve if one does not want the new arrangements to swiftly to lose acceptability in the eyes of the unions. For if that happens, there is a very real risk that one will end up with a Civil Service so militant that no stable scheme can be established at all.

- It is vital to introduce a wider range of factors additional to supply and demand: these are dealt with later in this note, but need not be rehearsed at this point.

- The Civil Service unions will insist on some kind of formal framework for the agreement; and one is advised that arbitration will remain an essential part of the system. For the time being, at least, this should not be a threatening factor, provided it is on the right terms; and provided the present arbitrators remain alive and in office. It has done the Civil Service management side a whole series of good turns in the past, and does not have the same objectional features as the Burnham system.

- Before one can get acceptance of any new system it will be imperative to clarify a number of important types of fact, to do not only with such matters as relative earning

levels, but also job security and the rest. A start has been made on this, principally under Treasury inspiration, but more needs to be done; it needs to enlist the active support and co-operation of the CSD and the Department of Employment; and the results need to be well-publicised and soon.

- The system must provide for an element of negotiation. Otherwise the unions will become impossible. But the room for negotiation needs to be properly constrained. What one wants, ideally, is a system where there is a clearly accepted and unquestioned upper bound for levels which pay can reach; and where argument and negotiation are restricted to a limited range of factors/^{which are all deductions}; and the outcome of such dealings are contained, as a safety net, by the arbitration system.

- The agreed system will need to be less rigid and formal than the old; it must not be allowed to become as bureaucratic and tradition-laden as the present one; it must be open to substantial modification with changing circumstances, and be subject to regular review.

- Starting from where we are now, one can envisage a two-stage process. First, following outline agreement with the unions during the spring and summer, and substantial outside consultations, a rough and ready exercise in the autumn which will deliver very substantially lower pay costs for the pay year 1982/83; act as a trial run for the future; and paper the way to smooth negotiations for 1983/84, when for obvious reasons one wants to be sure that there is no controversy about the pay negotiation and a minimum of ill-will in the Service.

A POSSIBLE SYSTEM

3. The foundation of the negotiations, statistically at any rate, would be a series of simple benchmark comparisons between the main Civil Service grades and the appropriate points on various deciles of the NES. The NES figures would be generated not by taking a single year such as 1980, but, more probably, the average for the full decade 1970-80.

These figures would undoubtedly be too high in themselves, but this will not matter. For there will be several substantial deductions from those upper bound figures. It would have to be accepted at the start under what circumstances the basic anchorage points or benchmarks might be renegotiated. The two obvious reasons for so doing would be grade restructuring such as might be expected to emerge if the Under Secretary grade is abolished completely; and adjustments to parts of the whole system reflecting changing patterns of supply and demand. Otherwise these figures would remain inviolate.

4. Annual negotiations would focus on the appropriate deductions* from these benchmark figures. Though there would be some deductions which would not be subject to negotiation at all, of which the most obvious would be the pensions contribution, which is determined irrevocably and independently by the GAD as things are. Recourse to arbitration would be admissible in most, but not all cases. There would be six classes of deduction:

(a) Supply and demand A radically new methodology would be needed to deal with this. Certain tentative suggestions can be made as to how the issue should be treated, but it would be inappropriate to go into them here.

(b) Regional and skill allowances At present London Weighting is an important element in Civil Service pay, and is subject to special negotiation. Arguably there should be a wide range of regional variation introduced, in which case scope for negotiation on this matter would increase. There are, also, a number of specialties and skills where supply and demand or other considerations lead to the introduction of special allowances. The principal case with which I am familiar is computer operators. There is a need for such allowances independent of the broad-brush treatment of supply and demand, since it is sometimes necessary to make fine distinctions within particular grades (such as the old executives in the case of the computer operators) in order to reflect the untidy nature of the world, and its mismatch with Civil Service grading.

*Analogous to the "x" factors
in Armed Forces Pay Research CONFIDENTIAL
in some respects.

(c) Job security Here, too, one will be in unknown territory. Employers can only reach ad hoc judgements on such matters, and arguably this should not be a matter for recourse to arbitration. The proper answer to an insufficient allowance for job security is to allow people to vote with their feet!

(d) A "cost adjustment" reflecting cash limits I have not yet come across any obvious way of dealing with this most vexed issue. However once one has a well-accepted system in operation at reasonable levels of salary, it should not be terribly contentious, and would not lead to large yearly adjustment to indicated pay levels one way or the other. It is only necessary to seek to constrain public sector pay massively when there is no proper system determining it, the system determining it has gone mad, or there has been a breakdown whether imposed by incomes policy or something else. This is an extremely important point. That said, one suspects that there are two approaches to the question of the pay cost which it would be appropriate to expect the public sector to shoulder. One would be a broad economic one,^{eg} relating movements in per capita public sector pay to past and anticipated movements in real national disposable income, real personal disposable income (defined on some normalised division of total GDP into profits and wages, which secures a reasonable level of profitability), or something of that ilk. The second alternative would be one more closely derived from the public expenditure arithmetic itself - which would have to have some normative content, too, hence would lead one back to much the same issues as the broad economic criteria. At least one of the union leaders accepts that there is need for such a constraining device. I am totally convinced that it would be essential to invite the unions to make their own suggestions as to how to bring the influence of cash limits and the need for cost constraint to bear on the system of pay determination.

(e) Pensions deduction I assume that we will, in practice, retain qualified index-linking in the future, with some kind of cut-off provision for inflation exceeding certain annual

rates of increase. Even if we do so, we shall be able to argue for a massive increase in the deduction, very much as the Scott Committee has suggested. Once that move to a more realistic deduction has been suggested, one imagines that it should be possible to hand the issue of determining it back to the GAD, subject to a three or four year review of an independent kind such as Scott has recently undertaken. This would be, incidentally, a fairly vital safeguard of the credibility of the system, and might act as a useful stimulus to the Actuary himself! It would, obviously, not be an arbitrable issue.

(f) For reasons which will become apparent later on, there would also have to be some kind of uprating factor to adjust the earnings benchmarks derived from the latest NES forward to an appropriate level for the coming wage year. It is absolutely vital to create a system in which one does one's best to fix Civil Service pay at an up to date level. If one does not do so, it creates disgruntlement in the Service at periods of expanding wages, when Civil Service pay falls behind; and disgruntlement in the private sector when pay there is de-escalating, and Civil Service is still overshooting because it is catching up. Once the system has been established, this uprating factor would, of course, be modified to correct for overshoot or shortfall which had emerged in the previous year's calculations and allowances.

PROCEDURE

5. We come next to the issue of how such a system might be made to operate in practice. ^{This year} the first stage would be to ensure that the basic NES results needed would be prepared as quickly as possible after the survey date of June. They would be made available some time in the autumn, on this occasion just in time to come to hand and to be analysed and adjusted alongside the determination of other pay cash limits for 1981/82 in the October/November period. Unless something goes wrong, it should be possible to secure that the "pay figure" which emerges from such a procedure should be low enough to fit into next year's cash figures without

any great difficulty, should some have been computed/by then ^{already} as part of the move to the new expenditure control system.

6. In future years, of course, the new expenditure survey system will create obvious problems. There can be no sure guarantee that the "year 2" estimates would be totally compatible with the outcome of such a sequence of events - hence I think it is inevitable that one must allow for limited supplementary estimates on some occasions.

7. Turning back to the sequence of operations, once the NES figures are to hand, one is then left with the inevitable dilemma, to which there is no neat answer. One approach would be to negotiate within the existing year 2 cash limits, which would be deemed to be firm and binding, and which would generate/supplementary estimates just referred ^{the perhaps potentially embarrassing} to in cases of excess. The other approach would be to let it be recognised, from the start, that there was a certain degree of provisionality about the central Government wage and salary element in the year 2 cash limit, and to recognise that modest supplementary estimates arising from the conclusion of pay bargaining would be acceptable. To tighten the discipline involved in this, it might be important to establish from the start that such claims would have to be funded either from the contingency reserve, or by some other special procedure.

8. Other things being equal, one would assume that in setting the more provisional kind of year 2 pay block cash limits, one would carry forward automatically last year's ex factors, and a standard earnings uprating factor, of the kind that might be being applied for the local authorities as well.

IMPLEMENTATION

9. If one were to move from where we are to getting such a system in operation by the end of the year, one could envisage the five-stage process:

(a) Outline agreement with the Civil Service unions to end

80
202

strike within a few weeks. Heads of agreement cover such matters as reform of PRU, retention of suitably restricted degree of outside comparisons, recourse to arbitration, introduction of new factors such as supply and demand and job security. Broad agreement on the kind of procedure to be adopted in the autumn.

(b) Government issues brief White Paper in, say, May setting out the principles on which Civil Service pay is now to be settled.

(c) Consultations in the months to end July, involving amongst others the TCSC, the CBI, the TUC, the Council of Civil Service Unions and anybody who wants to air his opinion.

(d) Government decides more precisely what to do, negotiates a future system with the unions during August/September/October.

(e) NES information processed and discussed with the unions during autumn, after new cash limits have been decided.

10. In undertaking such a programme, it will clearly be necessary to put together some kind of rather special task force to analyse the issues further, and to help process the representations from outside. One suggestion would be a formal review not totally unlike the Scott Committee. Another might be to set up some kind of hybrid body involving a few key Ministers and officials, all acting rather informally.

11. It would also be of great importance at the same time to ensure the publication at a reasonably early stage of as much basic factual information as could be rounded up about relative pay levels and movement in recent years; job security; and the problems of assessing supply and demand. One would also be keeping a very careful eye on the very closely related development of policy towards public sector pensions, following up the Scott Report itself.

AR 14/3/81.

NEWS SERVICE

Release time: 00.01 hours MONDAY, 14th AUGUST, 1978. 1037/78

Statement by The Rt Hon James PRIOR, M.P., (Lowestoft) the Opposition Spokesman on Employment, on the Conservative attitude to Civil Service Pay Research.

I am often asked what will be the next Conservative Government's attitude to Civil Service Pay Research. Since there seems to be a serious misunderstanding about our position in some quarters, it may be helpful if I put the following points on the record.

The Conservative Party has always supported the use of Pay Research in determining Civil Service Pay. We have been well aware of the widespread concern amongst civil servants provoked by the suspension of pay research during earlier phases of the Government's incomes policy, and by their fear that they have been subject to more severe restraint than private industry. So we publicly welcomed the Government's decision to reactivate the Pay Research Unit in the autumn of 1977, and also the element of independent assessment which was introduced into it by the Prime Minister's proposals. We now want to see how these new arrangements will function. Naturally, we cannot give blanket approval in advance to the way the new Pay Research Unit is working, nor an unqualified promise to implement its future recommendations. No responsible Government or Opposition can make commitments of that kind.

A second issue is the relationship between the new system of cash limits and the results of Pay Research. Let me make it clear that cash limits are here to stay. After the problems of controlling public spending we have experienced in recent years, it would be unthinkable that cash limits should be abandoned. But this does not mean that a future Government - Labour or Tory - will use cash limits as a pretext for riding roughshod over the results of Pay Reviews. With co-operation and goodwill it should be possible to establish a satisfactory way of taking Pay Research into account in framing these limits. And of course we intend to discuss with the Unions how best to do so.

Just as negotiations in private industry have to be conducted in the knowledge that there are definite limits to the pay increases employers can grant without going out of business, so one must ask for the same degree of realism in the public sector. And let us not deceive ourselves - any Government which did not do this would soon find itself in the deepest trouble. The more widely this reality is appreciated, the better for all concerned with the public service.

END
CR

1712 205A 83



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

1713

Mr Buckley

Sir D Wall

John Wiggins
Private Secretary to the
Chancellor of the Exchequer Mr Ryle
Treasury
Parliament Street
London SW1P 3AG

Mr Ryle
Mr FER Butler, Mr Dixon
PS/IR, PS/CCE

17 March 1981

Dear John,

The Chancellor is reported in the minutes of last Thursday's
Cabinet (11th conclusions, item 4) as having mentioned the
possibility that some staff at Southend might shortly have to be
sent home without pay because there was no work for them to do.
He spoke about this on Friday.

You will of course recall earlier Ministerial discussions. But
under the guidance of colleagues I should record that in the case
of non-industrial staff there are legal difficulties which mean
that such a course of action is not a readily-available option.

I am sending copies of this letter to the Private Secretaries to
the Prime Minister, members of the Cabinet and Sir Robert
Armstrong.

Yours sincerely,
Jim Buckley.

BUCKLEY

P.0445

CHANCELLOR OF THE EXCHEQUER

CURRENT DISPUTES IN THE PUBLIC SERVICES

To be raised orally

BACKGROUND

1. We put this item on the agenda so that Ministers could, if they wished, take stock of current pay disputes in the public services, principally those involving the water manual workers and the non-industrial Civil Service.
2. You will have seen the reports in the press that the water manual workers have accepted the present 12.3% offer. The deal is to be formally signed on Thursday. But the voting was close, and DOE do not rule out continuing unofficial action in some areas.
3. As regards the Civil Service, you had a copy of Lord Soames' minute of 12 March to the Prime Minister. As you know, the Prime Minister agreed with the broad approach set out in that minute. But you will want to ask Lord Soames for an assessment of the impact of the present industrial action and of the prospects for an early settlement.

HANDLING

4. I suggest that you invite Mr Heseltine to comment first on the water workers' dispute and then Lord Soames on the Civil Service.

85
21

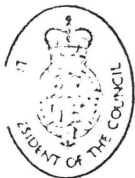
CONCLUSIONS

5. The sub-Committee will probably wish simply to note these reports; but you might also like to invite Lord Soames to keep the sub-Committee informed of developments on the Civil Service dispute.



P LE CHEMINANT

Cabinet Office
17 March 1981



1886 RAA 86
21

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

From the Private Secretary

Clive Whitmore
Principal Private Secretary to
the Prime Minister
10 Downing Street
LONDON SW1

CH/EXCHEQUER	
REC.	18 MAR 1981
ACTION	Mr Buckley
CORE ID	CST
	FST
	MST C
	MST L

18 March 1981

- Sir A Paulinson
- Mr Byrne
- Mr Middleton
- Mr Dixon
- Mr FER Butler
- Mr Bridgeman
- Mr P. Rayner
- Sir L Avey
- Sir D Lovelock

Dear Clive,

CIVIL SERVICE PAY

Sir D Wass

There is a small point in your letter of 13 March which could cause confusion. In the second paragraph you report what the Lord President said about the funds available to the unions. In fact, the situation is that the unions hope to have available to them £2 to £3 million in total for their fighting fund: £250,000 is the weekly amount raised by contributions from members. I don't think that we have at the moment a figure for how much the unions are spending.

