Public Sector Pay Policy.
Treasury Monitoring Reports.

PART 3.

ECONOMIC POLICY

Part 1 : July 1979
Part 3 : October 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
5.11.80							
~~10.11.80~~							
~~17.11.80~~							
~~20.11.80~~							
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~~4-12-80~~							
~~16-12-80~~							
~~17.12.80~~							
~~14.1.81.~~							

PREM 19/442

PART 3 ends:-

J. Vereker to PM of 11/3/87

PART 4 begins:-

E (PSP) (81) 9 of 16/3/87.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(80) 131	13/11/80
E(80) 43rd Meeting, Item 1	04/12/80
E(PSP)(80) 2	12/12/80
E(PSP)(80) 3	16/12/80
E(81) 6	12/01/81
E(81) 1st Meeting	14/01/81
PSP(0)(81) 7	27/01/81
E(81) 12	29/01/81
E(PSP)(81) 3	29/01/81
E(PSP)(81) 5	30/01/81
E(81) 18	10/02/81
LIMITED CIRCULATION ANNEXE	
E(81) 6th Meeting, Minutes, Item 1	12/02/81
PSP(0)(81) 8	16/02/81
E(PSP)(81) 7	19/02/81
PSP(0)(81) 9	09/03/81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed SHWayland Date 31 March 2011

PREM Records Team

CONFIDENTIAL

cc Mr. Wolfson
Mr. Lankester
Mr. Duguid

Mr Vereker

PRIME MINISTER

MO

Top Copy returned to J.V. Econ Pol

Public Sector Pay

Events are moving quite briskly on a number of public sector pay issues, and I think you ought to have this brief run down in advance of the reports you will receive in the normal way.

Civil Servants

As I mentioned to you last night, there are no indications of any weakening in the Civil Service Unions' position on the two elements of their claim: this year's pay, and the formula for following years. Nor is there yet any readiness on our side to concede either on the cash limit, or on the most controversial of the elements in the new formula, which will be the unions' insistence on unilateral access to arbitration. The scene is therefore set for a prolonged period of selective industrial action, and the only way out we can at present see is that such action will prove to be ineffective, and will eventually peter out. I have suggested that the Lord President should report to you his assessment before the weekend, and I understand that he may make a verbal report in Cabinet tomorrow.

If the industrial action turns out to be unbearably damaging to the economy, or very disruptive to individuals (i.e. closing Heathrow over the Easter holiday) we shall of course have to look for a way out. The Official Group which is working on the elements for the new formula realises that it may suddenly be asked to accelerate its work so that it produces a report in a matter of days rather than at the end of April as at present planned. But in order to produce something acceptable to the unions we would have to plant a time bomb for next year's settlement which would be very expensive; I would argue that, if it becomes necessary, it would be preferable to raise this year's cash limit and make sure we get the future formula right. No. No No.

[We are fixing a meeting for Friday to cover the above. TL]

NHS Ancillaries

As you know, negotiations with the NHS ancillaries are moving towards a possible 15½ month settlement which could be accommodated

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within the 6% cash limit. The Lord President has already raised with Mr. Jenkin the possibility of accelerating this helpful outcome, which would leave the Civil Servants completely isolated in their opposition to a public service cash limit, but I understand Mr. Jenkin has convinced him that any such pressure would be counter-productive in the NHS negotiations.

NHS Electricians

These are a very awkward group with a well-established link to the pay of the electrical contracting industry, which implies a 21% increase. They are threatening industrial action, which would cripple the hospital service, and some unofficial action has already taken place. The Official Group has therefore asked the DHSS to advise Mr. Jenkin to write to his colleagues explaining how he proposes to handle these negotiations.

Nurses

Mr. Jenkin has agreed to put a paper to the Ministerial Group about how he proposes to deal with nurses pay, given that they represent 42% of the NHS pay bill, and have claimed over 25%.

Gas and Electricity

The unions in both these industries have rejected offers of around 11%, and are clearly aiming for the 12-13% range achieved by the miners and the water workers. But there is no immediate threat of industrial action, and negotiations will probably not come to a head until next month.

Water Workers

Mr. Heseltine will not be in a position to make a judgement on the way voting has gone on the employers' 12.3% offer until early next week. Preliminary indications are discouraging, but publicly at least the unions are saying that it will come out all right in the end. They have also pointed out that even if the vote is unfavourable, there would have to be yet another round of consultation before industrial action was authorised. So apart from spasmodic unofficial action, things should be quiet on this front for another fortnight or so.

J.M.M. Vereker

11 March 1981

CONFIDENTIAL

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

11 March 1981

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

Dear Willie

POLICE INDEX-LINKING

I am not sure whether you will have seen a copy of E(PSP)(81)7, which is the latest monitoring report by officials on public service pay. You will see from the covering note to this paper that the local authority employers have formally announced their decision to withdraw from the 1978 agreement which index-links firemen's pay. This decision could well lead to speculation about future index-linking of police pay, and I think it would be sensible for us to give some thought to this question in good time before the FBU conference in May brings the issue live again.

I know that you too have been brooding about this and wonder if you have yet found a view on how it might best be handled?

I am sending copies of this letter to the Prime Minister.

GEOFFREY HOWE

Prime Minister

The section on water workers has of course been overtaken. I also attach at Flag the latest report on public services

TL

26/2

cc Mr Vereker

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

PRIME MINISTER

MONITORING REPORT - PUBLIC TRADING SECTOR

I attach the latest report prepared by officials.

2. The issues arising continue to centre on the water/gas/ electricity nexus, and particularly on water and gas, since the electricity negotiations have not yet reached a critical stage. I have already stressed the need for these negotiations to be seen together, and the water negotiations are already the subject of active Ministerial consideration. The only comment I would make is that there does seem to have been a tendency in both water and gas negotiations for the offers to be forced upwards without achieving tangible results in the form of union recommendations to accept. This places a heavy onus on the negotiators to choose their next moves with the greatest of care, and makes it all the more important that we (and those negotiating in the other industries) should be as informed as possible in advance of any projected further moves.

3. I am sending copies of this minute and the report to the Paymaster General, the Secretaries of State for Employment, Energy, Environment, Industry, Scotland, Trade and Transport, to Mr. Ibbs and to Sir Robert Armstrong.

(G.H.)
24 February 1981

PUBLIC TRADING SECTOR

WATER SERVICE

(i) Manuals (33,000)
Settlement date: 7 December 1980
Unions: GMWU, TGWU, NUPE, NUAAW

The claim seeks a £20 a week increase, consolidation of the efficiency supplement, shorter working week, longer holidays and other improvements and is estimated to be worth 30%. The employers initially offered:

- increases in basic rates, not extending to overtime or bonus
- increases shift, standby and callout allowances
- 1 day's extra holiday.

The opening offer added 9.9% to basic rates, but the increase in earnings was smaller giving an overall increase in the annual paybill of 7.9%. The offer was rejected and was not increased at the next joint meeting on 6 January. The unions, having consulted their membership on a recommendation for industrial action which received universal support, arranged to meet on 3 February to agree to joint action. The employers' side made approaches to the unions to forestall their projected meeting, and after informal talks a meeting of the NJIC took place on 3 February when an improved offer was tabled.

The new offer raised the proposed increase in earnings to 10%. This increase was produced by raising the offer on rates from 9.9% to 10% and by meeting a union demand that the increase should flow through to bonuses. A second union demand to consolidate a £5 efficiency supplement, costing a further 2.3% as a result of flow through into premium payments etc, was refused. The unions had indicated they would be prepared to recommend a settlement on that latter basis.

The union negotiators rejected the revised offer and are now consulting their members, in practice by seeking branch and regional level endorsement of the rejection and confirmation of the mandate for industrial action. On the basis of the first reported votes in the Northern, South West and South Wales regions, unofficial industrial action in the Northern Region, and an NWC survey of reactions at branch level, the indications are that the union negotiators' position will be strongly supported. The results are expected to be known by 24 February when the unions are to meet. The employers are due to meet on 25 February. Within the industry, regional water authority chairmen will be doing what they can to influence the views of their workers, taking account of local attitudes which are said to differ widely.

(ii) Craftsmen (4,900)
Settlement date: 7 December 1980
Unions: CSEU, Union side of NJC for the building industry

The craftsmen have rejected the opening offer of 9.9% on rates, which in their case would have given a 7.7% increase in earnings. On 13 February the unions rejected an improved offer in line with that already made to the manuals (10%). However they agreed to report the offer to their Executive. Negotiations have not been broken off, but neither has any date been set for a resumption. As with the manuals, the main outstanding union demand is consolidation of the £5 efficiency supplement. Unions made no comment on their position in the event of industrial action by the manuals. However the possibility of combined action cannot be excluded.

GAS SUPPLY - Manuals (41,000)
Settlement date: 18 January
Unions GMWU, TGWU

The claim, which the unions say is worth 23%, seeks increases of 15½% in line with inflation and consolidation of bonuses at a sum equivalent to one-third of basic pay, this sum to be paid to <u>all</u> workers. (present bonuses range from Nil to 50%.) Other improvements sought are: reduction of working week to 37 hours, increased holidays and increased holiday pay, maternity leave, phased reductions in hours prior to retirement.

BGC responded on 7 January with an offer worth about 8% on the pay bill in the 12 months starting 18 January, which becomes about 9% in the 12 months starting 2 August 1981, from which date the working week would be reduced to 38¾ hours. this offer was rejected.

When the NJIC met on 30 January the Corporation tabled a revised offer which would add about 9% to the wages bill in the year of settlement, or 10.3% taking in the value in a full year of the reduction in hours. In the press, the offer is being described as 9.9%. The unions called the offer "disappointing", and the negotiations were adjourned so they could report back to their members, no date being fixed for the next meeting.

ELECTRICITY SUPPLY

(i) Manuals (92,000)
Settlement date: 20 March
Unions: EETPU, GMWU, AUEW, TGWU

The Electricity Council has received a claim for:

(i) a substantial increase in schedule salaries

(ii) a reduction in working hours to 35 a week

(iii) unsocial hours payments to be based on the hourly rate derived from the schedule salary

(iv) introduction of voluntary early retirement at age 60.

The Electricity Council is letting water and gas make the running and is in touch with both industries. The Council made no specific offers at the NJIC meeting on 5 February on any of the elements of the claim and said they would need to examine more closely features such as a reduction in hours and flexibility on shift pay. Detailed negotiations have been referred to a small joint group, as in the two previous years. The Council is expected to make a formal offer at the NJIC on 5 March.

(ii) Power Engineers and Technicians (28,000)
Settlement date: 1 February
Union: EPEA

The power engineers are likely, as last year, to await the industrial settlement before making their own claim. They have had their first meeting for general discussion but are unlikely to make any progress before the next meeting on 17 March.

BRITISH AIRWAYS (50,000)
Settlement date: 1 January (1 April for pilots)
Unions: TGWU, AUEW, EETPU, ACTSS, AUEW (S & T), APEX, ASTMS, GMWU FTATU, UCATT, BALPA

The Board initially offered 7½% from 1 July 1981, with no increase from 1 January, and later improved the offer to 8% from 1 April. The offer has been put to the separate National Sectional Panels. It has been rejected by the engineering, maintenance and ground support groups, who have already staged a 1-day strike on 23 January and are now planning a series of 1-day strikes beginning on 20 February. The offer has also been rejected by the clerical and administrative groups, but they are not so far threatening industrial action.

The T & GWU made an approach to ACAS on the grounds that BA was breaking agreements by freezing certain payments - eg shift allowances - which were subject to indexation. ACAS saw representatives of both sides separately, but without success. The parties subsequently agreed to revert to their normal negotiating procedures. Further talks between management and unions were held on 17 February in the form of the National Joint Council for Civil Air Transport.

The Board is maintaining its stand on the overall amount available, but has offered changes in the composition of the package, including full uprating of shift and London Weighting allowances compensated by a longer initial pay freeze.

BRITISH STEEL CORPORATION (140,000)

Settlement date: 1 January
Unions: BSC-ISTC, BSC-NCCC, NUB, GMWU, TGWU, MATSA, ACTS, ASTMS, APEX, SIMA

The Corporation presented the unions with a "survival plan" which envisages upwards of 20,000 redundancies, and has proposed pay increases of 7% from 1 July 1981, with no increase from 1 January.

The craft and general unions and SIMA, the managers' association, have now accepted the whole deal. ISTC, however, rejected the pay proposals and national agreement on the survival plan, although they are prepared to have local negotiations on redundancies in particular plants.

BSC and the ISTC again failed to reach agreement when they met on 10 February. The talks were adjourned and no date was fixed for their resumption.

BRITISH SHIPBUILDERS (Staff and Manuals 72,700)

Settlement date: 1 April
Unions: CSEU, SAIMA

BS have received a claim in very general terms which mentions no specific figures. The claim includes:

For Manuals

- a substantial increase in rates
- improvements in overtime rates, hiliday pay, sich pay and other rates and allowances

For Staff

- a substantial increase in rates
- implementation of an equitable payments structure

General

- a reduced working week
- a phased reduction in hours for those being made redundant
- increased holidays

At the joint meeting on 9 February the claim was formally presented, the employers making no response. There will be a further meeting on 2 March.

NATIONAL FREIGHT CO

(i) Operating grades (23,000)

Settlement date: 1 January 1981

Unions: TGWU, URTU, NUR

In advance of a claim NFC offered to increase basic rates by 4% - to give top category drivers £80 per 40-hour week. Union delegates ignored the offer and, on 23 January, submitted a claim costed at over 20%. Management responded with a revised offer to increase top category drivers' rates to £81 per 40-hour week (5.2%) and other operating grades by 5%, which union negotiators agreed to recommend to a delegate conference to be held during w/c Monday 16 February.

The offer is in line with the majority of the RHA area settlements. The effect on average earnings is not known.

NATIONAL BUS CO

(i) Platform and non-craft maintenance staff (39,000)
Settlement date: 1 March 1981
Unions: TGWU, NUR, GMWU, AUEW(E)

A claim for "substantial" pay increases and other improvements was submitted at the end of November and discussed at a meeting of the National Council for the Omnibus Industry (NCOI) on 7 January. An employers' offer of 5% increase on rates was discussed at subsequent NCOI meetings on 3, 6 and 9 February. At the last meeting an improved offer of 7.5% increase on rates was accepted. The increase in average earnings is expected to be the same. The agreement does not include any commitment to reduce the working week, which will now become the subject of a joint management/union study group. But NBC does not expect to reduce hours before 1 March 1982 and its target is to do so at nil cost.

(ii) Clerical, administrative, supervisory, catering and miscellaneour staff (12,000)

Settlement date: 1 March 1981

Unions: NALGO, ACTSS, NUR, TGWU, AUEW

The unions submitted the claim (details not available) at an NJC meeting on 19 January. The employers responded with an offer to increase rates by 5%. The effect on average earnings is not known.

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File LPO/DS

Top copy: Econ Pol, Public expenditure Pt 13

Econ Pol

bc Wolfson
Vereker
Hoskyns.

10 DOWNING STREET

From the Private Secretary

17 February 1981

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

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In view of the reports in last Friday's press, it was necessary for the management sides 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.

T.P. LANKESTER

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

CONFIDENTIAL Prime Minister

cc Mr Hoskyns
Mr Vereker
Mr Wolfson

I am sure this advice on handling is right. (On the substance, I believe it will be very hard for the Chancellor to accept a 7% pay factor - given the appalling PSBR prospect. 7 and 10% would only be cheaper than 6 and 11% if we assume no revision in mid-year of the defence cash limit. A 10% price factor would make such a revision all the more likely)
TL.

Ref. A04246

MR WHITMORE

I gather that in the discussion of public service pay tomorrow the Secretary of State for Social Services and the Lord President will seek authority to raise their pay offers from 6 to 7 per cent, and will ask that their cash limits should be raised accordingly.

See letters attached

2. It appears that the Chancellor of the Exchequer is at present minded to argue strongly in favour of sticking to the agreed cash limit factors of 6 per cent for pay and 11 per cent for prices; but that, if the sense of the meeting goes against him on the pay factor, he will say that he must reopen the price factor.

3. He is clearly right to try to stick to the agreed factors of 6 per cent and 11 per cent. I fear, however, that, if he threatens to reopen the price factor at tomorrow's meeting, we shall (in the light of the history) have a very bad discussion. I wonder whether the Prime Minister might suggest to him that, if he cannot hold the Committee to the 6 per cent and 11 per cent, he should say no more than that if the Committee decides to go for a 7 per cent pay factor for the Civil Service and NHS cash limits he will have to consider the consequences and come back to his colleagues in a week's time with further proposals without specifying what those might be. That would at least give time for some more considered discussion of the consequences, and would slightly improve the prospects of avoiding another round of disorganised discussion.

Top Copy:
Econ Policy: Public Expenditure
PE13
also copied to
Civil Service Pay

RA

ROBERT ARMSTRONG

11 February 1981

* The arithmetic is as follows -
1% on pay for NHS and civil service = £120m
1% on non-pay = £170m (of which £65m is accounted for by defence).
TL.

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RC

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a Mr Vosher
Mr Horgan
Mr Walters

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Top Copy
Econ Pol,
- Public Expenditure
Pt 13

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
LONDON SW1

10 February 1981

Dear Geoffrey,

THE NHS CASH LIMIT

Following rejection of the 6 per cent offers made to NHS ancillary staff and ambulancemen I saw representatives of the unions and management yesterday. The purpose of this letter is to give my assessment of the situation and to outline proposals for handling NHS pay which I hope we can discuss in E Committee on Thursday.

Negotiating prospects

I see no prospect of peaceful settlements at 6 per cent, which amounts to an increase of £3.65 per week on basic rates for the ancillary staff. They are looking for an increase of £4.60 per week as negotiated for local government manual workers. Many of the staff in the two groups perform similar duties and a long established pay link has been upheld by several independent enquiries, most recently by Clegg. The ambulancemen see themselves as part of the "emergency services" and want similar pay increases to the police and firemen. This was rejected by Clegg and must be rejected now. There is little prospect of getting them to settle below the 7½ per cent settlement in local government since they formed part of this negotiating group until 1974 and their memories are still fresh. We shall have to accept a prolonged period of industrial action from both groups if we keep offers to 6 per cent.

This might be the right course if we were dealing only with these two groups. But nursing, works and maintenance and laboratory staffs will also resent being held to 6 per cent and we must expect demonstrations in protest and industrial action. The health services unions are likely to unite and fairly widespread disruption of the NHS seems likely. It seems doubtful whether the Government would have public support in holding the nurses down to a lower level of pay increase than was given to the BL workers and dustmen. Moreover, the restructuring of the NHS would be at risk. The timetable is already tight and requires the cooperation of unions (to negotiate more flexible grading agreements) and a good deal of work by management. It is to be expected that the unions would not and management could not keep to the timetable if there is major industrial unrest.

The prospects of settlements for most NHS staff at 7½ per cent are good. I believe the lowest level at which there is any prospect of securing settlements in the NHS is 7 per cent. This would give the ancillary staff £4.25 on basic rates compared with £4.60 in local government. There would still be difficulties with some groups eg electricians and ambulancemen, but these would be manageable if we have not alienated the rest.

Change of settlement date

The Management Side of the Ancillary Staffs Council wishes to change their settlement date from December to April and are looking for a 15 months settlement. In order to avoid disturbing differentials with other groups, notably the nurses, they propose that basic pay should be increased by the amount of the NHS pay factor, from December 1980 and that staff should be given a lump sum in the order of £50 - £75 in compensation for the deferment of the next settlement until April 1982. The lump sum would not exceed the value of a 6 per cent increase from December 1981 to April 1982.

It is by no means certain that this idea will be acceptable to the trade unions but it would be helpful to align the settlement dates with the financial year, as in the case of the University Teachers, and I would like to give the Management Side leave to proceed. The base level for 1982/83 cash limit would not need to be increased by more than the pay factor for 1981/2.

Funding

Pay increases of 7 per cent cannot be funded within a 6 per cent pay factor without imposing a volume squeeze of £60m. Following our hard decisions on public expenditure we are pledged to maintain the volume of services and this will be recorded in the White Paper that is to be published shortly. Accordingly pay increases of 7 per cent require a pay factor of 7 per cent.

Announcement of the cash limit

The negotiators are awaiting Government's announcement of the cash limit in order to have a firm framework for the negotiations.

Summary

In my view:-

a. a 6 per cent pay factor implies 6 per cent pay increases for NHS staff. These cannot be secured without considerable unrest and disruption to services and - mainly because of the nursing staff - public sympathy for Government is unlikely;

b. there is a worthwhile prospect of settlements at 7 per cent which implies a 7 per cent pay factor in the NHS cash limit for 1981/82;

c. for administrative reasons there would be advantage if the settlement dates for ancillary staff (and for ambulance and maintenance staff) were deferred until 1 April 1982. Suggested terms as outlined in paragraphs 5 and 6;

d. it is now necessary to take a final decision on the pay factor and to convey this to the negotiators.

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

Yours ever

Patrick

CC. J. VERERER

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Mr Hoskyns
Mr Wolfson

LORD PRESIDENT OF THE COUNCIL

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

Top copy: Econ Policy
Public Expenditure
also copied to Civil
11 February 1981 Service
Pay

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 qualititative 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

SOAMES

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Top Copy:
Econ Policy: Pt 13,
Public Expenditure
also copied
to Civil
Service Pay

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

PRIME MINISTER

PAY AND CASH LIMITS

You will have seen the letters to me from the Secretary of State for Social Services and the Lord President of 10 and 11 February 1981. I agree that, if the timetable of the negotiations requires this, we should discuss this at E Committee tomorrow. It might help the discussion if I set out my views for you and our colleagues before then.

2. It is essential that we should draw a clear distinction between the discussion of the pay settlement and the discussion of the cash limits factor. We did not intend the 6 per cent factor to be a pay norm. It is the basis for calculating the cash limits, which determine the finance available for each service. We have made it clear throughout publicly that particular settlements will diverge from that factor.

The pay negotiations

(a) National Health Service

3. I accept that it may well be necessary to settle at over 6 per cent for the NHS ancillary staff. I think that the negotiators should be instructed to do everything possible to secure 7 per cent rather then 7½ per cent.

4. I would see no difficulty with the move of the settlement date, subject to the conditions which Patrick Jenkin proposes. The first is that the lump sum should be subject to the limit he suggests. The second is that the base level for 1982-83 cash limit should not be increased by more than the pay factor for 1981-82. Payments during the current year would of course have to be contained within the existing cash limit.

5. But I am not convinced by the arguments that there has to be the same level of settlements throughout the NHS. The ancillaries had a smaller increase in the last round than other groups, so it would not be inconsistent for them to be paid more in this one. Moreover, most of the arguments in the letter seem to be based on comparability in this round. They ignore both the extent to which public sector groups have done relatively better in recent years, and the need to limit settlements to what we can finance.

(b) Civil Service

6. I think we must take a robust line on civil service pay. It would do great damage both economically and politically if we were seen to retreat in this area. The civil service has enjoyed increases in pay rates over the last two years of nearly 50 per cent and, despite our reduction in manpower, is enjoying job security at a time when unemployment is rising sharply in the private sector. There is little public sympathy for civil servants and I believe the unions and their members realise this and are influenced by it.

7. I see no reason why a settlement higher than 6 per cent for the NHS ancillaries requires an increase higher than 6 per cent for the Civil Service.

Cash limits

8. Even if the pay settlements have to be higher than 6 per cent, that does not in itself require a higher factor for pay in setting cash limits. There are powerful reasons to sustain our previous decision of 6 per cent.

9. A change of 1 per cent in the pay factor would cost £120 million for the NHS and Civil Service. We cannot afford additional expenditure next year on that scale, especially after what has happened since November to increase the intended volume for next year.

10. To announce an increase in the pay factor alone would be seen as a major climb-down by the Government. It would rightly draw considerable criticism from our supporters and from private sector employers. It is widely assumed that "broadly the same financial discipline" means 6 per cent. Nothing has happened since we fixed that factor for the RSG which should lead us to a change of view. It will be clear that we have ourselves based the Estimates on that assumption. If the pay factor alone were changed we would either have to delay publication of the Estimates, explaining why, or publish them as they stand and take a whole series of Supplementaries.

11. An announcement now would undermine the position which the Secretary of State for Education has taken in the negotiations on university teachers' pay. We should not prejudice achieving that settlement. The change would lead to pressures to re-open cash limits already announced, for the Universities and for the RSG: we cannot contemplate that.