I am copying this to John Wiggins (Treasury), Richard Dykes (Employment) and to the Offices of Sir Ian Bancroft, Sir Douglas Wass and Sir Robert Armstrong.

Yours sincerely,
Jim Buckley.

J BUCKLEY

IR DIXON

cc: Chancellor
 Chief Secretary
 Financial Secretary
 Sir Douglas Wass
 Sir Anthony Rawlinson
 Mr Middleton
 Mr Monck

Ips

CIVIL SERVICE PAY DISPUTE

Sir Anthony Rawlinson told me that at this morning's Permanent Secretaries' meeting, Sir Douglas Lovelock reported that there were rumours that the bank unions had approached bank managements to ask them to co-operate in "blacking" revenue payments and that the response of the bank managements had not been wholly negative. This seems highly implausible, but I asked if you would consult with HF and arrange that someone should speak to the Bank of England. The purpose would be to ask the Bank if they have any knowledge of efforts to "black" such payments and whether they could broach some of the clearing banks discreetly to make enquiries about it - not, of course, referring in any way to the alleged rumours.

2. Since dictating the above I have spoken to Sir Douglas Lovelock who confirmed that this was merely a rumour which he had received through union sources and which he himself was not at all inclined to believe. He was merely suggesting that we make enquiries.

MAD dsr

W.S.

W S RYRIE

18 March 1981

1133/2

17/11/81
88
6

MR CAREY

cc Mr Collinson
MR P. N. RAYNER

CIVIL SERVICE INDUSTRIAL ACTION: ACCOUNTABILITY

You will shortly be receiving a letter from the PGO drawing attention to the article on the back page of the Financial Times on 17 March which quoted verbatim from one of the confidential letters issued by the PGO. This means that the insecurity of the Government payment system is now public knowledge. In 1979, and hopefully on this occasion, it was confined to Civil Servants.

2. You will wish to consider whether Ministers, Treasury Accounting Officers and other senior officials should be warned that there is scope for fraud. On the last occasion Ministers were informed at a fairly early stage in the dispute, and you may wish to refer to your minute of 26 March 1979.

3. I attach a draft submission you may care to use. Comments by Mr Collinson would be welcome.

*
K. moved meeting

R J ALLWOOD
18 March 1981

215

89

- 1. SIR DOUGLAS WASS
 - 2. PS/CHIEF SECRETARY
- cc Sir Kenneth Couzens
Sir Anthony Rawlinson
Mr Ryrie
Mr Bailey
Mr Littler
Mr Bridgeman
Miss M P Brown
Mr F E R Butler
Mr Collinson
MR P. M. Rayner

copies attached for:

- ~~PPS/Chancellor of the Exchequer~~
- PS/Financial Secretary
- PS/Minister of State (C)
- PS/Minister of State (L)

CIVIL SERVICE INDUSTRIAL ACTION: ACCOUNTABILITY

The computer at the Paymaster General's Office has been out of action since Monday, 9 March. This removes one of the principal checks against fraud and is something of which we think Ministers should be aware.

2. The vast majority (in numerical terms) of central Government payments are made by the issue of payable orders. These documents resemble cheques, all but a few are crossed, must therefore be presented through a bank, who in turn presents them for payment to the PGO. At the same time as a Department issues a payable order it sends a schedule listing the orders issued direct to the PGO, who enter the information on their computer. When a batch of payable orders is presented by a bank, the total value of the batch is paid on sight, ~~to the bank by~~ the PGO who then check each payable order by interrogating the computer to ensure the value agrees with the issued amount reported previously by Departments. If the values do not agree a comparison is undertaken, order by order, to establish the course of the discrepancy. Under standing arrangements with the banks, any orders found to be erroneous are returned to the banks

90
2

(within 3 working days) so that they may be returned to the person by whom they were first presented.

3. When industrial action brought the operation of the computer to an end payable orders presented by banks continued to be paid on sight but the process of comparison with the details recorded on ~~the~~ departmental schedules came to an end. This is a calculated risk which seems reasonable to accept if the flow of Government financial business is not to be disrupted by industrial action. Similar arrangements were adopted in 1979 and it was found, when normal operation of the computer was reviewed and the backlog cleared, that fraud had been negligible.

4. As soon as industrial action was imminent the Treasury asked each Accounting Officer to appoint someone in their Department to act as Liaison Officer with the PGO. This provides a restricted and confidential channel of communication between the PGO and Departments, which has already been used for the issue of ~~two~~^{three} letters of instructions. It was with some surprise that on Tuesday we found printed in the Financial Times (copy attached) verbatim extracts from one of these letters. We have always been conscious, as we were in 1979, that those best able to beat the system were those most likely to be taking industrial action, but were reassured by the fact that it was restricted to Civil Servants. But the knowledge that the system is vulnerable is now public ~~knowledge~~ and the chance of fraud ^{has} increased proportionately. It is impossible to estimate our vulnerability, and the extent of fraud, if any, will not be known until

91
218

many months after normal working is resumed.

5. We should welcome confirmation that Treasury Ministers are content that we should continue to operate existing payments arrangements for Government Departments notwithstanding these difficulties. The only alternative is to suspend the PGO payment system ~~and~~ ^{but} this seems quite unrealistic. The system covers most Departments' payments other than payroll, and extends across the whole field of central

Government expenditure. The fraud risk ^{however,} is, we believe, ^{mainly} confined to payable orders for amounts of less than £50,000. ~~But these can run at a daily rate of 100,000,~~ ^{Above 130,000 payable} ~~worth £80 million a day a day or fair by PGO.~~ ^{orders}

6. There is a case for informing Parliament and giving the House a chance to express a view on the fact that we can no longer guarantee the regularity of Government payments. On the other hand the surest way to increase the risk of fraud is to advertise still further the insecurity of the system. We advise against any announcement to the House at this stage.

Tuesday March 17 1981

Revenue in move to foil strike

BY PHILIP BASSETT, LABOUR STAFF

THE GOVERNMENT yesterday took its first action in response to strikes in the Civil Service over pay. The Inland Revenue asked 30,000 large organisations, which normally pay taxes due through two Revenue computers now hit by strikes, to make payments instead through the banks or the Post Office Giro system.

The unions claimed that more than 90 per cent of staff in the two computer centres, at Cumbernauld in Scotland and Shipley in Yorkshire, were now on indefinite strike. It said they were confident that the alternative arrangements proposed by the Revenue would not work.

Regional controllers in 15 areas sent out letters to 30,000 large organisations asking them to make alternative payments. All the organisations involved, including the nationalised industries, ICI and other large companies,

pay more than £10,000 every month to the two computer centres in Pay As You Earn and National Insurance contributions.

The letters said that "owing to operating difficulties," payments were not being processed, and asked employers to make their payments by Giro credit, either through National Giro or Bank Giro.

No new Giro accounts have been set up to receive the taxes since it was thought that this would be at once provocative and more easily open to union blacking. Instead, employers are asked to use the method of payment by Giro normally open to them.

The letters also asked employers to complete an advice note each time they made a payment, in an effort to try to maintain some accounting of receipts. The attempt to use Giro may run into difficulties with the

banking and Post Office unions, to whom the Civil Service unions have appealed for support.

A further indication of the effect of the strikes is given in a confidential note to Whitehall liaison officers from the banking services division of the Paymaster General's Office in Crawley, where 35 staff are on strike. The PGO acts as the banker for all Government departments. It pays contractors by payable orders through their banks.

The strike is designed to deprive the Government of financial information, and the note says: "Departments should note therefore until further notice, payable orders will be paid 'blind,' and should recognise the risks."

The PGO adds that it will not be possible to compare payments with original estimates, "or to prevent payment of the items which

departments have instructed the PGO to revoke." It urged departments to scale down the size of their payments and to consider alternative methods.

Its only alternative, though suggested by saying that "so long as clerical staff are prepared to co-operate, effort will be made to compare these large items (i.e., £50,000 and over) with the schedules before payment finally made." Again, the note states that "at this stage" new bank accounts should be opened for these payments.

Nick Garnett, Labour Staff writes: The Banking, Insurance and Finance Union has already approached the English clearing banks separately requesting them not to ask union members to do work that would normally have been done by civil service union members.

Civil servants shift strike

17/1

SIR DOUGLAS WASS
PS/CHIEF SECRETARY

cc Sir Kenneth Couzens
Sir Anthony Rawlinson
Mr Ryrie
Mr Bailey
Mr Littler
Mr Bridgeman
Miss M P Brown
Mr Collinson
Mr P M Rayner

93

Copies attached for:

Principal Private Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)

CIVIL SERVICE INDUSTRIAL ACTION: EFFECT ON CENTRAL GOVERNMENT PAYMENTS SYSTEM

The computer at the Paymaster General's Office (PGO) has been out of action since Monday, 9 March. The PGO provides a current account banking service for all Government Departments apart from Customs and Inland Revenue. It handles payments (via some 130,000 payable orders) in the region of £90 million daily. It was similarly affected by the strike two years ago but the situation has just taken an awkward new turn. I think Ministers would want to know of the problem, and to consider the right response to it.

2. Loss of the computer means that we are without our principal check against fraud in central Government payments. This is because it is no longer possible to reconcile the payments made to the banks on presentation of Government payable orders with Departments' schedule of payable orders issued.

3. For the time being - though there can be no guarantee that matter will not change for the worse - it is still possible for most Departments to authorise payments and for the PGO to honour them. But the PGO is acting "blind". This is a calculated risk which seems reasonable to accept if the flow of Government financial business is not to be disrupted by industrial action. Similar arrangements were adopted in 1979 and it was found, when normal operation of the computer was resumed and the backlog cleared, that fraud had been negligible.

4. Following the 1979 precedent, when industrial action was imminent the Treasury asked each Accounting Officer to appoint someone in their Department to act as Liaison Officer with the PGO. The object was to

9/4
Set up a restricted and confidential network of communication between the PGO and Departments. This has already been used for the issue of three letters of instructions. On Tuesday the Financial Times (copy attached) published verbatim extracts from one of these letters. We have always been conscious, as we were in 1979, that those best able to beat the system were those most likely to be taking industrial action. But the knowledge that the system is vulnerable is now public and this has increased the chance of fraud. It is impossible to estimate our vulnerability, and the extent of fraud will not be known (if ever) until many months after normal working is resumed.

5. We should welcome confirmation (which the head of the PGO has now written to request) that Treasury Ministers are content that we should continue to operate existing payments arrangements for Government Departments notwithstanding these difficulties. The only alternative of suspending the PGO payment system hardly seems realistic. The system covers most Departments' payments other than payroll, and extends across the whole field of central Government expenditure.

6. There is a case for informing Parliament and giving the House a chance to express a view on the fact that we can no longer guarantee the regularity of Government payments. On the other hand the surest way to increase the risk of fraud is to advertise still further the insecurity of the system. We advise against volunteering any announcement to the House at this stage, though if asked it would be difficult to deny that the situation is inherently vulnerable.

7. Another possible option would be to alert the Chairman of the PAC in confidence. (Mr Joel Barnett as Chief Secretary was involved in a very similar dilemma two years ago.) This would put Mr Barnett in a slightly invidious position, but it might pre-empt a possible approach to him by the unions designed to cast doubt on the propriety of continuing to authorise any payments by central Government. I attach a possible draft letter.

Formally, Ministerial responsibility for the PGO lies with Mr Pym. But Treasury Ministers have a general responsibility for the propriety of Government payments arrangements, and a more specific interest because of possible effects on Exchequer financing.

95
D & Smith
C J CAREY
19 March 1981

DRAFT LETTER FROM THE CHIEF SECRETARY TO MR JOEL BARNETT, MI

PAYMENTS BY THE PAYMASTER GENERAL'S OFFICE DURING
INDUSTRIAL ACTION

You will know that the PGO computer has been affected by industrial action. This has deprived us of one of our main safeguards against fraud in central Government payments arrangements though payments can still be made.

2. Despite the risks I believe it is right that the flow of payment transactions by Government should continue. We do not want to give this situation any avoidable publicity, and I shall not be volunteering any statement to the House. But I thought you should be aware of the position. I need hardly say we are watching it closely, in conjunction with the PGO.

(LEON BRITTAN)



PRIME MINISTER

Sir D Warr
 Mr Byrne
 Mr Middleton
 Mr Buckley
 Mr Gordon
 Mr Poyner

pwp

77
 2

Mr Dixon 18/3

CST

FST

MST C

MST L

ECONOMIC EFFECTS OF INDUSTRIAL ACTION

1 In his note to you of 25 February, Geoffrey Howe suggests that we should have some machinery permanently available to assess the economic significance of particular industrial threats and also, if possible, to identify the pressure points to which any contingency action might be directed.

2 As Geoffrey points out, the Civil Contingencies Unit (CCU) is concerned only with the essentials of life. Its remit does not extend to the industrial or economic consequences of industrial action and special ad hoc arrangements have had to be made to assess and monitor the effects of major disputes such as the steel strike. In the circumstances it would be useful to have some standing machinery available.

3 Before any extra machinery is established, however, I think we should look closely at two points. First, the machinery must be capable of ensuring that effective action can be taken; there will be no advantage in creating a talking shop. Secondly, many small and local disputes have a potential for damage out of proportion to the factors underlying the dispute, for example major capital investments, such as blast furnaces, may be put at risk or a sizeable proportion of industrial production could be jeopardised by the interruption in the supply of materials like industrial gases. The machinery might be established so that it can look at such problems, even though it is not easy to identify

/problems ...



17/6/81
Mr. Boyd
Bleby
Mr. Rogers

NOTE OF A MEETING HELD AT NO.11, DOWNING STREET AT 3 P.M. ON
THURSDAY, 19TH MARCH 1981

Present:

Chancellor of the Exchequer (in the chair)
Minister of State (Lords)
Sir Lawrence Airey
Mr. J. Boyd
Mr. D.B. Rogers
Mr. M.C. Furey

INDUSTRIAL ACTION AT INLAND REVENUE

Sir Lawrence Airey said that he had asked for the meeting in order to clarify the position following the Cabinet discussion of 19 March.

2. The Chancellor said that the discussion had been confined to whether or not Inland Revenue should proceed to "Stage 3" of their contingency plan, whereby local offices would be asked to process - exceptionally - the smaller sums coming in through PAYE. There had been some doubt in the Cabinet about the legality of applying TRD in the circumstances of Stage 3; there appeared to be some question whether the work involved would be of the same kind as that usually done, and it might also appear that people were being asked to do much more work than normal. Given that Inland Revenue were securing more than 80 per cent of their normal receipts through the operation of the previously agreed contingency plan, it was doubtful whether major risks should now be taken to try to secure the remaining 17 per cent. The question had also been raised whether it was really necessary, for the sake of those who were co-operating with the contingency plan, to proceed now to Stage 3. The Cabinet had therefore not been ready to take the decision substantially to increase the tension created by the dispute through an action which would be seen as deliberately putting exceptional burdens on union

/funds

23
2013



funds.

3. Sir Lawrence Airey said there was no question of people in local offices being asked to do more work than usual; all that would be involved would be a change in the mix of their work - the processing of PAYE payments already formed a regular part of the work of the collectors' offices. The case for proceeding to Stage 3 was that a substantial number of people at various levels of management were currently working exceptionally at some risk to their future relationships with others in the department, and they could hardly be expected to go on doing so if the management showed itself unwilling to impose its authority on those who were refusing to do their normal work. The problems in this area were clearly illustrated by the reports which had come in during the course of the day of physical threats, damage to cars, etc. at various offices outside London. However, it was doubtful whether the decision not to go ahead with Stage 3 would make much difference to the eventual outcome; people all over the country were already refusing to do their normal work, and the Revenue were anxious to have available the weapon of TRD to cover these cases also. Mr. Boyd noted that all work in the collectors' offices on PAYE had been blacked by IRSF; the Civil Service unions were making disruption of the accounts offices the spearhead of their attack on the Government, and had undertaken to advance £ $\frac{3}{4}$ million a week if necessary to IRSF to finance suspension pay. Sir Lawrence Airey said that if large scale suspensions resulted without the Revenue having to take the "provocative" step of proceeding to Stage 3, perhaps this would put them in a somewhat better moral position - it seemed unlikely that much of the remaining 17 per cent of the revenue would be paid in, whichever course of action were followed.

4. The Chancellor suggested that a further reason for caution was that no formula was yet available to offer to the unions as a means of inducing them to call off the present dispute. He thought it important that every effort should be made to speed up the work of the group led by the CSD which was working on new arrangements for

100a

CONFIDENTIAL
MANAGEMENT IN CONFIDENCE



determining Civil Service pay. Mr. Boyd said that the Group, of which he was a member, had already met three times, but that there remained the fundamental difficulty of reconciling some form of comparability with cash limits. If costs and economic circumstances were to be seen as over-riding considerations, it was questionable what place could be given to the other elements which the Group had identified as desirable parts of a new Civil Service pay determination system.

5. The Minister of State (Lords) drew attention to the need for frequent reports on the actual flow of revenue as compared with what would have been expected in normal circumstances. Mr. Boyd confirmed that such reports would be made, starting at the beginning of next week. The Revenue would also keep Ministers closely in touch with the extent to which they were having to suspend people. It would not be practicable to secure Ministerial authority in advance for every suspension; but they would consult the Minister of State (Lords) about each class of case.

JW

A.J. WIGGINS
19 March 1981

Distribution:

Minister of State (Lords)
Sir Lawrence Airey
Mr. Boyd
Mr. Ryrie
Mr. Dixon
Mr. Buckley

Chancellor of the Exchequer

cc Chief Secretary
 Financial Secretary
 Minister of State (L)
 Minister of State (C)
 Sir Douglas Wass
 Mr Ryrie
 Mr Burns
 Mr Britton
 Miss Brown
 Mr Dixon
 Mr Evans
 Mr Monck
 Mr Collinson
 Mr Turnbull
 Mr R G Ward
 Mr Shields
 Mr Smith

Mr Ryan
10

CIVIL SERVICE ACTION, THE CGBR AND MONEY

1. I attach a draft Private Secretary letter to No 10 in response to their request for a note about the effect of the CGBR on industrial action. The draft letter and the accompanying note, which are mainly the work of Mr Turnbull and Mr Smith, are self-explanatory. The action is taking place against the background of what we think will be a fairly strong position—subject to the doubt about bank lending. Indeed it might help provide some welcome relief in the money markets. We shall press ahead with the funding programme and unless things get a lot worse than we think, there should be no difficulty in riding through any temporary effects on the money supply.
2. We will report to you regularly on the situation.

P E M

P E MIDDLETON
 19 March 1981

Enc

DRAFT LETTER TO: Principal Private Secretary
No. 10 Downing Street

I enclose the report requested about the effects of the civil service industrial action on the central government borrowing requirement.

You will see that the sums at risk are significant and that, if the efforts of the Revenue Departments to maintain the flow of receipts are only partly successful, the effect on the 1980-81 central government borrowing requirement will be to increase it by a large sum.

Inevitably, a substantial proportion, though a good deal less than all of the loss of receipts, will be reflected in the monetary statistics. It is, however, necessary to put these developments in the context of the general monetary picture. In the absence of any disruptive action, we would have expected the rather moderate growth of £M3 seen in the last three months to have continued.

Banking March, which ended on Wednesday, 18 March may show a seasonally adjusted deficit for the CGBR of around £900 million, some £ $\frac{1}{2}$ billion better than we had expected a month ago. This is despite a loss of receipts of around 150 million from industrial action. In addition to a good performance of the CGBR, gilt sales and National Savings inflows have been very strong. These indicate the possibility of a low growth rate for £M3 in the month,

although there is some threat to this from bank lending, which could have been inflated by round-tripping, produced by high short term interest rates in the money markets.

In the absence of industrial action, we would have expected the April CGBR, seasonally adjusted, to have been small. At the same time substantial gilts sales (including the indexed gilt) have already been arranged and National Savings should continue to provide strong inflows. In addition the slower growth of bank lending seen in recent months would be expected to continue.

As you may be aware, the combination in March of a good CGBR and strong debt sales produced conditions of exceptional tightness in the money markets. In response to this the reserve asset ratio was put down again to 8 per cent and the Bank had to provide a large amount of assistance, mainly through purchases of bills. Underlying conditions are likely to remain tight for most of April, making it difficult to unwind the assistance before the end of the month. It is an ironic side effect of the industrial action that the more successful it is, the more it would contribute to normalising money market conditions.

Nevertheless, the action could produce a temporary resurgence in the recorded money supply and it will make it more difficult to interpret precisely what is happening in the monetary field, as we will never be entirely sure just how much revenue is being delayed. We have gone to considerab

lengths to stress the dangers in assessing the underlying growth of the money supply in relation to movements in £M3 over relatively short periods. We will keep the situation under very close review and we shall need to take great care in presenting the effects of this industrial action on the monetary position. But at present there is no reason to expect that the monetary effects will be such as to cause difficulties in a policy sense or to disrupt markets.

etc
→
b.s.

EFFECT OF THE CIVIL SERVICE INDUSTRIAL ACTION ON THE CENTRAL GOVERNMENT BORROWING REQUIREMENT

1. In those Departments where there was a high response to the one day strike call on 9 March, processing of receipts and payments was delayed. However, apart from the collection offices of the Inland Revenue and Customs and Excise which have been selected for longer term action, the arrears have now been processed and there are no lasting effects.

2. Inland Revenue. After 9 March, there was no significant effect on collection of Inland Revenue until Friday 13 March. From that date, however, selective strike action has been taken at the collection offices at Shipley and Cumbernauld, the main centres for the processing of PAYE receipts and the associated national insurance contributions and surcharge receipts. In terms of receipts into the Exchequer, there was no effect until Tuesday of this week, when receipts were about £20 million less than we would normally have expected.

3. PAYE etc deducted by employers in February is due to be paid to the Inland Revenue today, 19 March. We were expecting the two centres to have processed about £1 billion of receipts in the period 18-31 March inclusive. However, some months ago, contingency plans were made under which large payers were invited to remit PAYE etc via Inland Revenue, Bush House. These arrangements seem to be working despite the pressure of pickets at Bush House. The staff associations have sought the cooperation of the banking staff associations in preventing these arrangements from working. The arrangements involve using an alternative method of payment but of a sort which already exists. They are therefore unlikely to be seen as provocative. So although the situation is delicate, the Bank of England are hopeful that the Bush House receipts will continue to be processed. And there are no signs of interruption from the clearing banks. Revenue is coming in today from the contingency arrangements but it is too early to form a clear judgement about how much we shall get.

4. Customs and Excise. Strike action commenced at the VAT Centre at Southend on 9 March. We would normally expect to receive £400 million from here in the period 18-31 March, in Consolidated

Fund terms. From Thursday 12 March, daily receipts have been up to £30 million less than expected. Shortfalls in receipts are being offset by reducing weekly VAT repayments. And receipts are also being kept up by contingency plans made by Customs and Excise on similar lines to those of Inland Revenue.

5. Total Effects in 1980-81. Up to and including yesterday, total receipts appear to be about £150 million short of the figures expected. In the rest of March receipts through the three centres affected by the selective action would have amounted to about £1,400 million. We really cannot make any firm assessment of the effectiveness of the contingency plans at this stage. With luck about half the expected receipts might be obtained. This would leave a cumulative shortfall of £800 million by the end of the month and the central government borrowing requirement for 1980-81 would be higher by that sum. We should have better information and will report again, by the middle of next week when we can assess the effectiveness of the arrangements for getting in Inland Revenue receipts.

6. 1981-82. If the action continues into April, the VAT effects may be considerably more severe. Total VAT receipts in the first month of a quarter are normally about twice the total receipts in either the second or third month. April PAYE and related receipts are usually of the same order as March receipts, with similar peaking after the 19th of the month.

7. Once the dispute is settled, any shortfall as at 31 March will be recovered in 1981-82, reducing the CGBR for that year. The delay will, however, result in a minimally higher total for the two years taken together; because interest will have to be paid for the relevant period on any extra borrowings.

19.3.81

104
Jew 23

15/81
M

EXCH
201
M. BUCKLEY

SECRET

MR. WHITMORE

CS	
PT	M, MISSU
MSJ(c)	MS DITON
MSJ(L)	W F. BJT
Sir D. LAM	W BUDGET
Sir A. RAWLINS	W P. RAYN
W P. RAYN	Sir D. WASS
	Sir C. ARMITAGE

Civil Service Pay

At the Prime Minister's meeting on 13th March, 1981 I was asked to consult Sir Ian Bancroft and Sir Douglas Wass on the machinery for:

- (i) considering the possibility of including manpower as an element in pay negotiation;
- (ii) reconciling cash limits with new elements in the system; and
- (iii) establishing a possible interim formula should its use become necessary.

2. These remits are interconnected; and the last is, we think, more urgent than the first two. We have asked Sir John Herbecq to take charge of a small working group which will consist primarily of representatives of the Treasury and the Civil Service Department, with the Cabinet Office taking part. Their first duty will be to make proposals for a possible interim formula; they have been asked to report to the Lord President on this by the end of next week.

3. On the reconciliation of cash limits of pay bargaining, the Treasury will produce the first input for the working group. The working group should thereafter be able to produce suggestions which will then need to be discussed more widely with at least a few Departments, before proposals are submitted to Ministers.

4. The Civil Service Department will take the lead in considering the possibility of including manpower as an element in pay negotiations; this work will come in the first instance to the working group, but will probably be discussed more widely with a view to a report being made to Ministers as soon as possible.

5. I am sending copies of this minute to the Private Secretaries to the Chancellor of the Exchequer, the Lord President and the Secretary of State for Employment; and to Sir Ian Bancroft and Sir Douglas Wass.

ROBERT ARMSTRONG

20th March 1981

(Robert Armstrong)

Mr Dixon
Thanks
109
W
23/3

CHANCELLOR OF THE EXCHEQUER

cc Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Monck
Mr Turnbull
Mr Collinson

Sir Lawrence Airey/IR
Sir Douglas Lovelock/
Customs & Excise

CIVIL SERVICE INDUSTRIAL ACTION - HANDLING OF REVENUES BY BANKS

You may like to know that there have been contacts between us and the Bank of England in the last twenty-four hours (on the part both of Mr Monck and myself) in order to discover whether any problems were arising from industrial action in the handling of the Government's accounts by the clearing banks

2. So far as it goes, the response is reassuring. The Bank of England has no reason to suppose that payments are not being handled normally.

3. We have suggested to the Bank that they might wish to enquire with the clearers whether they were experiencing problems from industrial action against Government business. The Bank is, however, unwilling to do this and advises strongly against the Government taking any initiative vis-a-vis the clearers or to suggest in any way that they might not be handling competently their clients' business.

4. We had previously heard informally, from the Department of Employment, that the industrial relations managers of at least one of the banks might not be as resolute as we would like in dealing with industrial action relating to Government accounts if it arose; ~~but this was on Wednesday~~ ^{Thursday} - ~~we have not had further intelligence of this kind.~~

5. We have passed on to the Bank of England the Department of Employment's advice that, in the present state of the law, any employees who failed to carry out their normal work could be subject to disciplinary action and, if necessary, dismissal. We have suggested to the Bank that there should be contact between the banks and the Department of Employment if advice is required.

109

CONFIDENTIAL & PERSONAL

- 2 -

6. Subject to the above, the very strong advice of the Bank of England (Mr George) is that we should leave alone unless the clearing banks themselves raise the issue.

P.V.

P V Dixon
20 March 1981

CONFIDENTIAL

Covering S E C R E T

110
R.A.P.
he Rayner

CHANCELLOR

16/81
RR

cc Chief Secretary
Financial Secretary
Minister of State (L)
Minister of State (C)
Sir Douglas Wass
Sir A Rawlinson
Mr Ryrie
Mr Middleton
Miss Brown
✓ Mr Buckley
Mr Pirie
Mr Turnbull
Mr Smith
Miss Noble

INDUSTRIAL ACTION, THE CGBR AND MONEY

THE CIVIL SERVICE ACTION

CGBR

In her separate weekly note on the CGBR Miss Noble reports that the CGBR for today is higher than forecast by about £300 million. This is a higher excess than the daily figures at the end of last week, but some of this revenue shortfall may be recovered later this week. The now on Accounts will be submitting a daily report.

The Bank

2. The Bank tell me that at their end the processing of the cheques presented by the Inland Revenue via Bush House is going ahead on the basis that Bank staff are not being asked to do work that is unusual or normally done by someone else. The clearers are settling cheques presented to them by the Bank.