12. Nor should sticking to the 6 per cent factor lead to an unacceptable squeeze on programmes. The prospect for inflation in the coming year is now somewhat better than I expected when I proposed, and Cabinet agreed, the price factors of 11 per cent. This may give some room for manoeuvre in those cases where the cash limits include both pay and price elements, since the cash limit will overprovide for the latter. In the case of the NHS, improvement by, say, 1 per cent in actual prices is worth £30 million, compared with the cost of an additional 1 per cent on pay of £70 million (for the United Kingdom as a whole). The net effect is that the volume is likely to be ⅓ per cent lower than we had in mind in November when the factors were first discussed. If inflation were somewhat less than 10 per cent - which is quite possible - there would be no squeeze at all. I recognise the Secretary of State's concern to maintain the volume of health spending, but in present circumstances running the risk of a marginal reduction would seem justifiable.

13. Even that risk only arises on the assumption that all NHS staff would receive the higher pay settlements. I have argued above that it would be defensible to give the ancillaries more than others. Since an additional 1 per cent of the ancillaries' pay bill would cost about £12 million, it is clear that it could be afforded within the margin created by the improvement in the prospect for prices.

14. There is less room for manoeuvre between the pay element and the price element on the majority of Votes and cash limits which include Civil Service pay. In those cases holding to the present 6 per cent factor while agreeing a higher settlement would involve a greater reduction in numbers than already planned. But it would be difficult, surely, to defend an increase in the pay factor of 7 per cent on the grounds that 6 per cent would involve an intolerable extra reduction in Civil Service manpower. If colleagues consider that such a reduction is intolerable, then we must go for a lower settlement.

Conclusion

15. I therefore feel very strongly that the right course now is to retain the 6 per cent factor and to accept that any settlements of a higher percentage rate should be financed by the advantage to be gained from retaining the 11 per cent price factor, and from economies within the cash limits concerned. If despite the arguments I have set out colleagues were to consider that we had to increase the pay factors, I would have to propose the reduction of the price factor to 10 per cent for the reasons which we discussed earlier, not least the need to offset the increased cost of £120 million. The effect of the two changes would mainly be a switch between different cash limits with a slight net increase in public expenditure (some £15 million). The effect on the NHS cash limits would be to icrease gross expenditure by just over

$\frac{1}{3}$ per cent. It hardly seems worth the opprobrium and other disadvantages in changing the factors to achieve such a marginal effect.

16. I am copying this minute to members of E Committee and Sir Robert Armstrong.

PP (G.H.)

11 February 1981

APPROVED BY THE CHANCELLOR OF THE EXCHEQUER AND SIGNED IN HIS ABSENCE

Ref: A04251

CONFIDENTIAL

PRIME MINISTER

Future Arrangements for Pay in the Public Services
(E(81) 12, 16 and 18)

BACKGROUND

When the Committee discussed public service pay in October last (E(80) 37th Meeting, Item 4) the Chancellor was asked to arrange for an interdepartmental group of officials to consider the options for determining pay in the Civil Service and other public services in the longer term, and to report. In the event, although the paper by Treasury officials (much too long as it is) attached to the Chancellor's memorandum (E(81) 12) has been discussed with other Departments, it is the work of the Treasury alone. Other Departments are not committed to it, though in practice I do not think there would be much dispute about the analysis in the Treasury paper: the differences would arise on the conclusions to be drawn from the analysis.

2. There are two major issues:-

(i) The role of comparability in determining pay in the public services.

(ii) How to reconcile the discipline of cash limits with the need to retain some freedom of manoeuvre in pay negotiations.

Comparability

3. In public service pay bargaining, comparability is like nature: you can expel it with a pitchfork, but in the end it always comes back. This is inevitable, because people in the public services (like everybody else) will always be looking to keep up with their particular Joneses, even if there are no formal arrangements for basing pay on "fair comparisons". But it is also logical: in the long run the public services will not be able to recruit and retain the people they need if they are not paying enough by comparison with other employers of similar people. Because mobility in large parts of the public services is sticky, the results of failure to pay enough to recruit in sufficient quality and quantity may not show up, in terms of damage to

efficiency, for quite a long time; and then it will take a long time and be very expensive to redress the balance. In these circumstances "comparability" is a kind of short-cut, short-term substitute for the disciplines of the market, to provide a rough and ready yardstick to ensure adequate recruitment.

4. The highly mechanistic system of fair comparisons based on pay research for non-industrial civil servants looked good when inflation was moving at very low rates and it was necessary to do "fair comparison" exercises only once every four or five years. Pay bargaining was then focussed on "interpretation" of the pay research evidence, and the Priestley system offered a basis for settling Civil Service pay which both was felt to be and was fair, and one which kept the subject out of politics. The defects of the system become much more obvious when inflation is moving at high levels and pay has to be adjusted every year. A highly mechanistic system can then become an instrument of circularity and even an engine of inflation.

5. So the problem is to discover a system of pay determination which:-

(a) allows pay comparisons to be taken into account but not to dominate the system or exclude other considerations;

(b) is accepted by the employees concerned as a fair basis for settling their pay, and thus

(c) takes as much of the politics as possible out of the whole business of determining public service pay.

6. The Review Body system is one way of achieving this. But that is a system for settling pay without direct bargaining between employers and employees, and as such unlikely to be acceptable to the public service unions as a system for deciding the pay of other groups of public servants than those to whom it now applies. They will want to stay in the business of negotiating pay.

Cash Limits

7. The Treasury paper concludes that cash limits should be set in advance of negotiations on a realistic basis and then held to in the bargaining process. That reflects the Chancellor of the Exchequer's view that cash limits should be used to influence and should not merely reflect pay settlements.

8. The difficulty about this is that in practice, so long as the pay factor has to be published, it very narrowly restricts the room for bargaining on pay. Once the pay factor is announced - particularly for the Civil Service, where pay and procurement are on separate votes - the pay factor introduces a considerable rigidity into pay bargaining. It becomes a ceiling for management, and a floor, or "entitlement", for unions, and thus in effect a norm, and a challenge to the unions to break it. We may get away with it, more or less, this year; but we cannot expect to do so every year. We need a system in which the cash constraint is real, and is accepted by the unions as a reality, but we do not have to define it, with the degree of precision entailed by a declared pay factor for cash limits, in advance of pay negotiations.

The Conflict in the Committee

9. The Chancellor of the Exchequer is saying, in effect, "let us have constrained bargaining: a system which allows us to take comparability (and other factors) into account but in which in the end the cash limit rules." This is easier to postulate as an aim than to achieve in practice.

10. The Lord President, in his paper (E(81) 16), voices the alternative view. He rejects the Treasury approach as unrealistic and argues instead for a "workable formal agreement" with the staff to determine pay "backed by arbitration". He now accepts that the pay research system has gathered too many barnacles to be saved by tinkering: he therefore envisages a new system, to be agreed with the staff after and in the light of a major review by a "new ad hoc body ... under an authoritative chairman with wide industrial experience". The review would consider "in the light of experience and changed conditions the extent to which the principles laid down by the Priestley Royal Commission in 1955 now need to be modified or supplemented; the data which should be collected as the basis for negotiations; and the way in which the data should be used". The Lord President believes that, apart from its other merits, the announcement of such a review would materially help him in the present pay negotiations with the non-industrial Civil Service and perhaps in next year's negotiations as well (he envisages the work of the review taking perhaps

18 months) . His paper is silent about the implications for cash limits: but he must envisage a sufficient degree of flexibility to allow for the outcomes of whatever system is agreed.

11. The CPRS note (E(81) 18) attempts to clarify the issues. Broadly speaking it backs the Lord President's judgment that "constrained bargaining" is impracticable and suggests that, if Ministers also accept this view, then the real question is how the present system should be reviewed - by a Royal Commission (on the analogy of the Priestley Commission), an ad hoc external inquiry, or an in-house study by the CSD.

12. If the object is to gain time, a Royal Commission or an external inquiry will achieve that, though possibly at the cost of recommendations which would not be very convenient for the Government. If Ministers can define the objectives with sufficient precision, there would be much to be said for an in-house study which could be kept under control.

13. In addition to considering the long term problems, Ministers are also being asked, by the Lord President and the Secretary of State for Social Services, to be allowed to raise their pay offers to the non-industrial Civil Service and the National Health Service from 6 to 7 per cent. Mr. Jenkin makes it clear that he is also asking for a corresponding adjustment in the pay factor for his cash limit. Lord Soames's letter is silent on this, but I gather that he would be content to leave his cash limit at 6 per cent and "see how we get on": hoping that by a combination of tight budgeting and underspend it will in the end be possible to live within a 6 per cent cash limit, but making it clear that it may be necessary to reopen the cash limit later in the year, if there are some pay votes which cannot be held within the 6 per cent.

14. The Chancellor is likely to say that he would be content to see the pay offers go up to 7 per cent, provided that the pay factor for cash limits stays at 6 per cent. He will argue strongly for this. If the sense of the Committee goes against him, he will say that he must have time to consider the implications for public expenditure and come back to his colleagues: he may say that he can see no alternative to reducing the price factor from 11 to 10 per cent.

15. Ministers have throughout recognised that, once the local authorities settled for $7\frac{1}{2}$ per cent, it was unlikely that it would be possible to settle the Civil Service and the NHS for 6 per cent. They will therefore be inclined to give the Lord President and the Secretary of State for Social Services authority to go up to 7 per cent. I suggest that you should try to avoid spending any time at this meeting discussing the implications for cash limits: unless the Committee agrees that the pay factor should remain unchanged at 6 per cent - which would be much the best outcome but is not likely to be acceptable to Mr. Jenkin - the best course would be to ask the Chancellor to consider the implications for cash limits, in consultation with the Lord President and the Secretary of State for Social Services, and to circulate a note for discussion next week in Cabinet (it is there, rather than in E, that the question should be considered).

16. The Secretary of State for Social Services also raises a separate but important point relevant to his negotiations (but not to those of the Lord President). This is whether the Government should pick up the NHS management side's suggestion that the present settlement with the ancillaries should run for 15 months to April 1982, thus aligning their negotiating timetable with that of the nurses, doctors, non-industrial civil servants, armed forces and so on. If this could be achieved without extra cost it would have a number of advantages (aligning the pay and financial years, reducing the scope for leapfrogging, and adding a further element - a lump sum of £50 to £75 - to the present settlement, which some staff could find attractive). Against this the lump sum would presumably have to be paid now, and the spread of "synchro-pay" in the public services may not be a wholly unmixed blessing in the longer term. A common settlement date for the public services is one thing; a common pay negotiation, if it ever came to that, might be quite another. Nevertheless, the question has been raised, and requires a decision.

HANDLING

17. You may find it convenient to divide the discussion into two parts: the current negotiations for the non-industrial Civil Service and the NHS; and the longer term perspective. In this case you would want to ask the Lord President and the Secretary of State for Social Services to make their proposals for the present negotiations, and then explore how far your colleagues are prepared to go to meet them. Are they prepared to authorise them to go up to 7, or in the last resort to $7\frac{1}{2}$ per cent to get a settlement? If so, is it accepted that the pay factor for cash limits stays at 6 per cent? If not, you will want to ask the Chancellor to consider the implications, in consultation with the Lord President and the Secretary of State for Social Services, and to report to Cabinet next week.

18. The Lord President will also argue that the degree of give he needs to reach a settlement now will be conditioned by the outcome of the Committee's discussion on longer term arrangements. This degree of overlap is unavoidable, and you may want to reserve final conclusions on negotiating authority to the end of the whole discussion.

19. You will also need to decide whether to authorise the Secretary of State for Social Services to offer the NHS ancillaries a settlement running to 1st April 1982.

20. You will then want to call on the Chancellor of the Exchequer, the Lord President and Mr. Ibbs to introduce their papers. In the ensuing discussion you will want to seek answers to the following key questions:-

(a) Do colleagues prefer the approach of the Chancellor of the Exchequer or that of the Lord President?

(b) If they prefer the Chancellor's approach, have they any modifications to suggest? It is possible, for example, that some colleagues will argue strongly that, even if cash limits are set in advance, they should not be published, because this puts the credibility of the system on the line, sets a floor for the unions, and reveals the Government's maximum negotiating position from the outset.

(c) If colleagues prefer the Lord President's approach, do they have a preference as between the three kinds of review set out in paragraph 9 of the CPRS paper? What are the implications for cash limits - or is that a question that can be left on one side until the Cabinet discusses the Treasury's proposals for changing the system of controlling public expenditure?

CONCLUSIONS

21. You will want to record separately decisions on the immediate negotiating stance to be adopted with the non-industrial Civil Service and the NHS, and the longer term arrangements for Civil Service (and NHS) pay determination. On the former you may also want to record a request to the Chancellor to consider the implications for cash limits and to report back to the Cabinet next week. On the longer term arrangements you will want to commission a paper from the Lord President discussing the detailed application of the decisions taken; a paper from the Secretary of State for Social Services adapting the decisions to the circumstances of the NHS; and a paper from the Chancellor of the Exchequer setting out the implications of the decisions for the operation of the cash limits system.