Girobank

3. I have also been in touch with the Girobank management.

24/3

100
8

CONFIDENTIAL

Covering S E C R E T

- 2 -

4. Their unions have pressed for agreement that Girobank should not help maintain the flow of funds into the revenue departments either by special arrangements or by any increased use of existing arrangements. Girobank have replied that they will continue to handle payments to their customers and to carry out their customers' instructions in accordance with contracts. They have agreed not to make new special arrangements and to consult the unions if they detect a surge in the use of existing arrangements. But in practice if Girobank are sent cheques to the Revenue outside their normal arrangements by taxpayers who do not have a Girobank account, the cheques are either sent from Bootle on to the Inland Revenue at Louth or, if received in the London office, processed there, and credited to the Revenue account. In this way cheques that would normally be sent to Shipley or Cumbernauld should be getting through, though possibly with a delay.

INDUSTRIAL ACTION AND THE CLEARERS

5. The Bank say that the selective action arising from the clearers' own pay negotiations need not cause concern so far. Tomorrow Lloyds clearing centre will be affected. This may delay their "general clearing" (numerous low value transactions) till Wednesday, but will not affect "town clearing" which handles 90% of transactions by value. Indeed it is possible that since the action will probably be taken by clerical rather than computer staff, the general clearing will get done tomorrow.

6. On Thursday the selective action will be against Barclays' account updating centre. This will not affect other banks.

7. The Bank do not think any action is called for by the authorities. But you may like to be reminded of the attached note (not to all) by Mrs Gilmore of 2 May 1980 which explains both the potential effects of industrial action and the contingency plans which might need to be considered if the industrial action became more serious in coverage or duration.

Am

H HENCK

23 March 1981

1. MR. PYLE
2. CHANCELLOR

Copy attached for:
Financial Secretary

cc: Mr Middleton
Mr Collinson
Mr Riley
Mr Ward
Mr Boote
Mr Culpin
Mr Drake - Bank

5671
112
✓
W.R.

BANK STRIKE - CONTINGENCY PLAN

I attach a descriptive paper which has been prepared after discussions with the Bank of England. Effectively it identifies two types of contingency, which call for different responses:-

- i. a short strike - selective or general - which would call for little if any direct Government action;
 - ii. a prolonged strike which, however it began, would lead to closure of the clearing banks.
2. Any sort of strike causes two distinct sorts of problem:-
- a) arrangements to keep high value, low volume settlements going - this involves the City, the Government and other major institutions;
 - b) how to keep high volume low value transactions going - that is typically payments by individuals to and from shops and among themselves.
3. It is our judgment, shared by the Bank of England, that a selective or general stoppage lasting a week or two will be mitigated by ad hoc arrangements among the major institutions, in the case of the high value transactions, and that the amount of cash in the economy could continue to be raised through other outlets sufficiently for personal transactions to go on.
4. The attached paper does not consider problem (a) above in a more prolonged strike. Far more people would need to be involved to have a clear picture how a settlement system could be maintained. Moreover, the problem for which we judge the Government has a more immediate and important responsibility is to ensure that there is some medium of exchange available for those individuals who could suffer hardship if they were unable to get it. The type of case which might become most immediately apparent is exemplified by the pensioner

who might not be able to exchange his weekly pension entitlement for cash at a post office.

5. Looking at the generalised version of this problem, ie the problem of cash in the economy as a whole, there are three measures which can be taken:-

- i. for the Bank of England to continue to push notes out into circulation for as long as it can - but such action will depend on the extent of picketing and the readiness of the Bank's and other institutions' staff to cross picket lines;
- ii. for the Government to give an impetus to local arrangements - eg through chambers of commerce - to ensure that cash is recycled locally as effectively as possible: for example retailers will be wanting to get rid of the cash which accumulates with them and local Postmasters and chambers of commerce might play a role;
- iii. if the strike is prolonged, and local cash shortages become acute the Government could encourage the temporary development and use of cash-substitutes.

6. As the paper attached indicates, a good deal could be done under the third heading, for example negotiable pension warrants, negotiable entitlement to NSB deposits and so on. Clearly developing such arrangements would involve quite a lot of people and it is a question how far Ministers will wish us to proceed along these lines. As to arrangements under (ii) above, the Civil Contingencies Unit might well be the right forum to co-ordinate plans. (i) above depends simply on what arrangements the Bank can make as circumstances develop.

7. Latest news of the dispute is that BIFU will consider on Tuesday 6 May a slightly revised offer made by the employers yesterday. It is believed that this offer is cast so that BIFU, who would have to ballot members for selective or general action, may perhaps be inclined to settle. If BIFU do settle it is likely that the Staff Associations would then follow suit. Thus the prospect of industrial action seems at least to have receded. For the moment then, for the reasons in paragraph 22 of the paper, we recommend no wider discussion of contingency planning nor contingency action. However HFI will remain in touch with the Bank of England and will report further to Ministers next week.

g equ

WBR

2/5

884

Assumptions

1. The Federation of Clearing Banking Employers are negotiating with the unions - mainly the Banking Insurance Finance Union and some Staff Associations - on the current pay claim. This paper considers the possible industrial action that might result from these talks ending in an impasse, its likely effects and contingency action that might be taken to mitigate these effects.

Types of selective action which might be undertaken

2. It is frankly uncertain what strike action might be taken. Any initial "industrial" action seems likely to be selective, particularly in the light of the extent of the disruption which the limited dispute with the bank messengers created towards the end of April. BIFU are perhaps more likely to take strike action than the Staff Associations. The type of selective action undertaken is likely to reflect BIFU's membership strength in the activity concerned on which no firm information is available. The most likely areas to be hit by selective strike action would appear:

i. The Clearing House/Bank Clearing Departments. The Clearing House which is located in the City has a small permanent staff, but strike action by these staff need not be critical - it would close the Clearing House building but the exchange of cheques could take place at other locations. The clearing departments, which each bank maintains in the City, receive cheques from all over the country for presentation through the clearing system and they are channelled, after processing by computer, to the branches on which they are drawn. A strike by the staff in all these offices - or indeed by the messengers delivering the cheques as happened towards the end of April - would bring all or part of the clearing system to a halt. A strike might be directed only at the head offices - ie those concerned with the clerical town clearing (in the City).

ii. BACS. As well as the computers involved in general clearing as described above, there is also automated clearing (BACS). This consists of the exchange of magnetic tapes where banks and institutions

have large numbers of regular payment (standing orders, direct debits, payroll etc) to make to other banks. These tapes are processed at a special computer centre and a strike by the staff - or some of the staff - at this centre could bring this form of fund transfer to a halt. It is not thought, however, for particular reasons that the BACS' staff will join any initial action.

iii. The Computer Centres. Computers are also responsible for the keeping up-to-date of the banks' customers' accounts. Strike action by staff at these computer centres would prevent this and the processing of any transactions on behalf of customers and would tend quickly to bring all the banks' operations to a halt.

iv. Cash distribution. This operates via the Bank of England and its branches from a number of centres spread around the country which the clearers have established. Some banks use their own vans and drivers (who are counted as banking staff) to transport notes and coin; others use security carriers whose drivers would not normally belong to a banking union.

Effects of selective strike action

3. Key factors here are the coverage, type and duration of the action. Any action is likely to apply directly to all the five big clearers - Barclays, Lloyds, Midland, National Westminster and Williams & Glyn's - who are members of the Federation of Clearing Banking Employers. The Bank of England, the Trustee Savings Banks (TSBs), the Co-operative Bank, National Girobank, the Scottish, Irish and other banks are not directly involved in these negotiations. The effect of any action should therefore, at least initially, be limited to England. Its effect here will depend on not only the reaction of the clearing banks' staff to any action call but to how the staff in these other financial institutions will react to any dispute. Some of these staff - such as the majority of the TSBs' staff - are themselves members of BIFU; it is doubtful whether these staff will be prepared to take on any additional work even if they remain working normally. The extent of BIFU picketing could have an important effect on the staff reaction in these other institutions - in the messenger dispute towards the end of April, PO unions did not cross picket lines.

4. As for the type of action, action concentrated in London on town clearing which closed it would have its effect on major disbursements: 90% of transactions by value and less than 1% by volume go through town clearing. This could be very disruptive both of Government finances and the activities of major economic entities but its effect would be less immediately felt by the general public than if action was concentrated on the general clearing system. Initially the effect of this would depend on the willingness of the banks to allow customers to pay in cheques and draw cash against them, even though the cheques could not be cleared. After a time, there might be a growing reluctance on the part of creditors to accept cheques because no doubt the number of potential bouncing cheques would grow. If action were prolonged, the payment of salaries both in paper form and through BACS would be likely to be disrupted.

5. The effect of action at the accounts computer centres would be immediate disruptive as it would render it impossible for the banks to keep their accounts up to date. The banks - fearing large scale frauds - would be likely reasonably soon to stop processing operations on all their accounts (eg cheques). If all the banks' computer operators came out, closure would be immediate.

6. Action against cash distribution is probably unlikely in isolation but it could be used to escalate either of the two measures discussed above. Its effect would partly depend on the willingness of other workers to cross picket lines and on the ability to distribute cash through other channels (discussed below). The most immediate impact would probably be on the weekly payment of wages.

7. Depending on the selective action taken, the operations of the banks would be affected quickly and they would be obliged to close. This would either arise from steps to escalate any action by BIFU, or from preventative action from the banks to protect themselves against fraudulent loss. Cessation of the banks' operations could also result from a general strike by BIFU. The section below examines the effects of a general shutdown of the banks on the economy as a whole and on other financial institutions.

Effects of a general shutdown of the five largest clearers

A. On the general public/transmission of money

8. The only recent experience of a general bank strike is that which took place in the Irish Republic in 1970 which lasted for several months. During

this period the Irish transformed themselves into a cash economy, with cheques circulating alongside notes and coin as if they were cash. The existence in Ireland of large numbers of UK notes - helped by the closeness of Northern Ireland - make it doubtful whether this experience could be repeated so easily in England.

9. As with selective action, the effect of a closure of the five largest clearers would depend on whether other financial institutions were affected and the extent of secondary picketing. The effect of any prolonged strike would tend to be that cash would come into its own as a medium for payment. At present notes and coin at £10 billion represents around one-third of M1, with sight deposits - potentially frozen by the strike - at around two-thirds. If prior warning was given of a strike, individuals would be likely to build up their holdings of cash as much as possible before the strike began. This could lead to a run on the banks and on other financial institutions (see below); in the case of the banks this might lead to their being forced to close their doors early as a defensive measure. If the banks could cope with the higher demand for cash prior to closing, the Bank of England could cope with a significant increase in demand from its existing stocks.

10. Once the strike had started, a key problem would be the distribution of cash. Even if the Bank of England could step up its provision of notes (which might be doubtful), it would be difficult to distribute these without the outlet provided by the clearing banks' branches. The most obvious alternative would be the branches of banks not affected by the strike - eg the TSBs, or the Co-operative Bank. Even if these branches remained unaffected, it is doubtful whether the staff would accept the handling of considerably larger quantities of cash. Another possibility would be the Post Office. This has an annual cash turnover of around £30 billion of which it obtains around £4 billion from the clearers, £1 billion direct from the Bank and the rest from the recycling of notes obtained both over the Post Office counters and via Girobank's arrangements for note collection from big stores. It would be difficult for the Post Office to play a larger role in cash distribution: they lack sufficient secure storage for additional cash; 10 drivers would be likely to be reluctant to cross any picket lines and again the staff might be reluctant to take on extra work. The most that could be expected would be for the Post Office to keep certain priority cash payments going; they would be unable to replace the clearers' activities to any significant extent.

11. Once the strike had started, it would therefore be difficult to increase the quantity of cash in circulation. To some extent the cash in circulation would be re-cycled; but not necessarily to those in most need of it. There might be some hoarding and some proportion of cash would be swallowed up by the company sector and in particular by retailers. It would be necessary, if the strike was prolonged, for local systems of circulation of cash to be developed, possibly based on the local post offices. Local bodies, eg chambers of commerce, might have a role to play in the development of such local arrangements.

12. This key role of cash could be accentuated by the disappearance of other existing media of exchange. There would be only a limited supply of bank cheques available; it is possible that given the risks of fraud, the banks might cease to honour their cheque guarantee cards which would hinder the circulation of what cheques there were available. Equally the banks might "withdraw" their credit cards or alternatively these might not be accepted by shopkeepers given that early payment by the banks would not be in sight. As a result, cash might well start circulating at a premium relative to the other media of exchange.

13. Inevitably, however, other means of payment would tend to spring up at the local level to enable the continuance of economic activity. Large firms faced with a cash shortage - might pay their employees with tokens or bits of paper which - depending on the reputation of the firm - would be passed on. Cheques drawn by building societies could serve the same purpose. It might be necessary for Government to issue similar negotiable warrants - eg for DHSS payments or to meet demands on the National Savings Bank. UK branches of overseas banks and bureaux de change could also facilitate in this process of providing alternative media of exchange - such as the wider circulation of other currency. While these alternative means of payments would involve economic costs - both in preparation and in possible fraud - they could serve to mitigate the effects of the strike.

B. Effect on other Institutions

1. The Government's Accounts and the Paymaster General's Office

14. The vast bulk of Government revenue is obtained through the clearing

banks. This money would not be received. The Treasury bill issue could probably be maintained on a limited basis. The majority of payments by Government departments would also cease to be effected as these are through the clearers. Large payments abroad could probably be effected for a limited period by the Bank of England direct. Government departments' cash payments through the Post Offices could be maintained provided the cash was there; it might also be possible for Government departments with existing bankers' arrangements with the Bank of England to draw cash direct from the Bank of England though the need to distribute this cash would still remain.

out
15. Through the duration of the strike, there would be no money supply figure. Measurement of monetary aggregates in such abnormal monetary conditions would in any case be meaningless. The PSBR would increase for the reasons outlined above which would be desirable in that it would increase the media of exchange available to economic agents.

2. Foreign Exchange/Sterling

16. A continued strike could have a disruptive effect on international transactions in sterling. Foreigners might be unwilling to accumulate any further sterling holdings when their access to and ability to operate with their existing holdings was in some way restricted.

3. National Savings Bank

17. The NSB is heavily dependent on the Post Office for cash. In the face of any industrial action the primary concern would be to meet urgent needs of customers for cash: if sufficient cash to meet withdrawals was unavailable it might be possible for the NSB to issue some form of negotiable warrant. This could be in the form of some modification of their existing payable order to make it negotiable.

4. Trustee Savings Banks

18. While the majority of the TSBs' staff are members of BIFU, they are subject to separate pay negotiations and their reaction to the clearers' dispute must be uncertain. If the TSBs stayed open, they could experience a run from their account holders, which would cause a shortage of cash. Again this might be met by their issuing some form of negotiable order.