RtA

(Robert Armstrong)

11th February 1981

Original filed on:- Education: Teachers Pay: Pt 2.

Ref: A04239

CONFIDENTIAL

PRIME MINISTER

Teachers' Pay: Access to Arbitration 1981
(E(81) 17)

BACKGROUND

In E(81) 17 the Secretary of State for Education and Science invites the Committee's view on whether, in spite of unanimous opposition of the teachers' unions and from the Association of Metropolitan Authorities, he should press ahead now with the withdrawal of unilateral access to arbitration on teachers' pay. If he is to act he must do so before the next meeting of the Burnham Committee on Wednesday, 18th February.

2. E have twice discussed this question. In a general discussion on 4th December the Committee agreed in principle that unilateral access to arbitration was undesirable and invited the Ministers concerned to press for withdrawal as soon as possible (E(80) 43rd Meeting, Item 1). On 14th January the Committee agreed that progress should be made in implementing that decision and invited the Secretary of State for Education and Science to consult formally the teachers' unions with a view to withdrawal before the 1981 pay negotiations began (E(81) 1st Meeting, Item 4). It was accepted that it was too late to make any changes this year in the arrangements for Scotland; and it was noted that the Secretary of State for the Environment had yet to advise the water and local authorities of the Government's views (without taking statutory powers he cannot impose those views on them). To guard against the criticism that action was being taken on teachers alone, the Secretary of State for Employment announced, in a Written Answer on 16th January that 'the Government's view [on arrangements which provide for the unilateral reference of disputes to arbitration] accords with the principle reflected in Section 3 of the Employment Protection Act 1975: and is that, except in special circumstances, arrangements about arbitration should provide for access to arbitration only with the consent of both sides of the dispute.'

3. In a Written Answer on the same day the Secretary of State for Education and Science announced that he was writing to the Teacher and Local Authority Associations in England and Wales to consult them formally on the proposal and that he proposed that new arrangements should apply in relation to the forthcoming reviews of teachers' remuneration.

4. In his present paper he reports that the position of the employers is unchanged: the Association of County Councils want the change, and the Association of Metropolitan Authorities do not. A formal deputation from all the teachers' unions have told him that they are unanimously opposed to making the change this year. They object to action against them alone and they threaten that such a change now would seriously affect their attitude to the longer term negotiations on the arrangements for the future determination of pay and other conditions of service. The Secretary of State for Education and Science does not make any recommendations on the way forward, but it seems clear from his paragraph 4 that his inclination is to avoid the risk of pressing ahead now and to aim for changes in the context of the main review of pay and conditions of service.

HANDLING

5. You might open the discussion by inviting the Secretary of State for Education and Science to give his assessment and to make clear what his own view is. Of the other Ministers, you might invite the Secretaries of State for Employment, for the Environment and for Scotland in particular to give their views.

6. The Committee could well take the line that they have twice said that they want to press ahead with this change. The way has now been prepared, and expectations aroused, by the Written Answers of the Secretaries of State for Education and Science and for Employment. The position of the two main employers' associations is unchanged since the last discussion. It is not surprising that the unions are trying to delay the change so that they can exact the best negotiating outcome from the discussions of pay and conditions of service.

7. In deciding whether to confirm the early decision the Committee will, however, wish to consider in particular the argument that the change would make little difference in practice to this year's pay negotiations but could prejudice the longer term review of pay and conditions of service. The question is whether it is better to resist further delay and get on now with the changes in arbitration arrangements, or to defer the change for a year on the grounds that priority must be given to securing the best settlement of the review of pay and conditions of service, and the change can best be dealt with in that context.

CONCLUSIONS

8. If the Secretary of State for Education and Science is to implement withdrawal, he must act now and in advance of the Burnham Committee meeting next week. In the light of the discussion you will therefore wish to record a conclusion <u>either</u> that the Secretary of State should implement withdrawal now <u>or</u> that it should be deferred for negotiation in the context of the wider review of the negotiating machinery for the future determination of pay and conditions of service.

ROBERT ARMSTRONG

Robert Armstrong

<u>11th February 1981</u>

CONFIDENTIAL

cc:- Mr Walters
Mr Ingham
Mr Duguid

Original filed on :- Education : Teachers Pay Pt 2.

PRIME MINISTER

E: 12 FEBRUARY: ARBITRATION FOR TEACHERS PAY

This will be the third time that E has discussed arbitration, and the second time that Mr Carlisle has come back asking for the views of his colleagues on how to proceed. Last time it was confirmed that he should proceed with negotiations to remove unilateral access to arbitration by teachers; he has now come back to say that the unions are unanimously opposed to changing the arrangements for this year.

It is not at all surprising that the unions object, and indeed Mr Carlisle foresaw when he last came to E that the unions might object. The only new factor now is that the teachers agreed on 9 February to demand a 15% increase (there are 550,000 teachers affected, with a settlement date of 1 April). If they retain the right of unilateral access to binding arbitration, they can be expected to use it, and the outcome might well be an award in double figures. There is no particular reason why the teachers should receive such favourable treatment. It is, therefore, all the more important that E confirm its earlier decisions, to the effect that Mr Carlisle should proceed to change the arbitration rules.

While E is talking about arbitration, and since we want to press forward as hard as possible with the policy of disentangling ourselves from it, you may want to ask Mr Prior how he is proceeding with consultations with representatives of other groups, in accordance with the conclusions of the last meeting on 14 January - Mr Prior did, of course, arrange to answer a PQ on 16 January stating the Government's view that arbitration should only take place with the consent of both sides to the dispute.

J.

11 February, 1981

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10 February 1981

Policy Unit

PRIME MINISTER

FUTURE ARRANGEMENTS FOR PAY IN THE PUBLIC SERVICES

This important issue is to be discussed at E on Thursday.

The Chancellor has suggested early discussion of the issues of principle which arise in working out any future system for public service pay. This seems to us an essential first step in such a complex matter.

We attach a paper by the Policy Unit which is intended simply to help get this thinking and discussion process started. It is not intended to provide any simple answers or recommendations.

I have copied this minute and our paper to members of E, to Robin Ibbs, and to Sir Robert Armstrong.

JOHN HOSKYNS

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E.R.

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10 February 1981
Policy Unit

FUTURE ARRANGEMENTS FOR PAY IN THE PUBLIC SERVICES

1. INTRODUCTION

1.1 In E(81)12, the Chancellor asks for early discussion of the issues of principle which arise in the working out of any future system for public service pay. In the context of the Civil Service, the Lord President's memorandum of 6 February recommends a wide-ranging review to work out an agreed and ordered pay system; the early announcement of which should increase the chances of the Civil Service unions accepting around 6% in the coming pay round.

1.2 We believe that some hard thinking about the underlying principles is needed before we can give any undertakings to the unions about such a review. We need to have some idea where that review is likely to take us first. It is always the quality of the thinking (and the readiness to think about "unthinkables") at the start of such a project which determines whether or not what follows turns out to be a waste of time.

1.3 This paper therefore looks at some of the principles and assumptions behind the Treasury paper, and our current thinking.

2. BACKGROUND TO THE PROBLEM

2.1 Public services pay (that is, excluding nationalised industries) amounts to over 30% of total public expenditure. If the Government is unable to limit public service pay increases, it must either reduce employment - which may not always be possible, eg in hospitals - or else further reduce public sector investment, as Governments have done over the years.

2.2 Over the past 10 years, Civil Service pay has, if anything, slightly lagged the private sector equivalents - to the extent that those equivalents are known.

2.3 Against a background of inflation and failing incomes policies, we have seen growing trade union militancy, increasing Left-wing penetration in certain unions, declining morale and growing public

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hostility towards the public servants. A great deal of Ministers' and officials' time over the years has been devoted to the problems of public service pay. Governments have frequently looked weak in dealing with strong groups in the public services and unsympathetic in dealing with weaker or more responsible ones (eg nurses).

2.4 Against this background of constant fire-fighting, it is not surprising that Government is still confused about the nature of the problem. In varying circumstances, we are pursuing several objectives which often conflict with each other: maintaining services; cutting numbers; reducing inflation; and controlling expenditure.

3. CLEARING AWAY THE CONFUSION

3.1 What are the main categories of public service, for pay purposes?

We can categorise by pay determination system, as at Annex A of the Treasury paper. Are there other ways of categorising which would be helpful? For example, can we distinguish between those parts of the public service which can be volume-constrained (when pay increases collide with cash limits) and those which can't?

3.2 Is collective bargaining in the public services a meaningful concept?

3.2.1 Trade unions were originally formed to protect members from very bad employers. Government may never be a very good employer, but how likely is it to be a bad one? Certainly it has come to be seen as a bad employer over recent years. But that may have been the result of Governments' incoherent efforts to control public expenditure and public services pay, against a background of inflation and growing trade union power. Having failed to curb trade union power, Governments have instead simply put pressure on weaker groups and renegued on promises where they were able to do so.

3.2.2 What does "collective bargaining" mean? In normal negotiations, a bargain is only struck when both sides agree. If either side is not satisfied, it can "walk away" and agree with someone else. In collective bargaining that is not the case, because the total population of "bargainers", on one side, bands together so that the other side has no option: there is only the union. (An analogy would be for all BL's suppliers to join together to refuse to supply BL unless BL agreed to an across-the-board 20% price increase on all the components supplied.)

3.2.3 This is the fundamental contradiction which has led successive Governments to oscillate between incomes policy and free collective bargaining (with or without attempts to reduce trade union power.) In the private sector, this sterile process works itself out in the end by helping to destroy first the marginal enterprise and eventually, if the lesson is not learned, the marginal industry. In the public services, however, that result, with its attendant lesson-learning, may <u>never happen</u>. Instead, there will be a volume squeeze (with cuts in service or modest de-manning by natural wastage); or higher Government borrowing or taxes; or further cuts in public sector investment.

3.3 <u>Pay rates, comparability, manning levels, cash limits: which comes first?</u>

3.3.1 Are <u>cash limits</u> meant to be an <u>absolute</u> constraint or not? The Treasury paper repeatedly states that they must take precedence but that they must not be set so rigidly that they cannot be amended in the light of the results of bargaining outcomes. In his memorandum of 21 January (C(81)7) the Chancellor restated the earlier E decision that "We should conduct public service pay negotiations this year within the framework set by cash limits: cash limits should determine expenditure on pay".

3.3.2 The latest Treasury paper proposes a system of "<u>constrained bargaining</u>". We cannot see how this would work. How could trade union negotiators have the power to push the employer <u>up</u> to the level of the cash limit, but the employer suddenly find the power to <u>stop</u> the negotiating process at that point? The employer cannot "refuse to deal", so the question arises - where does he get the powers to halt the process?

3.3.3 The underlying question is whether we are talking about <u>genuine negotiation</u> at all. As the Chancellor, in his 21 January minute,

W. R.

CONFIDENTIAL

says: ". . . the Lord President and the Secretary of State for Employment take the view that the cash limit must not rule out the appearance of realistic negotiations". (Our emphasis.) Are we really talking about fictitious negotiations in which there is implicit agreement about the real cash limit; and then the appearance of negotiations so conducted as to allow the unions to appear to "win" and thus satisfy their members that they are doing a good job?

3.3.4 This in turn raises the whole question of pay research data. How is such data to be used? The unions may accept it as a basis from which to negotiate upwards. Will they accept it if the same data points to the need for a real reduction in pay? This problem may not have arisen while inflation was high and the money illusion survived, but it could well do once we reach Stable State, unless there is a substantial return to growth.

3.3.5 The proposal to make post-hoc adjustments, if public service pay falls too far behind its analogues (however defined) should reassure negotiators. But the same problem arises. Unions may welcome adjustments upwards. Will they similarly accept adjustments downwards? The two-way process would need to be made clear at the outset.

3.3.6 There may be a contradiction between the whole idea of pay research data (with or without post-hoc adjustments) and arm's length negotiating. Negotiating involves the best use of a bargaining position, bluff, and concealing - not revealing - your hand. Display of pay research data (like that of the cash limits sticking point) suggests that we are not really talking about negotiation at all.

3.3.7 Would a step change down in pay, followed by lower differentials, lead to industrial action or to a higher "quit rate"? This will presumably vary depending on seniority (eg manual workers vs. career services) and from group to group within the public services. Paragraph 15 of the Treasury paper suggests that, for career services, where there is very little movement in or out in mid career, quit rates will not give the desired information and "a careful analysis of the availability of sufficient numbers of appropriate quality recruits at existing pay levels is require

We think both recruiting and quit rates are relevant. A zero quit rate is itself information about quit rates. If there is no movement, then we can be reasonably certain that the total package of pay and benefits is not too low. Of course, movement in and out of career services is sticky, but people <u>do</u> leave (eg army officers) if the differential becomes too wide.

3.3.8 There may be a tendency to assume that Civil Service work is so different from work elsewhere in the economy that a low quit rate is simply the evidence of this difference rather than evidence about supply and demand. But to the extent that that is true, it calls into question the whole concept of comparability, for it implies that Civil Service jobs cannot be properly compared to jobs elsewhere. In any case, we think more interchange is desirable in itself.

3.3.9 The difficulty with any <u>collective</u> pay determination system is that, if there is not enough discretion for management, the good people are paid too little, the bad people too much. The best people then leave. Could there be greater discretion for higher management, with a pot of money to vary the pay at each grade? The whole system might then become more meritocratic, even at the lower levels, as it is in an un-unionised company like IBM. Would this be a healthy development? Would the trade unions allow it?

3.3.10 Does the implied lifetime contract within the Civil Service make sense? Should the Civil Service follow the pattern of the armed services in which people are automatically retired (with appropriate pension) if they have not reached a certain grade by a certain age?

3.4 <u>Is it possible to concentrate public service pay settlements at the start of the financial year?</u>

This familiar suggestion is raised in the Treasury paper (paragraph 37) as desirable. But it is instantly down-graded as "only a long-term aim", and it is said that the unions would demand a price for accepting the change. But why should they demand a price? Would it be demanded with menaces? What menaces

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would the law allow them to use? And in any case, what is the repeated cost of not having such a change, and could this perhaps be less than any once-and-for-all price demanded or conceded?

3.5 Experience from other countries

What lessons are there to learn about trade union organisation and pay determination systems in other countries' public services?

3.6 What will "Stable State" be like?

3.6.1 The Treasury paper (paragraph 40) identifies the very real problems which await us when inflation has been brought down. Average nominal pay expectations will have to be close to zero, especially in the public services. Some people's pay will have to be cut if there is to be a shift from wages and salaries to profits.

3.6.2 How will the public service trade unions then see their role in pay determination? So far, their task has been to ensure that pay and job numbers can go up but not down. If there is little real growth and little inflation, what are they to do? Do we work out a fictitious bargaining ritual to allow them to save face? Do they accept that their traditional role of bargaining is over? Or are they to bargain in earnest? And if so, how is the Government (running by then a tight monetary regime with low inflation) to ensure that this doesn't simply produce an exaggerated relative price effect and thus an ever-increasing burden on the private sector?

3.6.3 In short, money illusion and inflation have helped both to cause and to absorb the militant use of trade union power in public services. Is a Stable State trade union role possible, unless other steps are taken to remove power which can no longer be absorbed in the traditional way?

4. THE OBJECTIVES OF A NEW SYSTEM

4.1 The previous section has looked briefly at some of the issues raised by the question "What is the real problem?" Until we have answered that question (and, as suggested earlier, there may be different answers for different parts of the public service) it is not easy to set the objectives for a new system.

4.2 The Treasury paper (paragraph 10) sets out four objectives which may be to some extent in conflict with each other. For example, the objective "To act as a good employer and to be fair to employees in the public service" raises many questions. What do we mean by "fair"? Does it mean the use of morally neutral economic criteria? Or does fair really mean "more"?

4.3 Should one of the objectives be to link the public service labour market much more closely with the national labour market, with more movement between the two, even at the higher levels? Does this raise larger questions of management practice within the Civil Service, with greater emphasis on management discretion, merit payment, early retirement etc?

5. CONCLUSION

5.1 We get the distinct impression (though of course our evidence is anecdotal) that the "right to manage" has been surrendered to a remarkable extent to the trade unions, in the public services in general and in the Civil Service in particular.

5.2 In a rational world, there would be no need for pay bargaining by trade unions in the public services. The new recruit would accept that there was no right to strike, no collective bargaining and that if he did not like the corresponding advantages of relative security and a reasonably good employer, he would seek a job elsewhere. The whole concept of trade unions in the public services, with their unique privileges and immunities and their members with indexed pensions, being ready to strike against a Government paymaster seems to us quite absurd. Like so many things, we have got used to it by degrees, and to question it now appears "immoderate".

5,3 It may well turn out, after careful examination, that the best thing, in fact, is to keep the pay determination arrangements confused, contradictory and vague, because it is simply not possible to develop a comprehensible and rational system which commands general support. But the first step is to be clear as to why sensible systems are at present unlikely to be "politically possible" and then see whether they might be made so.

5.4 Our initial thinking leads us to support the Lord President's recommendation of a major review which would include recruitment and retention, job security factors and, indeed, some aspects of Civil Service management and reform. But we need to spend thinking time first on the terms of reference and (after Scott) the composition of the review body.

JOHN HOSKYNS

E.R.

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10 February 1981 2

Policy Unit

PRIME MINISTER

FUTURE ARRANGEMENTS FOR PAY IN THE PUBLIC SERVICES

This very important issue will be discussed at E on Thursday. We have discussed Geoffrey's paper with Alan Walters and John Vereker.

We found the Treasury paper, attached which Geoffrey attached to his minute, a rather disappointing document. It is an extensive survey of familiar ground, restating all the conventional wisdoms. It does not challenge those wisdoms, or question any of the political assumptions. In other words, it addresses the problem within the familiar "box" in which it has always been addressed.

The only apparently new idea it produces, the concept of "constrained bargaining", seems to us to be almost meaningless.

The purpose of our paper, which I have circulated to members of E, is simply to encourage some harder thinking, on the lines Geoffrey has suggested, about the principles involved.

JOHN HOSKYNS

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10 DOWNING STREET

From the Private Secretary

9 February 1981

The Prime Minister was grateful for the Chancellor's minute of 3 February enclosing the latest monitoring report on public trading sector pay. She has commented that she will want to keep in close touch with the water service negotiations, and I understand that Mr. King will be minuting on this later today.

I am sending copies of this letter to the Private Secretaries to members of E(PSP), to John Halliday (Home Office), Godfrey Robson (Scottish Office), Peter Shaw (Department of Education and Science), David Wright (Cabinet Office) and Robin Ibbs (Central Policy Review Staff).

T. P. LANKESTER

John Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

Clive - to see

PRIME MINISTER

We are taking two papers, one by the Chancellor and the other by the Lord President, on future arrangements for pay in the public services (the papers are in the box) at E on Thursday.

At E on 14 January, we discussed arbitration on public services' pay; and Mr. Carlisle was asked to consult with the teachers' unions with a view to removing their unilateral right of access to arbitration. He now wishes to report back to colleagues, and has suggested that he put in a paper for Thursday - it would come round tomorrow.

Although the paper will be late, I think it would be desirable to take it at the same time as the other public service items. Agree?

Yes

Duty Clerk for TPL

9 February 1981

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PRIME MINISTER

MS.

~~cc~~ Mr Ingham
Mr Duguid

Public Sector Pay Monitoring Reports

Here are the latest monitoring reports - on public service pay, in the form of the paper for E(PSP), and on the public trading sector, in the Chancellor's minute of 3 February.

Public Service Pay

Public service pay negotiations at present are dominated by the implementation of Cabinet's decision to go back to 6% for the pay factor in the cash limit. In the Health Service, 6% has been rejected, and Patrick Jenkin will be bringing a paper to EPSP when he has seen the unions next week. Cabinet did of course agree on 22 January that he could come back to the issue if he could not settle within the cash limit after allowing for the possibility of making other savings. Yesterday's rejection of 6% by the Civil Service unions was a foregone conclusion; E(PSP) noted, rightly I am sure, that the unions will link this year's pay round to future arrangements for Civil Service pay, which come to E for a first discussion next week.

No action is needed on this monitoring report.

Public Trading Section Pay

Here the main difficulty is, and will remain, the interconnection between the water, electricity and gas negotiations. David Howell wrote round on 3 February explaining that the gas negotiations have now been adjourned following a 9% offer, and that the Electricity Council intended not to make an offer at all at their meeting yesterday. They did not do so. So both negotiations are open to strong influence from the outcome of the water workers' negotiations; we have asked Tom King's office to let you have a note on Monday about where he now sees those going, but it is already clear that the National Water Council have managed to give away another 2.1% without

/obtaining

obtaining anything at all in return. Their track record in these negotiations is not good, and even though we now have a breathing space of another three weeks while the unions consult their membership, these negotiations still represent the main challenge to moderate public sector pay increases in this round.

If you agree, Tim might simply acknowledge the Chancellor's minute and refer to the fact that you will want to keep in close touch with the water workers' negotiations.

J.V.

6 February 1981

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

From the Private Secretary

5 February 1981

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

Dear John,

PAY IN THE PUBLIC SERVICES AND THE PRIVATE SECTOR

You sent me a copy of your letter of 4 February to Tim Lankester, enclosing a draft contribution to the Prime Minister's speech this afternoon.

I understand that the Prime Minister will not in fact be using this draft. However, the Lord President has asked me to make one or two points for the record. He feels that it is damaging to the Government's case for salary restraint in the public sector to use figures which are self-evidently open to criticism.

First, it is by no means clear that the figures in the attachments to your letter support the assertions that the position of the public sector by comparison with the private sector has improved during the 1970's and is very favourable in 1980. For example, in the case of the non-industrial civil service it could certainly be argued that 1976 _is_ an appropriate base date to take, since that was one of the few recent occasions when these salaries were in line with those already in payment outside, following the implementation of a pay research settlement. The figures in any case take no account of the dramatic rise in fringe benefits in the private sector over recent years.

Secondly, as the Lord President has said before, he does not accept that the figures quoted on job security are a fair basis of comparison between the public sector staff concerned and their private sector counterparts. This applies whatever the context in which they are used. There is for instance no hard evidence to suggest that the job security of _non-manual_ staff in the public services is any greater than that enjoyed overall by their counterparts in industry, banking, insurance etc.

If it is proposed that statements of the kind suggested should be made publicly on any future occasion, the Lord President would like an agreed version of the facts to be established first between officials of the Departments concerned.

I am copying this letter to Tim Lankester at No. 1o and Richard Dykes at Employment.

Yours sincerely,

Jim Buckley.

J BUCKLEY

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

4 February 1981

Tim Lankester, Esq.,
Private Secretary,
10, Downing Street

TL has copy already

D.

Dear Tim,

PAY IN THE PUBLIC SERVICES AND THE PRIVATE SECTOR

The Chancellor thought that the Prime Minister's speech in the Economic Debate on Thursday would be a valuable opportunity to get across some facts about the relative advantages of the public sector over the private in terms of pay rates and job security. I gather that the Prime Minister agreed that the idea was worth pursuing when they met this morning. Accordingly I attach a draft which the Chancellor has approved.

There are, however, a number of points I should mention as background. On paragraph 2, the Department of Employment have recently answered a PQ (copy attached) on relative movements of non-manual pay in the public and private sectors. These do not quite tie up with the figures in paragraph 2 mainly because of the different base used and the lack of any adjustment for teachers in 1980. But more important, since a series is given in that answer, it is possible that the Prime Minister might face questions about the decline from 1976. These should be parried firmly on the basis that in 1976 the public sector's position was exceptionally favourable, and there are no grounds for "catch-up" or similar claims now which take such a year as benchmark.

On paragraphs 3 and 4, the Chancellor notes the Lord President's view (Jim Buckley's letter to me of 2 February) that these figures are not a fair basis of comparison between the public sector staff concerned and their private sector counterparts. However, he does consider that they are valid in the context in which they are used in the draft speech material.

Paragraph 7 may prompt two kinds of question. First, in comparing 1979-80 and 1980-81, it is necessary to refer to "catching-up" increases as well as the rate of employment adjustment as reasons for the difference. This may lead to two criticisms: that the "catching-up" is purely a timing effect and that earlier figures would run in the opposite direction; and from the opposite extreme, that the consequences of "catching-up" show that it should not have been allowed at

/all (which

all (which is difficult to deal with in the light of the Government's election commitments). Second, the 1981-82 figures are not solely the result of the differing employment positions. There is also the effect of Government pay commitments to the police and armed forces: the armed forces, being a large group, must account for much of the high central government component. This again could be probed in questioning.