5. Building Societies

19. The building societies, while some have agreements with BIFU, would be unlikely to suffer to any noticeable degree from disruptive action by their staffs. In the situation of a bank strike, the societies would be likely to be faced with heavy demands for cash. The societies could build up stocks of cash in advance to some extent, but they would probably respond very quickly by halting cash withdrawals under their own rules at least for a temporary period, as the societies are particularly vulnerable to a run from their depositors. To the extent that their liquidity position permitted, the societies could issue bearer cheques or other negotiable instruments which could then be used as means of payment by their depositors. It might also be possible for them to develop some system of internal transfer between account holders in the same society but probably not between societies.

6. National Girobank

20. National Girobank staff would be unlikely to join in any action taken by the clearers. Any demands for cash from account holders would be subject to the same potential difficulties as with the Post Office outlined above. Girobank could ease the disruption caused by the closure of banks clearing by their own clearing system which could operate unaffected between their own account holders (at present 800,000). Capacity limitations and a wish not to aggressively take advantage of a bank strike (Girobank is at present negotiating to join the banks' clearing system) would preclude Girobank being able dramatically to expand their existing business.

Action which might be taken to mitigate these effects

21. Since a variety of options for selective strike action are open to BIFU, it is very difficult to plan any contingent action against all the possible permutations that could be chosen. It would seem more appropriate to react swiftly to these on an ad hoc basis as they arise.

22. The effects of closure of the clearing banks could well be severe from an early stage - depending on how other financial institutions were affected. The analysis above of the likely effects of such a closure suggests several types of contingency action that might be valuable in mitigating the disruptive effects of such a strike. The timing of any such contingency

action would need careful handling. Premature action could be counter-productive in several respects. It could worsen relations with the clearing banks, harden the negotiating position of the unions and provoke a run on the banks. The timing of any contingency action and of any discussion of this with the clearers would therefore need careful consideration with the Bank of England who are in close touch with the developing situation.

23. At an appropriate time there would be a series of contingency measures that might be taken to reduce the disruptive effects of a prolonged strike as follows:

i) The circulation of cash. The best solution would be to try and ensure a continued and if possible increased circulation of Bank of England notes. Discussions with the banks not affected by the strike, and the Post Office to establish distribution channels would be necessary. Equally it might be useful to discuss with local bodies, eg chambers of commerce, guidelines on the recycling of cash which could be followed in each locality in an attempt to reduce cash hoarding.

ii) Alternative means of exchange. The Government will wish to maintain as many payments as possible in order to keep economic activity going. Some payments - such as to pensioners - will be considered socially essential. If cash is not available for such payments, an alternative means of payment such as some form of negotiable order or bearer cheque might be required. It would be useful to have discussions - perhaps with the PGO and DHSS - on the form of such an instrument to make it as fraud-proof as possible and to provide for its distribution. The NSB could be involved as such an instrument could provide a means of meeting demands for withdrawals from its depositors.

It might be useful to discuss the form of such negotiable orders with other institutions which might be interested in issuing them such as nationalised industries, large companies and building societies. It might also be useful to offer guidelines both to companies and persons on the acceptance of commercial bills, negotiable warrants and other currencies. In general, while any guidelines would need to be couched in cautious terms, it would be useful to encourage the wider acceptance on a temporary basis of such money alternatives as the availability of cash became reduced.

17224

iii) Security. The wider circulation of cash and perhaps later negotiable orders would give rise to security problems, particularly at local Post Offices which on the whole are not very secure. It would be advisable to bring in the police at an early stage.

III(1) Division

2 May 1980



123
RAG

PRINCIPAL PRIVATE SECRETARY

cc PS/FST
PS/MST (C)
PS/MST (L)
Sir Douglas Wass
Sir Kenneth Couzens
Sir Anthony Rawlinson
Mr Ryrie
Mr Bailey
Mr Littler
Mr Carey
Mr Bridgeman
Miss M P Brown
Mr Collinson
Mr P M Rayner ✓

CIVIL SERVICE INDUSTRIAL ACTION: EFFECT ON CENTRAL GOVERNMENT
PAYMENTS SYSTEM

The Chief Secretary has seen Mr Carey's minute of 19 March. The Chief Secretary can see no alternative, as Mr Carey recommends, to continuing to operate existing payments arrangements for Government Departments. The Chief Secretary proposes to write to Mr Joel Barnett on the lines of Mr Carey's draft but before doing so would be glad to know if his colleagues agree.

MISS J M SWIFT

23 March 1981

W.P. 129
P
T.A.R.

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State(L)
Minister of State (C)
Sir Douglas Wass
Sir A Rawlinson
Mr T Burns
Mr Ryrie
Mr Monck
Mr Middleton
Miss Brown
Mr Buckley
Mr Pirie
Mr Turnbull

DAILY REPORT ON THE EFFECT OF THE STRIKE ON THE CGBR

1. This is the first of the daily reports on the effect which the strike is having on the CGBR.

2. Inland Revenue and Customs and Excise receipts score in the arithmetic of the CGBR when they are paid into the Consolidated Fund. We have daily information on the payments into the Consolidated Fund as part of the normal accounting processes. This can be compared with the daily forecasts made at the time when the Financial Statement and Budget Report was put together and I will report the difference. Most of the difference will be due to the strike; but some of it could be due to errors in the daily pattern assumed in its forecast and some of it could be a shortfall in receipts for reasons quite unrelated to the strike. I will try to distinguish out the various effects as far as possible. The figures may differ from estimates from which Inland Revenue and Customs and Excise quote of the shortfall in money they have received by a particular day, because of the normal lag between the receipt of money by the revenue Departments and its payment into the Consolidated Fund.

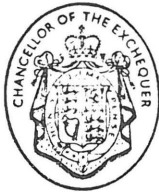
3. As noted in yesterday's weekly report, we estimate that as a result of the strike, something like £450million of receipts from Customs and Excise and Inland Revenue had been lost to the Consolidated Fund, and therefore to the CGBR, by Friday 20 March. Other offsetting effects left the cumulative CGBR only £192million above forecast.

4. I can now confirm that receipts from Inland Revenue yesterday (including national insurance contributions) were £280million below our forecast, and receipts from Customs and Excise were £37million below forecast. Allowing for other offsetting effects, the cumulative CGBR was some £480million above forecast.

5. Preliminary figures suggest that receipts from Inland Revenue and Customs and Excise today are more than £200million below forecast. Taking account of offsetting effects elsewhere, this will bring the cumulative CGBR^{to} about £600 million above forecast. However, I will confirm this tomorrow morning after the day's transactions have been checked with the Bank of England. Further reports will be made in the morning covering the previous day's business.

G M Noble

G M NOBLE
24 March 1981



cc: Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir Douglas Wass
 Sir Anthony Rawlinson
 Mr. Ryrie
 Mr. Middleton
 Miss Brown
 Mr. Buckley
 Mr. Pirie
 Mr. Turnbull
 Mr. Smith
 Miss Noble
 PS/Inland Revenue
 PS/Customs & Excise

In Ryan

MR. MONCK

THE CIVIL SERVICE ACTION

The Chancellor was grateful for your minute of 23 March reporting not only the effect of the civil service action on Government revenues, but also on industrial action against the clearers arising from their own pay negotiations. He has noted the position.

2. The Chancellor wishes to be in a position to give an up to date report on both questions to Cabinet this Thursday. I would be grateful therefore if you would let me have an up to date assessment by close of play tomorrow, and if Customs and the Inland Revenue could do the same in respect of the industrial action affecting those departments.

psj
 (P.S. JENKINS)
 24 March 1981



M. Ryan

NOTE OF A MEETING HELD AT NO.11 DOWNING STREET ON TUESDAY 25 MARCH

Present:

Chancellor of the Exchequer
Chief Secretary
Minister of State (C)
Mr. Ryrie
Mr. Burns
Mr. Middleton —
Mr. Cropper
Mr. Cardona
Mr. Wiggins

EFFECTS OF CIVIL SERVICE INDUSTRIAL ACTION

The meeting considered the macro-economic effects of industrial action in the Civil Service.

2. Mr. Burns said he was concerned that the impression had got around that the delay in payments of Government revenue were having undesirable economic effects, and might even make necessary an increase in interest rates. In fact the macro-economic effects of postponing revenue receipts were negligible, as by and large the money was held in bank accounts rather than spent as those concerned realise it would have to be paid over sooner or later. It was important to get the true situation across, since otherwise expectations could be affected.

3. In discussion it was pointed out that industrial action by the Civil Service had been given as one reason for the increase in interest rate in 1979, and this made it difficult now to correct the impression that the effects of the action were now of little economic consequence. Moreover there were difficult tactical judgements to be made in relation to the industrial action itself, on the one hand if the Government played down the harmful effects on the economy, the unions, instead of being discouraged, might feel



they had to step up their action. In addition senior staff who were at present doing work not proper to them to keep the revenue flowing might decide their efforts were not worthwhile if they felt did not really matter whether the revenue came in or not. On the other hand it was important to prevent the unions from having the impression that their action was causing such a damage that it was likely to force the Government to make concessions. On balance it was felt that this consideration was the more important.

4. The Chancellor, summing up the discussion, said that on balance it was agreed that it was necessary to counteract any impression that industrial action in the Civil Service was causing serious economic problems. A statement should be prepared by Mr. Middleton for use in Treasury Questions the following day. This should make clear that while the industrial action was affecting people's lives and causing disruption and inconvenience to them, the impact of the postponement of revenue flows on the Government's finances and on the economy should not give rise to undue concern. It was only a delay in payment, and the money in question was likely to be held in bank accounts rather than spent, since it was realised that sooner or later it would have to be paid over. Serious economic consequences would only arise if the Government were to concede a higher pay increase than 7 per cent since the country could not afford it. The statement should make clear that the Government was ready and willing at any time to talk further with the Civil Service unions about the future system of pay determination.

PSJ

P.S. JENKINS

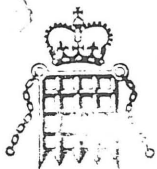
25 March 1981

Circulation:

Those present
Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Sir Lawrence Airey

Sir Douglas Lovelock

CONFIDENTIAL



124
e Mr. Noble
Mr. Noble
Mr. Noble
Board Room
HM Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

25 March 1981

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir D Wass
Mr F E R Butler
Mr Boyd - IR
Mrs Sloman - CSD

THE CIVIL SERVICE ACTION

1. You asked for an assessment of the effect of industrial action in Customs and Excise.
2. Annexed is our assessment of the effects since industrial action started. But I must draw attention to current action which was the subject of my minute earlier today to the Minister of State (Commons). This is directed at the collection of customs deferred duties. In brief, at the direction of their unions, certain staff are:
 - a. refusing to secure the payment of customs duties due on 15 March through local Collectors' offices;
 - b. refusing to process data captured on the computer at Southend which would enable us to determine the amounts of customs duties payable on 15 April.
3. In both cases, the staff are refusing to carry out part of their normal duties. In effect they are 'blacking' any work associated with the collection of customs deferred duties. The staff concerned have been directed orally by management to

1308

CONFIDENTIAL

do their normal jobs. They have refused. If we do not now react by following the well established procedure which could result in suspension without pay, the authority of local management, who have been in the front line of overcoming the effects of the industrial action would be undermined.

Moreover, if the unions once successfully call management's bluff they will be encouraged to put us further to the test. Indeed, the 'blacking' of computer operations in the customs deferred duty was a "retaliatory act" / some staff had ignored union directions not to do their normal jobs and allowed the process of the collection of customs deferred duties through Collectors' offices to go ahead.

/because

3. Our legal advice is that there is no doubt that suspension without pay for refusing to carry out normal jobs falls squarely within the law.

4. The current situation in Customs is different both in principle and scale from the situation that would arise in Inland Revenue if they were to put into effect Stage 3 of their contingency plans. The action is not to do part of their normal jobs, as laid down in standing instructions. The number involved is at most 100.

5. The Minister of State (Commons) has, subject to the views of CSD Ministers, authorised us to start the process of suspending the staff involved without pay. The Minister of State (CSD) regards the issue as one to be decided by Treasury Ministers but has suggested that you may wish to defer a decision until after Cabinet tomorrow. We strongly urge you to authorise suspension in this particular case, and, if the issue is raised at Cabinet tomorrow, seek to persuade your colleagues to support your decision.

L D HAWKEN

Internal Circulation:	CPS	Mr Pitt
	Mr Godfrey	Mr Halliwell
	Mr Bryars	Mr Mechem

CONFIDENTIAL

ANNEX

INDUSTRIAL ACTION: CUSTOMS AND EXCISE

1. Southend Computer Complex

Industrial action has continued with some 250 staff (mainly data processors) remaining on strike. This action necessitated the introduction of our planned contingency arrangements for the collection of as much VAT revenue as possible, with management staff concentrating their efforts on the largest payers (who account for about 75% of the net VAT yield). Monies are being banked daily, but because we have not yet reached the end of a month and the time when remittances from most large payers are expected we cannot yet be sure that we shall achieve our target of banking 75% of the net yield.

2. The Customs (freight) computer has been subject to selective industrial action by withdrawal of shifts (principally the night shift) on several occasions. Being a real time computer, any delay in the essential night time 'clearing' operations produces a corresponding delay in the machine's availability for current operations at linked ports. The production of the trade statistics will be stopped as a result of this as well as by other action.

3. South Coast ports and London Airports

A work to rule operated mainly on freight movements up to the weekend of 21/22 March. There was some slight delay to inward passengers at Gatwick Airport on Saturday 21 March, as at Heathrow the previous weekend (this is thought to have been occasioned more by Immigration Officers (Home Office responsibility) working to rule). Short selective strikes were called at Shoreham, Cardiff Airport and Portsmouth but these involved very few staff and fall-back arrangements worked satisfactorily. The Customs examination of returning service personnel from HMS Bulwark in Plymouth attracted wide and inaccurate publicity, any delays being attributable to bad weather rather than to industrial action by Customs staff.

4. East Coast

The Unions have switched their attack to our Hull and East Anglia Collections within the last 24 hours. Staff in one Hull dock area began strike action from about 1500 hrs on 24 March and have been joined by some Grimsby staff today (25 March). Ipswich, Felixstowe and Harwich have also been affected by selective strike action today. (Overall about 140 staff are on strike at East Coast ports.) In all areas fall-back arrangements have been invoked in order to minimise delays to passengers and freight movements.

5. Other revenue receipts

The collection of other duties is, so far, proceeding satisfactorily.