Finally I should mention that we have it in mind to answer on Thursday a written PQ from Anthony Beaumont-Dark. This will set out the basic argument and figures which lie behind the draft we are offering the Prime Minister. That material

..... derives in turn from an internal Treasury paper (also enclosed) setting out the position in rather greater detail, which the Prime Minister might find of interest in its own right.

I am sending copies of this letter and enclosures to Jim Buckley (Lord President's Office) and Richard Dykes (Employment).

Yours

John

A.J. WIGGINS

DRAFT PARAGRAPHS FOR PRIME MINISTER'S SPEECH ON 5 FEBRUARY

Perhaps understandably, pay negotiators always tend to look at each year's pay negotiations in isolation. At the moment we are hearing complaints from the public service unions that the 6% pay factor announced for the RSG and universities' cash limit this year is unfair and unreasonable.

However it cannot be said to be unfair when you look at what is happening in the private sector. There you will find many settlements at or around this level and a good many, indeed, below it. In some firms it appears that no wage increases at all are being made.

Of course the issue goes far wider. Public sector employees tend to argue that their claims for very large pay increases this year are supported by comparisons between pay trends in the public and private sectors. But looked at in a proper historical context, the position of the public sector in general in 1980 was very favourable compared to the private.

Throughout the period from 1950 to the early 1970s, the relationship between public and private sector pay was broadly stable. But from then on, there has been a relative improvement in the position of the public sector. Comparing 1980 with the 1970-72 average, the Department of Employment's New Earnings Survey tells us that manual workers had improved their relative position by 8% in the public corporations, by 13% in central government, and by no less than 14% in local government. For non-manuals, the equivalent figures are 1% in local government, 3% in the public corporations and 5% in central government. Such comparisons very strongly suggest that it would be quite unreasonable for public employees to seek higher pay increases this year than the private sector are likely to get.

Even that is only part of the story. Public employees have not only done better in relation to pay increases. They have enjoyed the unique privilege of index-linked pensions at a time when the private employer's pension schemes have faced major problems; and, on top of that, a dramatically higher level of job security. Of the 1.4 million redundancy payments made between 1975 and 1979, less than 20,000 went to employees in Government, the NHS and others in public administration. These employees accounted for only 1½% of redundancy payments, but well over 10% of total employment. It is only reasonable that this higher degree of job security should be reflected in current pay negotiations.

The figures for unemployment have long told much the same story. They show how the private sector has been far quicker to shed excess labour than the public in periods of difficulty. The November 1980 figures, classified by last recorded jobs, show an unemployment rate of 3.4% for former employees of central and local government, and 4.2% for the public sector as a whole. This should be compared with 9.4% for the private sector, a level more than twice as high.

The combined effect of pay increases (including the large "catching-up" increase in the public sector) and a slower run-down in employment is that between the last financial year and this, the public sector's wage and salary bill will probably rise twice as fast the the private sector's. Even in 1981-82, when the "catching-up" increases will be past and the public sector will be reacting more strongly to the impact of the recession, public sector income from employment is still forecast to increase by several percentage points more than in the private sector unless there is much greater restraint on the part of its employees.

The message of all this is clear. The private sector has so far been bearing the brunt of adjusting to economic realities. This cannot be allowed to continue, and the Government's announcement of the 6% pay factor shows that we intend the public sector to bear its fair and proper share. The figure must be seen not only in the context of current settlement levels, but as part of the much wider picture of pay, employment levels and conditions of service in the public sector. We believe that it is a fair, realistic and reasonable view which will be very widely supported in the country when the facts are known.

Extract from Hansard Vol 997 No. 35 28 January 1981
Col. 410.

Mr. Hordern asked the Secretary of State for Employment if he will publish a table showing public sector pay for non-manual workers as a proportion of private sector pay, for each year since 1970, to the latest convenient date, taking 1970 as 100.

Mr. Peter Morrison: The following table shows the position in April each year based on the results of the New Earnings Survey.

Average weekly earnings of non-manual employees [1] in the public sector as a proportion of average weekly earnings of non-manual employees in the private sector, the proportion being expressed as an index with 1970 equals 100.

April	*Men aged 21 and over*	*Women aged 18 and over*
1970	100	100
1971	99·0	96·7
1972	102·1	101·3
1973	98·5	95·5
1974	101·2	94·5
1975	105·1	100·1
1976	109·6	103·6
1977	105·2	98·5
1978	98·7	92·2
1979	96·8	89·6
1980	99·7	90·8

(1) Full-time employees whose earnings in the survey period were not affected by absence.

Changes in relative average earnings in different sectors will reflect changes in the structure of employment as well as changes in the rate of pay for comparable jobs. Also, the above figures for women will reflect the tendency for equal pay arrangement to some into force at an earlier stage in the public than in the private sector.

CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary
Mr Burns
Mr Ryrie
Mr Byatt
Mr Littler
Mr P. Dixon
Mr Evans
Mr Unwin
Mr Neuburger
Mr Buckley
Mr Rayner
Mr Potter
Mr Boulton
Mr Ridley
Mr Cropper
Mr Cardona

You asked Mr Potter for an analysis of post-Clegg levels of earnings in the public sector relative to private sector earnings (Mr Tolkien's minute of 21 October). I attach a note and tables he has prepared. I apologise for the delay, due in part to the need to get hold of the 1980 data and to temporary staff shortages.

2. The position may be summarised briefly. Public sector pay relative to private sector pay was higher on average after the Clegg and other catching-up awards than in the early 1970's:

Public sector pay as percent of private sector pay*

	1970-72 average	1980
Manual workers		
Central government	84	95
Local authorities	80	91
Public corporations	103	111
Non-manual workers		
Central government	103	108
Local authorities	102	103
Public corporations	100	103

*Full-time adult males. Separate series for private sector manuals and non-manuals were used for the comparisons with public sector manuals and non-manuals respectively.

The picture is not significantly affected if the average for the early 1970's is based on 1970-73, as suggested by Mr Ridley, rather than 1970-72.

3. It would be misleading to compare relativities in 1980 with those in the early 1970's if those years were exceptional. In particular, it would undermine the historical case for reducing relativities now if it could be shown that public sector workers were unusually badly paid then. It is necessary to go back before 1970 to judge whether the early 1970's were exceptional, but unfortunately the availability of data in earlier years is poor. In particular there are no reliable estimates for most groups of non-manual workers. However there are estimates for the aggregate of manual workers in the public and private sectors. The ratio of average public sector to average private sector pay (as a percent) was:

1950-54	98
1955-59	97
1960-64	96
1965-69	96
1970-72	99

(Source: NIER November 1975, page 63)

Public sector workers were thus relatively better off on average in the early 1970's than before. If any historical base for a comparison has to be taken, the early 1970's are not obviously inappropriate.

4. Although public sector workers are better off financially relative to private sector workers now than in the early 1970's at the level of these broad averages, this is not necessarily true of all individual groups of workers. Thus Mr Potter's tables show that British Rail manuals were worse off. No doubt there are other groups, for which we do not have data, in the same position.

5. It is one thing to point out that public sector workers are now on average better off than private sector workers compared with the position in the early 1970's. It is quite another to conclude that therefore their earnings should grow more slowly than those in the private sector. There may be other good reasons for this, of course, but the historical comparison raises difficulties which it is well to be aware of before making use of it.

6. There are two main objections. First, the concept of comparability involves many factors other than pay. If the value of these grew faster in the private sector than in the public sector during the 1970's, then the faster growth of public sector pay could be regarded as necessary compensation. To revert to early 1970's relative pay levels without reversing the other factors would be unfair. It is usually thought that fringe benefits received by senior private sector non-manuals have risen considerably, but on the other hand index-linked public sector pensions have become relatively more attractive as inflation has risen. Some idea of the net effect of these non-pay factors can be obtained from the rise in central government non-manuals' relative pay of about 5% between 1970-72 and 1980. Since civil servants' pay was covered by the Pay Research Unit in both periods, it is reasonable to suppose that this increase in relative pay is of the same order of magnitude as the decline in the relative value of non-pay factors. However, the estimate is inevitably rough, and, even if correct, it would not necessarily apply to other groups of workers.

7. Secondly, it appears to conflict with the Government's general approach to the labour market to seek to revert to historical relativities and differentials. Policy should be directed at improving the functioning of labour markets, including the price mechanism. While over some very long period one might expect relativities and differentials in a properly functioning market to tend towards some steady values, it would be surprising to observe it within a decade or two, especially when the relative size of the two sectors, and hence relative demand, has been changing. It

would be more consistent with broader economic policy to argue that the Government wishes to reduce the relative size of the public sector, and it intends to use pay policy to assist in the process. This does not necessarily mean that comparisons with the private sector are irrelevant, since it is probably not possible to achieve major changes in relative pay for very long. But it provides an argument for dethroning comparability, in contrast to the historical comparison which attaches excessive weight to comparability.

8. To sum up, public sector workers on average are now paid better relative to private sector workers than in the early 1970's. This is not true of all groups of public sector workers. While no harm can be done by drawing attention to these figures, care should be taken not to suggest that the Government think that relativities and differentials should necessarily revert to earlier positions. It is important not to give too much weight to comparability when the objective is to dethrone it and instead improve the allocative role of relative earnings. Furthermore, if the historical comparability argument were to be used seriously, some account would have to be taken of non-pay factors. Little is known about these, but they probably do not go in the Government's favour.

John Odling-Smee.

J ODLING-SMEE
12 December 1980

BLIC AND PRIVATE SECTOR PAY

The publication of the New Earnings Survey for 1980 allows us to update some of the most important figures on public and private sector pay relativities discussed in earlier notes. In particular one can now see how the picture for the public sector as a whole changed in 1980 (Table 1), and how far the relative position of certain key groups in the public sector has been improved as a result of Clegg awards, other comparability awards and pay settlements over the last wage round+.

2. Table 1 shows the pay of the major public sector groups relative to those in the private sector for each year from 1970-1980. The salient points which emerge are:

a. the earnings of public sector employees rose considerably more than those of the private sector between 1979 and 1980.

b. the relative position of all major groups in the public sector was better in 1980 than in each of the two preceding years. But for the public sector as a whole, the ratio of public to private sector earnings was not as favourable as experienced in the mid-1970s.

c. However, not every public sector group found their relative position better in 1980 than in the mid-1970s. LA, central Government and public corporations non-manuals were in a better relative position in 1975 and 1976. This was also the case for public corporations manual employees.

d. Two major groups did achieve an increase in earnings which left them relatively better off than they had been at any time during the 1970s - the LA manuals and the central Government (including NHS) manuals.

+ Because the NES is conducted in April each year, it was necessary to make an adjustment to the survey figure for the pay of teachers to allow for their Clegg award, which was not agreed till mid-Summer.

3. Tables 2 and 3 show the ratio of earnings in particular public sector industries or services to the private sector average for male manual and non-manual workers respectively. (Thus an index of 100 means that average earnings in that particular group were equal to average earnings in the private sector.) Because of changing coverage and classification, many of the time series for important groups of workers eg miners and water workers are incomplete. This also calls for cautious interpretation of the figures even where a complete series is available; within a single group the balance of skilled and unskilled jobs may change over this length of period. The main points which emerge from table 2 on manual employees are:

a. Coalminers have considerably improved their relative position over the 1970s; and at least between 1979 and 1980 this was the case for both surface and underground workers individually.

b. BR employees have seen their relative position decline over the 1970s. There was a temporary recovery in 1975 and 1976 but all BR groups have subsequently lost ground.

c. LA, NHS and central Government manual workers have seen a considerable improvement in their relative position over the 1970s. This was achieved in two steps - in 1975 and 1976 there was a sharp increase in their relative earnings (subsequently partially reversed in the incomes policy period) and a further rise in 1980. This latter increase took both LA and CG manuals to their highest relative earnings during the 1970s - an improvement in their earnings differential of some 10% between 1970 and 1980.

d. Gas and electricity manual workers also achieved a considerable improvement in their relative earnings between the mid 1970s and 1980. But, despite big improvements in their relative position over the last two years, water workers remain worse off relative to their mid-1970s differential.

4. The figures in table 3 suggest that the experience of public sector non-manual employees has been rather different. None of the main groups included in the table have managed to sustain the peak relative position attained in the mid-1970s let alone improve it. The key features of the table are:

a. All the non-manual groups listed in the table achieved some improvement in their relative position between 1970 and 1974-6. Similarly, over the incomes policy period 1976-78, their relative position fell back.

b. Most groups however managed to improve their relative position in 1979-80. In the majority of cases - gas workers, nurses and midwives, teachers and civil servants, that improvement was not sufficient to restore their peak earnings differential of the mid-1970s. Indeed civil servants had been relatively better off in the early 1970s.