183
RAA
1

21

MR BUCKLEY
MR McCONNACHIE - I.R.
MR WALLER
MR ROBSON
MR P DRISCOLL - IR

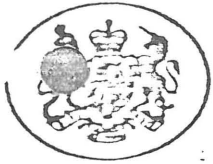
CSD PROPOSALS ON LONDON WEIGHTING AND MONTHLY PAY

I am thinking of advising the Chief Secretary on the two letters from Mr Hayhoe of 17 March (copies attached for those who have not seen them) on the following lines. Could I have any comments by Thursday evening if possible.

2 I propose to submit them under cover of a covering note which tries to pull the threads together.

Norma Hubert
pp C D BUTLER

25 March 1981



Minister of State

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

779 2/1/81
I can't help but think we will always be better off
of GPs

CHIEF SECRETARY	
REC.	15 MAR 1981
ACTION	Mr CD Butler
PPS	FST
MST	MST(4)
	Sir D. Warr
	Sir A. Rawlinson
	Mr Bailey

Mr. Urwin
17 March 1981

Mr F. Butler
Mr Bridgeman
Mr Klump
Mr Robson
Mr Rayner
PS/IR
PS/CSE

See hear

ADVANCES OF LONDON WEIGHTING FOR THE PURCHASE OF SEASON TICKETS

Paul Channon and John Biffen corresponded last year about a scheme of advances of London Weighting to enable staff to buy an annual season ticket. John finally suggested in his letter of 25 September that a decision should be deferred until the beginning of 1981-82 when the scheme could be considered as part of the 1981 pay awards - although our support has been based upon its intrinsic merit.

The main argument for the scheme is that it will be cost-effective. Although wastage has dropped in London as elsewhere, it still runs at an uncomfortably high level. Even at CO level (dealing with quite able and often well-qualified people on terms of the working population as a whole) who can still find jobs in London if they wish. In Department of Employment and offices in London, wastage at CO level continues to run at a rate of around 20% a year. As Patrick Jenkin pointed out, this is a costly and inefficient way to run any organisation. The estimated £1 million a year in lost interest which the scheme involves should be recouped by a reduction in our recruitment and training. What- ever may be said about advances being a "perk" the fact is that ns that a large number of firms in London give financial assistance with give with travel costs. Two-thirds of firms covered by a recent survey gave help with season tickets, many on more generous terms than propose, presumably because they, like we, believe it helps to recruit and retain junior staff. and

Although advances represent a loss of interest to Government funds they will not affect departmental cash limits. The advance will be made at the start of the financial year and be recovered over London Weighting entitlement before its end. There will be no over of of unrecovered balances.

It would be helpful to have your agreement to the introduction of the scheme in 1981/82.

[Handwritten signature]

SIR A RAWLINSON

CHIEF SECRETARY

cc Chancellor of the Exchequer
Financial Secretary
Minister of State C
Minister of State L
Mr Bailey
Mr Kemp - o.r.
Mr Bridgeman
Mr F E R Butler
Mr Buckley
PS/Inland Revenue
PS/Customs and Excise
Mr McConnachie - Inland
Revenue

SS1

CSD PROPOSALS ON LONDON WEIGHTING AND WEEKLY PAID STAFF

I attach two separate submissions on letters from Mr Hayhoe, dated 17 March, which, although presumably separate because they have separate historical beginnings, have strong common elements in that they relate to the pay and conditions of civil servants. They also have a common feature in that they present some difficulties for the Treasury because they are being proposed by one central department (the CSD) to another (the Treasury) on behalf of other departments, who would support them. Indeed, the Chancellor is a departmental Minister responsible for three very large employers of civil service labour, all of whom would stand to gain from the adoption of these proposals if they were introduced on the right terms and if they proved successful.

2 The advice on these two letters comes to you from SS Division (and not IR as the coordinator of advice on management matters) because we are responsible for scrutinising the CSD estimate. Insofar as these proposals involve additional expenditure we therefore have a locus separate from the management question. Strictly speaking the CSD, as central department, should be as capable of applying Government policies on the control of public expenditure as the Treasury. Where however the question of improvements in the terms and conditions of staff are involved, they are apt to assess priorities somewhat differently.

1
CSD 3 Another aspect, on which strictly speaking the issue is for CST to decide without outside help, is the question of the Government's public posture in relation to the present pay dispute. Neither of the letters from Mr Hayhoe refers to the relevance of these issues to the current negotiations. No doubt the monthly pay issue is not relevant (we did at one time think that the "inducement" could be negotiated in the context of a pay settlement. There is apparently a legal impediment to this). But the question of London Weighting, if not part of the negotiations itself, has surely some relevance to the Government's approach to the issues. This thought is inserted in the submission on London Weighting. We think its of sufficient political importance for you to refer to it if you wish.

4 Given the sensitivities of the relationship between Treasury and CSD (and the fact that CSD is acting as spokesman for other departments) we have not offered more forthright advice suggesting that you turn these two proposals down flat. In the case of the monthly to weekly pay proposal there is no need to do so. It is only the size of the possible "bribe" that makes the proposition unattractive (it is welcome on other grounds). And there is no need for you to do more than utter a warning at this stage. On the London Weighting proposal the size of our strict interest (in the public expenditure cost) is small. But on merits the proposal appears singularly unattractive.

C D BUTLER

March 1981

137

1 SIR ANTHONY RAWLINSON cc Chancellor of the Exchequer
 Financial Secretary
 Minister of State C
 2 CHIEF SECRETARY Minister of State L
 Mr Bailey
 Mr Kemp - o.r.
 Mr Bridgeman
 Mr F E R Butler
 Mr Buckley
 PS/Inland Revenue
 PS/Customs and Excise
 Mr McConnachie - Inland
 Revenue

SS1

ADVANCES OF LONDON WEIGHTING FOR THE PURCHASE OF SEASON TICKETS

The Minister of State CSD's letter of 17 March asks for your agreement to starting a scheme involving advance payments of London Weighting to civil servants to help them purchase season tickets. The aim of this would be to attract and retain staff, thus reducing the costs of recruitment and training.

2 This is the second time round for this proposal. There was correspondence between Mr Channon and the Chancellor in August and September last year, with comments from the Secretaries of State for Defence and Social Services, in support of the proposal. I attach copies of the letters from Mr Channon of 11 September, my submission of 22 September and Mr Biffen's letter of 25 September.

- 3 Very briefly, the arguments against the proposal are:
- (i) Wastage in London is not getting worse, rising unemployment has seen to that;
 - (ii) We doubted the cost-effectiveness. The total cost of wastage is put at £3 million a year, the accelerated borrowing to make payments of London Weighting must be about £1 million;
 - (iii) We suggested that an alternative, more effective, approach might be to re-examine the Civil Service's recruitment and training procedures so as to employ a transient population most efficiently;

- (iv) Proposed introduction in 1980-81 might be possible for some departments, not for others;
- x (v) Geographical differentiation of salary levels seemed the more appropriate response;
- (vi) The proposal was originally associated with the proposals on payment of salary by credit transfer, this was arguably inappropriate.
- (vii) The Chancellor had originally criticised this proposal from the "perks" angle.

4 Some of these arguments have lost weight since last September, others have gained. In particular:

- (i) The employment situation has tightened further. Recruitment and retention cannot be difficulties;
- (ii) Given the present difficulties over Civil Service pay and the public attitude to civil servants at present, the announcement of this concession would seem to carry no advantage to the Government. It would be interpreted widely as a "perk".
- (iii) The argument that payments can be accommodated within departmental cash limits is irrelevant, the cost in terms of lost interest is one which the Treasury has to carry alone.
- (iv) Mr Hayhoe has not answered the suggestions in Mr Biffen's earlier letter that the Civil Service should adapt its recruitment and training procedures so as to reduce the investment cost.

5 Against these arguments there are the following:

- (i) Departments, who are in the best position to assess the recruitment problem, and CSD, who are responsible for identifying the best solution to the problem, are in favour of it. The MOD and DHSS - who have large requirements for clerical and typing etc labour - have particularly emphasised the benefit to them;

- (ii) By adopting this proposal the Government would be doing no more than bringing employment practices into line with other firms in London.

6 We think that the balance of argument still weighs against making this change if it can be avoided. Departments want it because their annual expenditure will be unaffected (apart from the possibility of bad debts) and they have the potential gain of lower recruitment and training costs. But there would be a net cost to the Treasury which, though small, is not likely to be ^{fully} offset by savings on recruitment and training (even supposing those could be identified). We think the more telling argument is the presentational one that the Government should not expose itself to criticism by granting perks of this kind at this stage. This is perhaps not an argument which one central department should run against the other - the one which is responsible for the presentation of the Government's policy towards the management of the Civil Service. It is more perhaps a political point for you to make if you agree with it. The attached draft therefore reflects both these points but indicates your willingness to have the matter discussed collectively and indeed see the scheme introduced, if it could be introduced on an experimental basis and the results could be identified and monitored. That however is not a realistic prospect. Once granted, such perks must be very difficult to withdraw and the advantages of the scheme must be very difficult to pin down.

C D BUTLER

March 1981

DRAFT LETTER TO: The Minister of State, CSD

ADVANCES OF LONDON WEIGHTING FOR THE PURCHASE OF SEASON TICKETS

Thank you for your letter of 17 March. Like John Biffen I am doubtful about the value of this proposal. Like John I wonder if the present unemployment climate is quite the right moment to introduce schemes to attract and retain staff, though I note your concern about CO's in DE and DHSS offices. I also remain doubtful about whether this is the right way to tackle the "investment" costs of recruitment and training. You did not comment on his suggestions about adaptation of procedures so as to reduce those costs. Are they so unrealistic?

2 I am concerned about the loss of interest to Government funds. I recognise that the sum is small in terms of total Government borrowing but I think the principle is significant. With respect, the impact on departmental cash limits is irrelevant, though it explains why Departments are attracted by the proposal. To them it will involve no increase in cost (though there may be losses arising from bad debts) with some potential gains on recruitment and training costs. But there will still be a net cost to the Exchequer which the Treasury will have to carry in increased interest payments. Although small I should not wish to add to our financing burden lightly unless I was more convinced of the value of the scheme.

3 My more serious reservation is about the advantage to the Government of making such a change at the present time. We are

in difficult pay negotiations with the Civil Service. The industrial action that has been taken so far does not appear to have added to the popularity of the Civil Service with the public at large. If we were now to announce a change, which would be widely interpreted as an added "perk", I wonder if that could do anything to the Government's reputation. You do not refer to its possible impact on the pay negotiations so I imagine you think there would be none. I wonder therefore why we should make such a concession now.

4 That said however I would be prepared to have the matter discussed among colleagues. I would not expect to change my reservations about the proposal, but I would be more interested in considering it if there was some way of introducing it on an experimental basis for say three years, after which the results could be monitored. That of course must presuppose that the effects on recruitment and training could be identified more or less clearly and the scheme be wound up if it proved too have had no effect. Neither of these I imagine is a feasible option.

1 SIR A RAWLINSON cc Chancellor of the Exchequer
Financial Secretary
2 CHIEF SECRETARY Minister of State C
Minister of State L
Mr Bailey
Mr Kemp - o.r.
Mr Bridgeman
Mr F E R Butler
Mr Buckley
PS/Inland Revenue
PS/Customs and Excise
Mr McConnachie - Inland Revenue

SS1

SWITCHING WEEKLY PAID STAFF TO MONTHLY PAY

The Minister of State at CSD's letter of 17 March informs you of developments on this proposal which is aimed at securing staff savings by encouraging a switch in methods of payment from weekly wages to monthly salaries.

2 The earlier correspondence, to which he refers, was a letter from his predecessor to yours of 2 October, to which Mr Biffen replied on 16 October (copies of correspondence and my submission of 14 October attached). Very briefly the then Chief Secretary's objections to an otherwise welcome proposal (there would be savings of up to 100 staff in Inland Revenue alone) was the cost of the inducement which Mr Channon thought he would have to concede - a once for all lump sum payment of three weeks pay. This would cost £200 a head and total £24 million in a full year. This would achieve a relatively meagre contribution to the overall manpower savings (no more than 500 staff) and though there would be useful savings of about £8 million a year, the initial price would be high, particularly in 1981-82. It would be such as to make those departments who might otherwise welcome the potential staff savings jib at the price. Inland Revenue share for example would be £5 million - a figure which they would not expect to be able to absorb.

3 Following Mr Biffen's letter, the CSD explored the alternative of introducing monthly pay by bank credit transfer for all new

recruits. Given the high wastage rates in the grades affected, something like three-quarters of the savings should be achievable by this method within five years.

4 Mr Hayhoe now says that the unions oppose the proposal to change for new recruits. They have however indicated willingness to discuss the introduction of monthly pay for all staff, in a package which would include inducements for existing staff. Meanwhile he has postponed the planned starting date for introducing monthly pay for new recruits until 1 October, to give a chance for the discussions to bear fruit.

5 There can be no objection to this from our point of view. The introduction of monthly pay will meet Treasury Ministers' objectives, not least in helping the move towards the cashless society. But we do not want such moves at any price. The introduction for new recruits offers a relatively costless way of getting to the ultimate objective. Discussions with trade unions may offer risks, particularly in the present climate, in that it will raise expectations that inducements will be paid which may be difficult to withdraw from. Furthermore it would be undesirable to go too far down a course without bringing in departments, in whose interests these arrangements are being made, but who will have to foot the bill that is eventually struck. I think you might write to Mr Hayhoe, supporting his intentions, but uttering these warning notes. I attach a draft.

C D BUTLER

24 March 1981

DRAFT LETTER TO: The Minister of State, CSD

SWITCHING WEEKLY PAID STAFF TO MONTHLY PAY

Thank you for your letter of 17 March indicating that you have put back the planned starting date for putting recruits on to monthly pay until 1 October, so as to allow time to discuss a package deal with the unions which would include inducements for existing staff.

2 I agree that this is sensible. In order to gain the maximum acceptance of the switch, so as to secure the necessary staff savings, you clearly want to carry the unions with you if you can. But we do not want to buy the switch at any price. The implementation of monthly pay for new recruits seems to me desirable, with or without union backing. I hope therefore you will not go too far in discussions with the unions before we have identified the price of their support. At that stage too we shall want to be sure that those departments who will carry the eventual cost - and I think we are agreed that no additional provision can be made for this arrangement - are willing to implement the arrangements on the terms negotiated.