TABLE 1

RATIO OF AVERAGE EARNINGS FOR VARIOUS PUBLIC SECTOR GROUPS TO PRIVATE SECTOR EARNINGS[1] 1970-80

		1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
a.	Public Sector											
	(b + c + d)	100	100.3	103.6	100.7	102.7	109.0	110.5	107.2	103.4	101.5	106.3 (3)
b.	Central Government[2]											
	Manuals	81	86	84	79	83	91	91	91	88	80	95
	Non-manuals	103	102	103	96	105	104	113	109	101	99	108
c.	Local Authorities											
	Manuals	78	81	80	80	81	89	88	84	83	79	91
	Non-manuals	102	101	104	103	103	109	113	107	101	98	103 (3)
d.	Public Corporations											
	Manuals (all industries)	102	101	105	104	105	115	113	111	108	105	111
	Manuals (gas, electricity, coal)	96	99	106	104	112	125	118	114	120	119	126
	Non-manuals	99	100	102	100	102	109	110	108	102	102	103

Source: New Earnings Survey, various issues

(1) Comparisons have been made in terms of the average gross weekly earnings of full-time men aged 21 and over, whose pay during the Survey period was not affected by absence. Manuals and non-manual group earnings have been related to the appropriate private sector group.

(2) Including NHS

(3) These figures incorporate a rough adjustment for the Clegg award to teachers which, though due before the Survey date, was not paid till several months later.

TABLE 2

RATIO OF PUBLIC SECTOR EARNINGS TO PRIVATE SECTOR AVERAGE EARNINGS FOR GROUPS OF MANUAL EMPLOYEES - FULL TIME MALES (21 and over) †

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
NCB - Underground Coalminers	96.0	99.0	99.7	94.8	N/A	133.8	121.1	(117.6	132.8	135.2	138.0
Surface Mineworkers								(104.1	113.8	113.1	116.5
BR - Railway Workshops	101.1	99.0	98.5	100.3	98.4	102.1	103.1	97.9	97.3	101.3	100.6
Footplate Staff	108.1	104.1	102.4	106.0	98.4	114.1	113.1	111.1	104.1	103.6	101.2
Conciliation Staff ††	98.5	97.3	93.7	95.3	92.9	99.8	101.9	100.1	97.9	96.7	94.4
LAs - Manual Workers	77.9	81.3	80.4	78.2	80.9	86.8	85.1	82.8	82.9	81.0	87.5
NHS - Ancillary Staffs	80.9	86.0	82.8	75.8	85.0	92.9	89.6	86.5	84.1	77.6	88.8
CG - Manuals	81.3	87.0	87.1	85.5	69.2	86.4	87.9	91.1	83.7	82.5	88.9
Water - Manuals						113.0	107.9	106.5	86.6	95.4	100.6
Gas - Manuals					105.5	112.8	109.3	107.4	101.2	102.5	117.7
Electricity - Manuals				107.3	103.9	100.7	111.0	107.6	96.1	102.0	119.0
PRIVATE SECTOR MANUALS	£27.2	£29.9	£33.1	£38.5	£43.9	£54.7	£64.3	£71.0	£80.5	£93.0	£110.3

† Excluding those whose pay was affected by absences.

†† eg porters, ticket collectors.

TABLE 3

RATIO OF PUBLIC SECTOR EARNINGS TO PRIVATE SECTOR AVERAGE EARNINGS FOR GROUPS OF NON MANUAL EMPLOYEES - FULL TIME MALES (21 and over) ≠

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Gas - Staffs and Senior Officers	77.6	79.7	82.9	75.2	90.5	96.5	N/A	103.2	90.7	98.6	95.9
Electricity - Technical Staffs	72.4	74.6	81.8	117.0	119.8	124.4	141.0	137.3	135.6	130.5	N/A
LAs - Staff											
Teachers	103.2	93.1	97.7	96.0	97.2	110.0	114.6	108.9	102.0	93.7	104.3*
CG - Middle and Higher Grades	122.7	116.2	122.7	109.4	127.0	113.7	124.9	118.0	113.3	109.2	120.6
Clerical Grades	64.4	60.0	71.0	60.8	66.5	63.6	69.5	67.2	62.7	63.2	65.9
NHS - Nurses and Midwives	67.3	67.1	65.9	61.9	61.0	N/A	84.2	80.9	71.3	72.0	81.3
PRIVATE SECTOR NON-MANUALS	£34.8	£38.9	£42.8	£48.0	£53.8	£66.4	£78.0	£86.3	£100.4	£113.5	£140.2

N/A = Not Available

≠ Excluding those whose pay was affected by absences

* After adjustment for the Clegg award.

ND
Vercher
N Ingrid

CONFIDENTIAL

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

PRIME MINISTER

PUBLIC TRADING SECTOR PAY - MONITORING REPORT

..... I attach the latest monitoring report prepared by officials.

2. The key negotiations at present are clearly water and gas, with electricity following closely behind. All these are clearly seen - by unions and employers - as closely related. It seems to me that we have two tasks. First, we have to keep closely abreast of developments. I note that there were important meeting on Friday, 30 January in gas and electricity, though their results were not known when the report was finalised. I hope that David Howell will let us know the outcome as soon as possible.

3. Second, we need to decide whether we ought in any way to intervene by talking to the chairmen. I know that there has been very close contact between Michael Heseltine and Sir Robert Marshall on the water negotiations, and I believe that you are in touch with the situation. The employers are clearly adopting a more conciliatory approach, following the endorsement by the vast majority of water manuals of industrial action in the face of their refusal to go beyond 7.9 per cent. Given the very real dangers imposed by a national water stoppage, I think this is the right approach, though I think we should need to consider carefully if there were any proposal that the earnings increase should go into double figures. Again on electricity and gas, I see no need for intervention on the basis of what is contained in the report, but David Howell will no doubt have this in mind in commenting on the latest developments.

4. I am sending copies to the usual recipients.

(G.H.)

3 February, 1981

PAY MONITORING REPORT - PUBLIC TRADING SECTOR

WATER SERVICE

(i) Manuals (33,000)

Settlement date: 7 December 1980

Unions: GMWU, TGWU, NUPE, NUAAW

The claim seeks a £20 a week increase, consolidation of the efficiency supplement, shorter working week, longer holidays and other improvements and is estimated to be worth 30%.

The employers have offered:

- increases in basic rates
- improvement in shift allowances
- increased standby and callout payments
- 1 day's extra holiday

The offer would add 9.9% to basic rates, but the increase in earnings would be smaller, giving an overall increase in the annual paybill of 7.9%.

The unions rejected the offer and refused at a subsequent meeting on 6 January to negotiate on the structure of the offer without an increase in the total money available. The unions have consulted their membership on a recommendation for industrial action, which appears to have received universal support. The unions are due to meet on 3 February to decide on joint action. Union officials have indicated that they will not resume talks without the assurance of an improved offer. The employers' side met on 28 January and decided to make approaches to the unions in an attempt to reopen negotiations and forestall the 3 February meeting on the basis of improvements to the offer, as yet unspecified.

(ii) Craftsmen (4,900)

Settlement date: 7 December 1980

Unions: CSEU, Union side of NJC for the building industry

The craftsmen have rejected an offer of 9.9% on rates, in line with the offer to non-craftsmen. The overall cost on the pay bill would be 7.7%. The offer was rejected and the parties are to meet again on 13 February.

GAS SUPPLY MANUALS (41,000)

Settlement date: 18 January

Unions: GMWU, TGWU

The claim, which the unions say is worth 23%, seeks increases of 15½% in line with inflation, and consolidation of bonuses at a sum equivalent to one-third of basic pay, this sum to be paid to all workers. (Present bonuses range from NIL to 50%). Other improvements sought are: reduction of working week to 37 hours, increased holidays and increased holiday pay, maternity leave, phased reductions in hours prior to retirement.

The BGC responded on 7 January with an offer worth about 8% on the pay bill in the 12 months starting 18 January, which becomes about 9% in the 12 months starting 2 August 1981, from which date the working week would be reduced to 38¾ hours. The offer was rejected.

The NJIC is due to meet again on 30 January. BGC expect discussion to centre on the question of consolidation of bonus into basic pay; management will not accede to this part of the claim although it may promise talks on this question (separately from this settlement). Other options include a minor increase in basic rates, an increase in the bonus calculator, and in the payment for flexible working procedures. The effect of these options has not been estimated in percentage terms, given the range of answers that might be achieved depending on the eventual deployment adopted in negotiation, but BGC have assured D/Energy that the increase will be marginal. Close liaison with the Water Council is being maintained.

ELECTRICITY SUPPLY

(i) Manuals (92,000)

Settlement date: 20 March

Unions: EETPU, GMWU, AUEW, TGWU

The Electricity Council has received a claim for:

(i) a substantial increase in schedule salaries

(ii) a reduction in working hours to 35 a week

(iii) unsocial hour payments to be based on the hourly rate derived from the schedule salary

(iv) introduction of voluntary early retirement at age 60.

The claim was formally noted at the 8 January NJIC and the employers are expected to respond at the next NJIC on 5 February. Although details are not yet available the Electricity Council have told D/Energy that it favours letting the water and gas industries make the running and it is liaising with both industries. D/Energy expects to be given more information on the Electricity Council's approach on Friday 30 January, and will be reporting this. The Council expects to reach agreement in March. The Council member for Industrial Relations however believes that it will be difficult to reach a settlement which cannot be presented to the industrial employees as similar to that the miners achieved.

(ii) Power Engineers and Technicians (28,000)

Settlement date: 1 February

Union: EPEA

The power engineers are likely, as last year, to await the industrial settlement before tabling their own claim. They are expected to argue that their position is comparable to that of firemen in that they have an existing formula for determining their scales.

BRITISH AIRWAYS (50,000)

Settlement date: 1 January (1 April for pilots)

Unions: TGWU, AUEW, EETPU, ACTSS, AUEW (S & T), APEX, ASTMS, GMWU, FTATU, UCATT, BALPA

The Board initially offered 7½% from 1 July 1981, with no increase from 1 January, and later improved the offer to 8% from 1 April. The offer has been put to the separate National Sectional Panels. It has been rejected by engineering, maintenance and ground support groups, who have already staged a one-day strike on 23 January. It has also been rejected by the clerical and administrative groups, but they are not so far threatening industrial action. Flight engineering officers have accepted, and other groups continue to negotiate on the basis of the offer.

Owing to the Board's losses due to the recession and other causes, the 1980-81 EFL has been increased by £85 m.

BRITISH STEEL CORPORATION (140,000)

Settlement date: 1 January

Unions: BSC-ISTC, BSC-NCCC, NUB, GMWU, TGWU, MATSA, ACTS, ASTMS, APEX, SIMA

The Corporation has presented the unions with a "survival plan" which envisages upwards of 20,000 redundancies, and has proposed pay increases of 7% from 1 July 1981, with no increase from 1 January.

BSC put the survival plan to its whole workforce in a ballot. Out of a 65% response, 78% of votes cast accepted the proposals and 22% were for rejection. Those accepting constituted just over half the total workforce.

In a ballot of their 55,000 members covering both the plan and the pay offer the ISTC obtained only a 51% response. Those voting rejected both proposals. However, following BSC's ballot, the craft and general unions met the Corporation and accepted the whole deal. The Managers' association, SIMA, is also reported to have accepted, following BSC's agreement to continue merit and service payments, which the Corporation had at first proposed should be frozen. In view of the ISTC's now isolated position, BSC is expected to remain firm on the offer and to go ahead with the entire plan.

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

16 January 1981

The Rt. Hon. David Howell, MP
Secretary of State for Energy

Dear David

WATER, GAS AND ELECTRICITY PAY

Thank you for your letter to me about the pay of gas manuals, following Tom King's letter of 7 January about water manuals.

Underlying your letter, quite rightly, is the theme that we need to see the water, gas, and electricity negotiations as closely related. Indeed, there is some anecdotal evidence that the trade unions are doing precisely the same, and are co-ordinating their negotiating strategy, with the water manuals as the front-line troops. This is hardly surprising, given that the unions are the same in the water and gas negotiations, and are also involved in the electricity negotiations. Indeed, I understand that in Scotland the same union negotiator is involved in all three negotiations.