CHANCELLOR OF THE EXCHEQUER

146
cc Chief Secretary
Financial Secretary
Minister of State (I)
Minister of State (C)
Sir D Wass
Sir A Rawlinson
Mr Ryrie
Mr Burns
Mr Middleton
Mr Unwin
Miss Brown
✓ Mr Buckley
Mr Pirie
Mr Turnbull
Mr Smith
Miss Noble
PS/Inland Revenue
PS/Customs & Excise

Raf
W. Payne

INDUSTRIAL ACTION, THE CGBR AND MONEY

This note should be read with the separate minutes commissioned from the Revenue Departments and Mr Middleton and with Miss Noble's daily report.

2. So far the CGBR is cumulatively nearly £600 million above forecast. This might have risen to about £1 million by the end of March.
3. The effect on banking April, running from 18 March to 15 April, is of course extremely uncertain. Without the strike we were expecting a negligible increase in sterling M3. With the strike the increase might be in the order of 1½ to 2%.
4. The Bank of England say there has been no change since my report of 23 March. They are crediting larger sums than usual to the Inland Revenue account but this is not causing any problems with their staff. More staff at the Paymaster General's Office are now on strike and this is leading Departments to run up unauthorised overdrafts with the Bank. But this is not causing any practical problems so far.
5. There is a new problem at Giro Bank. A local union leader at Bootle plans to instruct the staff not to send on cheques made out to the Inland Revenue, which are running at an unusually high level, to Worthing. There is to be a meeting between Giro Management and national Union leaders (the unions are the CPBA and the Society of Civil Servants) tomorrow. Mr Wainwright has

assured me that he is very much aware of the need to avoid making any concessions in the public sector which the clearers could quote against us. He points out too that it is in Giro's own interest to get through this episode with a record of continued service to their customers.

The Clearers' Dispute

6. The effect of the selective action at Lloyds Clearing Centre yesterday was only to delay clearing until today. Tomorrow's selective action at Barclays Internal Accounting Centre is not expected to have a serious effect.

Conclusion

7. Developments so far do not justify any change of stance by the Government in the Civil Service dispute.

8. So far the clearers own dispute is not having much impact, though they could become serious of course.

N J MONCK
25 March 1981

148
Mr. Payne
RA

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State(L)
Minister of State(C)
Sir Douglas Wass
Sir A Rawlinson
Ms T Burns
Mr Ryrie
Mr Middleton
Mr Monck
Miss Brown
Mr Unwin
Mr Buckley
Mr Pirie
Mr Turnbull

DAILY REPORT ON THE EFFECT OF THE STRIKE

This is to confirm that receipts from Inland Revenue yesterday (including National Insurance contributions) were £180 million below the forecast we made before the strike began. Receipts from Customs and Excise were £40 million below forecast. The position at close of business yesterday can therefore be summarised as follows.

- Receipts from Inland Revenue (including National Insurance contributions) are, cumulatively, about £700 million below forecast due to the strike.
 - Receipts from Customs and Excise are cumulatively about £280 million below forecast due to the strike.
 - The CGBR is cumulatively about £600 million above forecast.
2. We do not expect such heavy losses today as in the past few days. In fact, we may have a surplus over the forecast. The forecast reflects the fact that we would have expected to have received the bulk of the monthly PAYE money by now; but the money is still coming in to us. Also, we would normally expect large repayments of VAT to be made today to traders entitled to them. This will not take place, saving something like £100 million.
3. As yet, there is no evidence of transactions being affected by disruption at the clearing banks.

20
25/3
G M Noble

1. MR BUCKLEY ^{was}
2. CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Battishill
Mr F E R Butler
Mr Dixon
PS/Inland Revenue
PS/Customs & Excise

CIVIL SERVICE DISPUTE

We understand that you may wish to raise this matter at Cabinet, particularly in the context of the further use of TRD by Inland Revenue and Customs.

You will wish to consider this in the light of possible developments on the negotiating front. You will recall that, on the Prime Minister's instructions, a small group was set up under the chairmanship of Sir John Herbecq to consider a possible formula that might be offered to the Trade Unions. The report will be ready for the Lord President on his return from Zimbabwe on Friday. Having seen a draft of the report, we must confess to doubts as to whether Ministers will consider it offers an acceptable basis to put to the unions. But this will be for Ministers to consider in the next few days, and if they consider that it does offer a way forward, then widespread use of TRD in the interim could scupper any chances.

This suggest avoiding any drastic use of TRD in the next few days. If you agree, you may wish to argue at Cabinet:

- i. that the use of TRD as advocated in the Customs submission should be set in train immediately
- ii. for colleagues' agreement that, if the Herbecq Report does not offer a way forward, you should be free to set TRD in train on the basis identified in the Inland Revenue submission when you consider it appropriate.

PM Rayner
P M RAYNER

25 March 1981

CONFIDENTIAL

Miss Noble
Mr Baynes
Mr Hamilton, &



INLAND REVENUE
MANAGEMENT DIVISION
SOMERSET HOUSE

RAF

25 March 1981

CHANCELLOR

INDUSTRIAL ACTION: INLAND REVENUE

*Not
defended.*

You have agreed to see Lawrence Airey, Jim Boyd and myself later today or tomorrow morning, prior to your going to Cabinet, to discuss the present position in the Revenue, in particular the management difficulties we are facing.

Collection progress

You will want up to date figures on the progress of collection; in the note to Lord Cockfield of the 24 March we reported bankings for the periods 9 - 23 February and 9 - 23 March. We are finding it very difficult to provide banking figures in mid week and in addition the figures already reported were a comparison of the March with the February progress and looking at the difference. To the extent that receipts due in March will differ from those due in February such comparison may be somewhat misleading although we do not believe that the 2 months should be substantially different.

cc Minister of State (Lords)
Minister of State (Commons)

Chairman
Mr Boyd
Mr Vernon
Mr Gracey

151

For present purposes it is much easier and certainly more accurate to take the transfers into the Consolidated Fund and compare these with the March estimate. The March estimate was £5,097m but this included approx £1397m for PRT which was received on the 1 March. Excluding the PRT the estimate becomes £3700m. Up to today a shortfall of Consolidated Fund transfers for March amounts to £737m and there is some evidence to suggest that it will not be substantially more at the 31 March.

For what it is worth we can say that our preliminary figures for bankings up to and including today show a shortfall similar to the Consolidated Fund shortfall.

If you are content with taking the comparison of the Consolidated Fund transfers with Consolidated Fund estimates then we will be able to offer you daily figures of progress.

You may be interested to know that so far we have banked £360m from Bush House. These are basically medium sized cheques between £3,500 and £10,000 which are being outsourced by staff from Cumbernauld and Shipley and sent down to Bush House.

Effects of industrial action

In our note of the 24 March to Lord Cockfield we explained that cheques were being held unbanked in Collection offices and that most of these offices were following IRSF instructions not to process or bank cheques they receive or pass them on to Regional Offices or indeed inform the Regional Office of the position, and insofar as we had information it was that 18,060 cheques to the value of £16.8m were held unbanked. I understand that Lord Cockfield has commented that it was difficult to distinguish this

situation from that which was considered by Cabinet. I think there is a distinction in that from the Autumn of 1980 there have been standing instructions that all cheques over £5,000 received in a local Collection but proper to an Accounts Office should be banked locally. Certainly the 18,060 cheques referred to above do include many items over £5,000. Even so we still remain of the view that it is part of the normal duties of Collection staff to bank receipts, and certainly cash, whatever the amount may be.

There are some offices where the Collector in Charge is willing to bank the cheques or pass them on to the Regional Office, but in some of these the staff have threatened to walk out if the cheques leave the office.

In one Collection where the cheques were picked up by the Regional Office yesterday 46 out of 55 staff are staging a sit-in.

Several Regional Offices are being picketed, some by staff who have no right to be on the picket line since they are not at or near their normal place of work and there is a threat of a vast picket (several hundreds) around the Greater Manchester Regional Office tomorrow; the Regional Office is in Stockport and the pickets will be coming from offices in Manchester. The purpose of the pickets, who are being controlled by local co-ordinating committees, is to stop post getting in or out of those offices. In another such office the pickets are manned by people from the office itself, spending half an hour at a time on the line and being replaced by others, so that post cannot get in; the outcome is that a substantial part of the staff have no work to do because of their own picketing activities.

see below

The IRSF has also instructed their members not to handle any PAYE work connected with the Accounts Offices. This

is not simply handling PAYE cheques: it covers the much wider field of enforcement and no work of this kind is being done in many offices: no calls either by telephone or in person are being made. In the last year one million telephone calls and 750,000 personal calls were made and without this enforcement activity the reluctant payers will not pay.

We will shortly come to the point where obedience to the IRSF instructions by so many staff will mean that many Collection offices will be doing no work at all.

In these circumstances we feel that we are put in an impossible position if we are not to take counter measures which must mean recourse to the TRD process within a short time.



D B Rogers

Chancellor of the Exchequer

1544
RAF

cc Financial Secretary
Chief Secretary
Minister of State (L)
Minister of State (C)
Sir Douglas Wass
Sir Kenneth Couzens
Mr Burns
Mr Ryrie
Mr Unwin
Mr Monck
Miss Noble ✓
Mr Dixon
Sir Lawrence Airey IR
Sir Douglas Lovelock C &

CIVIL SERVICE STOPPAGES

I attach a short speaking note you asked for this morning on the financial and economic effects of the Civil Service strike.

Em

P E MIDDLETON
25 March 1981

Enc

1. The main problems caused by the strike are inconvenience to the public and damage to the services which public servants are trusted to provide.
2. There is no risk to economic management. The only effect will be to make some of the monetary numbers difficult to interpret for a time.
3. All the money owed to the Government will eventually be paid over. And there is obviously no risk to inflation if payments simply get delayed in the system.
4. The Government's borrowing requirement will look higher than it should for a while. But there will be no need for exceptional measures. We were already carrying out successfully an extensive funding programme - both by selling government stock in firm markets and by national savings.
5. As the Chancellor said in the House, it is quite unnecessary for public servants to inflict damage on the Community and their fellow citizens when the Government has said that it is anxious to join the unions in seeking an agreed and orderly arrangement for their pay in the future.



CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Battishill
Mr F E R Butler
Mr Dixon
Mr Bickley
Mr Rayner
PS/Inland Revenue
PS/Customs and Excise

CIVIL SERVICE DISPUTE - MR RAYNER'S MINUTE TO YOU OF 25 MARCH

In view of Mr Rayner's recommendation number (ii) I feel I must stress that what is involved is not simply whether we are legally justified or not in applying TRD.

In his minute of 24 March, Mr Rogers says:

"With so many offices involved it is inevitable that once we start the process there will be a mass walk-out in all Collection Offices and it could spread to Tax Offices walking out in sympathy."

Perhaps I might draw attention to the two words "inevitable" and "all".

This is a considerable hardening of the position. Originally the Inland Revenue view was that possibly a third of the Collection staff would stay at work and that the position would improve as time went on.

CONFIDENTIAL

157

What we are now faced with is the prospect of an all out strike in the Inland Revenue. I do not myself think we should retreat in the face of this threat. But we need to be very clear in our own minds - and Cabinet needs to be very clear - that once we embark upon this course of action set out in the Inland Revenue submission and repeated by Mr Rayner, this is the result which will follow.

A.C.

LORD COCKFIELD
26 March 1981

CONFIDENTIAL

cc Principal Private Secretary
PS/Minister of State (L)
Sir Douglas Wass
Mr Middleton /
Mr Monck
Mr Ward
Mr F E R Butler
Mr Drane

Mr Ingham
Mr Rowland
Mr Burton
self

W Ryan
IP

PS/FINANCIAL SECRETARY

INDUSTRIAL ACTION IN DNS

1. There is a partial walk out this afternoon by 5-600 of the 3700 staff of the Premium Bond Office at Lytham St Annes. This of course is in sympathy with the 29 clerical staff of Customs and Excise who are under threat of suspension.
2. There is so far no further threat of action in the Transaction Accounting Branch of DNS HQ.

SWG.

S W GILBERT
Department for National Savings
27 March 1981

[Handwritten signature]

1589/3

CONFIDENTIAL

SECRET

23/81
MM

CHANCELLOR OF THE EXCHEQUER

cc Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Buckley

out of line
what?
TCW

CIVIL SERVICE INDUSTRIAL ACTION: POSSIBLE FORMULA

The Prime Minister held a meeting with you and few others on 13 March, to discuss the present Civil Service dispute, arrangements for the future, and more immediate arrangements to study "a possible interim formula should its use become necessary" to resolve the present dispute.

2. The last point has been pursued in a small working group consisting of Sir John Herbecq (Chairman) and CSD colleagues, Mr. Buckley and myself, Mr. Le Cheminant (Cabinet Office) and Mr. Douglas Smith (Employment). The Report may well be put to the Prime Minister by the Lord President tonight. I thought you might like to see the attached advance copy. I would also like to offer some comment before you read

3. The Report does not make recommendations for action. It identifies what might be needed in certain circumstances, but without commitment. In fact, the officials concerned have had some difficulty, with a clear division between the CSD on the one hand, and Treasury and Department of Employment on the other. The CSD insisted that the Report must display to Ministers what might be the minimum formula necessary to buy peace in something like the present circumstances and present mood of the unions. On that basis, we were unanimous that the unions would demand, and therefore the Government would have to offer, some guarantee in respect of 1982 pay settlements. We were again unanimous that a satisfactory offer would have to involve either: arbitration with a commitment on both sides to accept the outcome, or: agreement in advance to an increase in line with an appropriate broad earnings index, reflecting then current levels of increases.

4. From that point, however, we part company:-

(a) The CSD view is that, short of driving the Civil Service unions into submission, with consequent bitterness and risks of future industrial action, no lesser offer will do the trick; and the need to avoid escalation of the present dispute, with all the risks that would entail, is such that they would recommend the 1982 and other concessions listed.

(b) Mr. Smith, Mr. Buckley and I have taken the view that the objections for Government against either arbitration or interim index-linking are very powerful, and that either would be too heavy a price to pay, in terms of direct risks on 1982-83 costs and more immediate risks to negotiations with other public services and effects on the private sector. We are therefore driven to the conclusion that the Government should not seek to open further negotiation against the background of the present mood of the unions. We also believe, however, that there might be an intervening position, short of "driving the unions into total submission", at which peace could be bought at a lesser price. The CSD are worried about Parliament and TUC moves to support the Civil Service Unions. But public opinion does not support them generally. If the mood of the unions softened a little, they might find it difficult to resist a reasonable formula for reviewing long-term arrangements, and might then find it difficult to persist in a dispute which focussed on arrangements for settlement next year.

5. My impression from Sir John Herbecq is that Lord Soames will want to avoid a further concession on cash this year (Mr. Hayhoe committed the Government still more firmly on this yesterday), but may want to urge a concession now on the 1982 settlement, together with a formula for the longer-term, in order to avoid risks of further escalation or an embittered Civil Service. My own advice - and Mr. Smith will be taking a similar line with the Employment Secretary - is that the price of buying peace immediately is too high; there are risks in prolonging the battle, but we should not give up hope of finding a moment when a settlement can be obtained without the damaging concession now on 1982.



(J.G.LITTLER)

27 MARCH, 1981

161 Page
in Review

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
 Financial Secretary
 Minister of State (L)
 Minister of State (C)
 Sir Douglas Wass
 Sir Anthony Rawlinson
 Mr T Burns
 Mr Ryrie
 Mr Middleton
 Mr Monck
 Miss Brown
 Mr Unwin
 Mr Buckley —
 Mr Collinson
 Mr Pirie
 Mr T Bull

DAILY REPORT ON THE EFFECT OF THE STRIKE

1. Inland Revenue banked almost £100 million more than forecast yesterday. This would suggest a considerable improvement to the estimate of the strike effect of £700 million, but early figures suggest we may slip back a little today.
2. Customs and Excise banked about £50 million less than forecast yesterday. This would suggest some increase in the estimate of the strike effect of £200 million.
3. The CGBR is still, cumulatively, some £500 million above forecast.

G M Noble

G M NOBLE

27 March 1981

2/2

SECRET

M Ryan
IP

162
[Signature]

11

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (L)
PS/Minister of State (C)
Sir D Wass
Mr Ryrie
Mr Burns
Mr Middleton
Mr Dixon
Mr Collinson
Mr Pirie
Mr Turnbull
Miss Noble

PS/IR
PS/Customs

THE CIVIL SERVICE DISPUTE

I suggest you send No 10 the attached notes prepared by Miss Noble before and after the Chief Secretary's answer to the Private Notice question this afternoon. Your covering letter might be on the following lines:

"As you know, the Chief Secretary answered a Private Notice question today. I attach briefing material based on what he said or on the information provided for him. If any further information comes through tomorrow morning, we will let you have it in time for the Prime Minister's questions.

2. There is likely to be some news about the reaction to the process of starting TRD procedures in the Inland Revenue. In Customs information needed for collecting next month's duties is not being provided and about 25 computer staff have received warnings. About half of these are now on strike. It remains to be seen how widespread or how long any reaction to all this will be.

3. If the Civil Service dispute continues, it could add to the money supply figure for banking April, ending on 15 April which will be announced on 6 May. But the money supply figures for banking March, which ended on 18 March, are expected to be satisfactorily low - about $\frac{1}{4}\%$. These will be announced on 7 April.

1792/3

S E C R E T

- 2 -

163

112

4. Although we have no firm information on the clearing banks industrial dispute, it seems possible that the result of the CBU ballot which will be known by Wednesday may be acceptance of the employers 10% offer. If that happened, it would clearly tend to weaken the BIFU position. But of course we cannot count on that yet."

2. Miss Noble is not preparing the daily and weekly reports due today as the attached notes include the material that would be in them. She will resume the daily report tomorrow.

S. Wilkes
P.F. N MONCK
30 March 1981

Line to take on the Financial Effect of the Strike

About three-quarters of the normal tax revenues are currently being received by the Exchequer. There is no risk to overall economic management, as the money owed to the Government will eventually be paid over. At most there will be a short-term increase in the money supply which will subsequently be corrected.

The central government borrowing requirement for 1980-81 may be £ $\frac{1}{2}$ to $\frac{3}{4}$ billion higher than the estimate in the Financial Statement and Budget Report. This is the net effect of £ $\frac{3}{4}$ to 1 billion effect of the strike, offset by various other factors, quite unrelated to the civil service dispute.

The main effect of the dispute at the moment is inconvenience to the public. But there would be serious damage to the prospects for a further reduction in inflation if the Government conceded an excessive pay settlement.

SUPPLEMENTARIES ON THE FINANCIAL EFFECT OF THE DISPUTE

IS THE WHOLE OF THE £1 TO 1/2 BILLION DETERIORATION IN THE CGBR DUE TO THE STRIKE?

The amount of revenue likely to be delayed into next financial year as a result of the dispute is more like £1/2 to 1 billion. There have been some other offsetting factors, unrelated to the dispute, but the figures are still very uncertain. [If pressed, it looks as if supply expenditure may be below the estimate in the Financial Statement and Budget Report].

HOW MUCH WILL THE ADDITIONAL BORROWING COST? The interest cost of any additional temporary borrowing is not likely to be significant.

WHY WERE NO FIGURES GIVEN LAST WEEK? The bulk of the PAYE receipts due in March were not payable until Thursday 19th. It was not sensible to give any figures until we knew how much of that money had been received.

WHAT WILL THE EFFECT BE ON THE MONEY SUPPLY; WILL IT JEAPARDISE THE MEDIUM TERM FINANCIAL STRATEGY? At most there will be a short-term increase in the money supply which will subsequently be corrected, and will therefore not jeopardise the Medium Term Financial Strategy.

BACKGROUND NOTE

The Chief Secretary said in the House today that the CGBR for 1980-81 would be between £ $\frac{1}{2}$ to £ $\frac{3}{4}$ billion higher than the forecast made at the time of the Budget. The detailed figures underlying that statement are:-

Strike effect:	£ million
Inland Revenue including national insurance	650
Customs and Excise	250-300
	<hr style="width: 100%;"/>
	900-950
	<hr style="width: 100%;"/>
Total deterioration in CGBR compared with the FSBR estimate of £12,760 million	500-750

Inland Revenue and Customs and Excise estimate that about three quarters of the normal tax revenues are currently being received by the Exchequer. In the Financial Statement and Budget Report, total Inland Revenue receipts (including national insurance) were put at £51,370 million for 1980-81, £5,097 million for March. Total Customs and Excise receipts were put at £22,137 million for 1980-81, £1,624 million for March.

The deterioration in the CGBR is less than the total strike effect because of offsetting factors quite unrelated to the strike. Preliminary figures suggest that, among other things, supply expenditure maybe £300 to 400 million below the amount suggested in the Financial Statement and Budget Report. The figures are still, however, very uncertain.

167
465/81

1. MR RYRIE

W.R. 30/3

2. CHANCELLOR OF THE EXCHEQUER

cc Mr Middleton
Mr Littler
Mr Dixon (O/R)
Mr F E R Butler
Mr Bridgeman
Mr P RaynerCopies attached for: Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Sir Douglas Lovelock - Customs and Excise
Sir Lawrence Airey - Inland RevenueCIVIL SERVICE PAY

I assume that the minute of 27 March from the Lord President to the Prime Minister will be the basis for an early discussion, involving you. This note is intended as a brief for such a meeting. There seems to be no need to write beforehand.

Background

2. The note by officials, which is attached to the minute, describes the terms which would have to be offered to the Civil Service unions to persuade them to return to work while they are in their present mood, that is, believing that they have at least as good a chance of "winning the strike" as the Government. The underlined words are crucial: the note does not recommend that the terms should be offered; and indeed, for reasons developed in the paragraphs below, we think that they should not be offered. The conclusion to be drawn from that, however, is that the mood of the unions must be changed.

3. On the footing set out above, we accept the note as a reasonable assessment although there can, of course, be no certainty that the unions would behave as it supposes.

1981 settlement

4. We see no great difficulty in going to 7 $\frac{1}{2}$ % provided that this leads to no increase in cash limits overall. An increase beyond 7 $\frac{1}{2}$ % would be a different matter: not only would it seriously increase the risk of breaching cash limits, but it might also stir up trouble with the other public services (eg local authority manuals, school teachers, and university teachers, all of

whom have settled on the basis of 7½% or less). However, a token increase in the money offered is probably the least of the unions' concerns. It will serve only to secure acceptance of an offer judged mainly by reference to the other matters in the note. By the same token, it should not be considered until it has become clear that it is both necessary and sufficient to secure acceptance.

The longer term

5. There is no great difficulty here. Ideally, one would want to take the Government's own thinking further before offering the enquiry tentatively suggested in paragraph 9 of the note: the composition and terms of reference of such an enquiry could well be influenced by what Ministers regarded as the long-term aims of a new system.

1982 settlement

6. This is likely to be the most important point for the unions. It is also the most difficult for the Government. We see no grounds on which Ministers could at this stage offer a guarantee of access to arbitration in 1982. First, arbitration has been refused in 1981 because of the difficult financial climate; there is no reason for saying now that matters will be easier in 12 months time. Secondly, there is no certainty that new long-term arrangements will be in place by 1982: in fact, it is unlikely that they will be. So arbitration would have to be conducted as a final stage in what was effectively free collective bargaining (see paragraph 12 of the note). The outcome would be almost completely unpredictable, and could well be impossible to square with cash limits for 1982-83. Finally, the difficulties would be greatly multiplied since it would be impossible to deny a similar promise of arbitration to other public services.

7. The alternative suggested in the note is some form of indexation as a stop-gap while an outside enquiry conducted its deliberations. This would offer a better prospect of holding off similar demands for other services, for whom there is no intention of offering an enquiry. But powerful objections remain.

- (a) It might not, in the event, prove possible to hold off other public services (eg the nurses - the Government has already expressed an intention

of reviewing the arrangements for determining their pay).

(b) Indexation is contrary to the Government's general philosophy. That it exists for the police and the armed forces can be defended as an instance of the special position of those two services; to extend it to the Civil Service, even as an interim measure, would make the line harder to hold.

(c) It is less likely than an offer of arbitration to persuade the unions to return to work, since it allows no chance of "catching up". It would be embarrassing to make the offer, and find that it did not do the trick.

Conclusion

8. Our advice is that the note makes the best assessment possible of the price that must be paid to win the unions over in their present mood, but that the price is too high to pay. The mood must therefore be changed, by prosecuting the dispute in a way which will be sufficient to persuade the unions that the Government will win and that they should therefore look for a face-saving way out. Of the options identified for the 1982 settlement, the most difficult point, the less objectionable is the offer of indexation coupled with an outside enquiry; but we would still advise against that, for the reasons mentioned in the preceding paragraph.

M. S. B.

M S BUCKLEY

30 March 1981

CHANCELLOR OF THE EXCHEQUER

cc Sir Douglas Wass
Sir Anthony Rawlinson
Mr Littler
Mr Dixon
Mr Buckley

CIVIL SERVICE INDUSTRIAL ACTIONS: POSSIBLE FORMULA

I agree entirely with the comments made by Mr Littler in submitting to you the joint report of the Group in which he and Mr Buckley were involved.

2. It seems to me that the suggested elements in a formula which affect the 1981 settlement could all be accepted - a 7½% settlement within the 6% cash limit, the formula agreed with the Prime Minister on 3rd March, and an offer of a high-powered independent enquiry for the future. On this latter point, since it is increasingly clear that it will be difficult to agree arrangements for the future with the unions, I think there could be positive advantage in an independent enquiry. We should be able to influence it with our arguments but we would not, of course, be committed in advance to accepting its conclusions. And if there is advantage in this, why not use it to help get the present dispute settled?

3. But the elements in the formula which concern 1982 are not acceptable - arbitration or indexation. It is very difficult to think of other proposals affecting 1982 which might help to buy the unions off, but we shall go on thinking. Meanwhile, it is the unacceptability of these proposals which convinces me that the Government should not be rushed into any attempt to settle this dispute, but should play it fairly long.

W.S.R.

W S RYRIE

30th March 1981

1. MR BUCKLEY ^{MS}
2. CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir Douglas Wass
 Sir Anthony Rawlinson
 Mr Ryrie
 Mr Littler
 Mr Middleton
 Mr Bridgeman
 Mr F E R Butler
 Mr Dixon
 Sir D Lovelock - C & E
 Sir L Airey - I R

?LEWIS
 ASH

CIVIL SERVICE PAY

1. I understand that the meeting to discuss the Lord President's minute of 27 March is now fixed for Thursday morning.
2. This morning I attended the CSD Steering Committee on Industrial Action. A number of points are worth recording:
 - i) industrial action in MoD is becoming more effective and serious
 - ii) the use of TRD in Inland Revenue has produced a more severe reaction than was anticipated
 - iii) some departments expressed concern about the damage being done to staff relations, and thus potentially to the ability to manage once the dispute ends
 - iv) some departments also feared that the dispute dragging on would mean staff who have so far stayed at work becoming disillusioned with Government handling of the industrial action (the apparent lack of any concern or activity): in particular this might mean that staff who have so far volunteered to take part in mitigating the consequences of industrial action might become increasingly reluctant to help
 - v) it was suggested that even those who have stayed at work, and who would have been prepared to accept a 7% increase at the outset, are now expecting a higher percentage increase.

3. Inevitably much of the above is speculative, and much predictable. But it does suggest that an assessment of the situation is very relevant to any decisions on the next steps in the dispute which may be taken on Thursday. We think it would be worth asking the Lord President to circulate a short note in advance to those attending Thursday's meeting.
4. If you agree, in view of the timescale, it would probably be best for your office to request this by telephone.



P M RAYNER

31 March 1981

SECRET



29/3/81
SAIL

173

PRINCIPAL PRIVATE SECRETARY

CC PS/Chief Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir D Wass
Sir A Rawlinson
Mr Ryrie
Mr Middleton
Mr P V Dixon
Mr F E R Butler
Mr Bridgeman
Mr Buckley
Mr P Rayner

PS/Customs and Excise

PS/Inland Revenue

CIVIL SERVICE PAY

The Financial Secretary has seen the paper circulated under Lord Soames' letter of 27 March.

He is wholly opposed to suggestions (a) and (c) in paragraph 19. The latter, in particular, he considers totally contrary to the direction to which the Government has rightly decided to move elsewhere in the public sector - to the point, indeed, of legislation to remove arbitration rights.

SAIL

S A J LOCKE

31 March 1981

531821293
T404 RET 135673479-000027 RT ID: TY
L-BV-0B-0-54-0024-1-02-05
KP:TCZ00033362-00028 CUST:CI 47
F1 033362 NRM
e Desc 2: PO-CH/GH/0161 PART B 1 Srv: 15/03 12:30pm GMT For: RQBY*
IRENE RIPLEY
R  HALF

T
531821293

PLUS BOX NUMBER
CUSTOMER ID
E T 4 0 4