All this emphasizes the need for us, and the nationalised industry negotiators, to look carefully at the picture as a whole. I am glad to see from your letter that the negotiators fully appreciate this, and I am sure that, as we had asked them, they will keep us fully in touch with any developments.

I am sending copies of this letter to the recipients of yours.

Yours ever
Geoffrey

GEOFFREY HOWE

CONFIDENTIAL

CB

file

10 DOWNING STREET

From the Private Secretary

16 January 1981

ARBITRATION IN THE PUBLIC SERVICES

This is to confirm that the Prime Minister is content with the draft Written Answer enclosed with your Secretary of State's minute of 15 January which is to be given today.

I am sending copies of this letter to the Private Secretaries to the other members of E, to Peter Shaw (Department of Education and Science), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

T. P. LANKESTER

Richard Dykes, Esq.,
Department of Employment.

CONFIDENTIAL

DISTRIBUTION

HO
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ENERGY
CHIEF SEC

DES
SO
CO

Agree draft reply. MT

Prime Minister

Mr Prior has pulled back somewhat from the line agreed in E. But the "employer" Departments agree with his approach.

Content with draft answer?

TL 11/7

SECRETARY OF STATE FOR EMPLOYMENT

PRIME MINISTER

cc Mr Lyle
Mr Duguid
Mr Vereker

ARBITRATION IN THE PUBLIC SERVICES

We agreed at E yesterday that I should arrange as soon as possible to answer a question about arbitration so that the Government's views about unilateral access to arbitration are on record.

I attach a draft Question and Answer. I am arranging for the Question to be put down today for Answer tomorrow. This tight timetable is essential if we are to provide cover for the letter Mark Carlisle will be sending tomorrow to the local authorities and teachers' unions starting the consultation process aimed at removing the teachers' right of unilateral access to arbitration. The draft has been agreed at official level with the principal departments concerned.

I understand that the minutes of yesterday's meeting record that my Answer should make it clear that the Government proposes to start consultations with all the employers and employees concerned in the public services with the intention of withdrawing the right of unilateral access to arbitration in all appropriate cases.

On reflection I am firmly of the view that this would be an unfortunate way to proceed. It would be likely to provoke unnecessary backlash and give hostages to fortune. It could well upset the local authorities whose arbitration arrangements are a matter for them rather than for the Government. It could exacerbate an already serious situation in the water industry. It could make our forthcoming negotiations with the Civil Service unions more difficult. And perhaps raise unnecessary fears on the part of the police.

I am sure the best way to achieve our objective is to proceed in a low key, to place on the record a firm statement of the Government's view on the general principle, and then make progress on a case by case basis.

CONFIDENTIAL

Accordingly I propose to give written answer tomorrow in the terms of the attached draft unless you or other colleagues dissent.

Copies of this letter go to other members of E, to Mark Carlisle, to George Younger, and to Sir Robert Armstrong.

J P

15 January 1981

Mr Carlisle has asked me to say that it is most important for him that the Answer goes down tomorrow.

TL

15/1

CONFIDENTIAL

DRAFT ARRANGED WRITTEN QUESTION AND ANSWER FOR THE SECRETARY OF STATE FOR EMPLOYMENT

Q What is the Government's view about arrangements which provide for the unilateral reference of disputes to arbitration.

A The Government's view accords with the principle reflected in Section 3 of the Employment Protection Act 1975: and is that, except in special circumstances, arrangements about arbitration should provide for access to arbitration only with the consent of both sides to the dispute.

CONFIDENTIAL

Mr Walters
Any comments to Tim Lankester by Friday am please.

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

JK, P.
It seems that 7% is the minimum first offer (even after the pause in BSC & BA). So what hope is there of 6%..!
AW

PRIME MINISTER

MONITORING REPORT - PUBLIC TRADING SECTOR

Following the establishment of E(PSP), my officials have been discussing with their colleagues in the Cabinet Office and Prime Minister's Office the appropriate arrangements for dealing with monitoring material on the public services. ... This minute and its enclosure deal with the public trading sector. I am sending it to those colleagues who received the original monitoring reports, and to those who are responsible for the major negotiations in progress. The enclosure is limited to factual material and comment; this covering minute tries to identify the issues that arise.

2. My view is that the main issue arising on any negotiation in the public trading sector is whether or not the Government ought to seek to influence the negotiations by contact with the management's side. Clearly we should not seek to influence the negotiations overtly, and our public comments would need to bear this very much in mind.

3. The water and gas negotiations are at delicate stages, and electricity may well come to this stage shortly. The employers in all three industries are now formally co-ordinating their negotiating tactics. They hope to secure a settlement in water first in order to pre-empt demands for parity if settlements in other utilities are higher.

/4. Any moves will

4. Any moves will need to be thought through very carefully. Sponsoring Ministers are in close touch with the industries, whose Chairmen have been well acquainted with our views on the need for low settlements. On that basis, my view is that there is nothing further to be done at this stage to influence the management sides. No doubt colleagues will indicate if they dissent from this view.

5. I am sending copies of this minute to the Lord President, the Secretaries of State for Employment, Environment, Energy, Industry, Transport, Mr Ibbs and Sir Robert Armstrong.

(G.H.)

14 January 1981

PUBLIC TRADING SECTOR

Nationalised Industry Chairmen's Group

At the meeting of the Group on 17 December, the Chancellor pressed home the Government's message on pay. He said that there was no national or public sector pay policy in terms of precise figures. For the industries, he suggested a reasonable expectation was increases comparable to those in the parts of the private sector most open to international trading conditions. The Government was crucially concerned to get settlements as low as possible, bearing in mind that three fifths of the UK's loss of competitiveness since 1978 was due to high wage costs. 6 per cent was not unreasonable in the light of experiences in the period 1951-1964 when increases also averaged 6 per cent, of which 3 per cent was inflation and 3 per cent growth.

2. Water Service Manuals (33,000)

Settlement date: 7 December 1980
Unions: GMWU, TGWU, NUPE, NUAAW

The claim seeks a £20 a week increase, consolidation of the efficiency supplement, shorter working week, longer holidays and other improvements and is estimated to be worth 30%.

The employers have offered:

- increases in basic rates
- improvement in shift allowances
- increases standby and call-out payments
- 1 day's extra holiday.

The offer would add 9.9% to basic rates, but the increase in earnings would be smaller, giving an overall increase in the annual pay bill of 7.9%.

/The unions rejected

The unions rejected the offer on 10 December, and refused at the subsequent meeting on 6 January to negotiate on the structure of the offer without an increase in the total money available. The unions will now consult their members, recommending industrial action in support of their claim. The employers remain divided about whether the offer should be increased, and about the probability of industrial action. Some unofficial action at least is quite likely, but there are no signs that the employers will make concessions at this stage. A significantly higher offer in the gas industry would make it hard to hold the present line; on the other hand endorsement of the provisional LA manuals settlement (due by 27 January) would strengthen the employers negotiating position. Ministers have agreed to stand firm against any pressure to endorse an increased offer and to refrain from commenting on the negotiations at this stage.

3. Gas Supply Manuals (41,000)

Settlement date: 18 January
Unions: GMWU, TGWU

The claim, which the unions say is worth 23%, seeks increases of 15½% in line with inflation, and consolidation of bonuses at a sum equivalent to one-third of basic pay, this sum to be paid to all workers. (At present bonuses range from nil to 50%). Other improvements sought are: reduction of working week from 40 to 37 hours, increased holidays and increased holiday pay, paternity leave, phased reductions in hours prior to retirement. The pay assumption underlying the EFL was set at 10%. The BGC responded at a meeting of the NJIC on 7 January with an offer worth about 8% on the pay bill. The standard working week would be reduced to 38¾ hours from 2 August. This was rejected by the union representatives. The NJIC is due to meet again on 30 January.

4. Electricity Supply

(i) Manuals (92,000)
Settlement date: 20 March
Unions: EETPU, GMWU, AUEW, TGWU

/The Electricity Council

The Electricity Council has received a claim for:

(i) a substantial increase in schedule salaries
(ii) a reduction in working hours to 35 a week
(iii) unsocial hours payments to be based on the hourly rate derived from the schedule salary
(iv) introduction of voluntary early retirement at age 60.

This was discussed at the meeting of the NJIC on 8 January, when the Council formally took note. The employers will respon at the next NJIC, on 5 February, and the Council expects to reach agreement in March.

The Council does not yet know what percentage increase the unions intend to claim. The Industrial Relations member believes that while the union leaders in the supply industry understand the real position on miners' wages, it will be very difficult to reach a settlement which cannot be presented to the industrial staff as similar to that the miners achieved.

(ii) <u>Power Engineers and Technicians (28,000)</u>

Settlement date: 1 February
Union: EPEA

It is expected that, as last year, the power engineers will await the industrial settlement before tabling their own claims.

An indication of the EPEA's likely attitude was given in an article by the General Secretary in the December issue of the union's Journal. The position of the power engineers is compared to that of the firemen. It is claimed that the engineers have an existing formula linking their scales to the pay of the industrial grades for whom they are responsible. The article says that EPEA members possess real industrial powers, whereas the firemen do not.

/The Electricity Council

The Electricity Council Chairman attended the meeting of 18 December between the Chancellor and Nationalised Industry Chairmen and is thus acquainted with the Government's views on the level of pay increases. The EFL pay assumption is 10%.

5. British Airways - (50,000)

Settlement date: 1 January (1 April for pilots and flight engineers)

Unions: TGWU, AUEW, EETPU, ACTSS, AUEW (S & T), APEX, ASTMS, GMWU, FTATU, UCATT, BALPA.

At the start of the negotiations, BA met all the unions jointly and proposed 7½% from 1 July 1981, with no increase until then. After internal consultations, the TU side decided on 5 December that central negotiations and the offer were both unacceptable and insisted on separate negotiations within the eleven National Sectional Panels as in past years. BA has since met 8 of the Panels. In each case the opening offer was rejected and BA moved to a revised offer of 8% from 1 April. The unions have been consulting their members and will hold a mass meeting on 14 January to consider a proposal for a 24-hour strike on 23 January.

6. British Steel Corporation (140,000)

Settlement date: 1 January

Unions: BSC-ISTC, BSC-NCCC, NUB, GMWU, TGWU, MATSA, ACTS, ASTMS, APEX, SIMA.

The Corporation has presented the unions with a "survival plan" which envisages upwards of 20,000 redundancies, and has proposed pay increases of 7% from 1 July 1981, with no increase from 1 January. BSC has also told the unions that if things did not work out as planned in the first half of 1981, they would have to take steps to raise funds for the 7%, and these steps might include additional redundancies.

/It is reported that

It is reported that the NUB, the craft and general unions, and SIMA (the managers' association) are advising their members to accept the offer. BSC has put the issues to the whole workforce in a ballot returnable on 16 January.

The ISTC is balloting its members as to whether they will accept the pay offer and whether they endorse the plan. Members are reportedly being advised to reject the plan, but are given no recommendation on the offer. Ballot papers are returnable by 16 January.

BSC meets the general and craft unions again on 19 January, and ISTC on 20 January.

Ref: A03980

CONFIDENTIAL

PRIME MINISTER

Arbitration on Public Services Pay
(E(81) 6)

BACKGROUND

At their meeting on 4th December, the Committee agreed in principle that unilateral access to arbitration was undesirable (E(80) 43rd Meeting, Item 1). The Secretaries of State for Education and for Scotland were invited to consult their respective employers' organisations for teachers and to encourage them towards withdrawing from unilateral arbitration in time for the pay settlements in 1981, and in advance of the wider changes envisaged for teachers' pay and conditions of service. At the same time the Secretary of State for the Environment was invited to encourage the water industry, and the local authority employers of staff and craftsmen, to amend their arrangements for settlements in 1981.

2. In E(81) 6 the Secretary of State for Education reports progress on his discussions and asks for urgent guidance on the next steps. A decision on whether or not to withdraw unilateral arbitration has to be taken this week, because the first meeting of the negotiating committee on teachers' pay is on 18th February and the unions may formally lodge their claim by 21st January. Once they have done so, the advice is that any change in the arrangements for negotiations would be open to challenge in the courts.

3. The views of the local authority employers are divided. The Association of County Councils want to make the change for teachers, though they have not decided whether to act on other groups (paragraphs 2 and 4(a)). The Association of Metropolitan Authorities are strongly opposed to change: they see advantages in the present system and do not believe that it will necessarily lead to high settlements and they are worried that a change could forfeit their ability to take teachers to arbitration on pay and conditions of service after 1981 (paragraph 3).

4. I understand that the Secretary of State for Scotland is likely to argue strongly against any changes for Scottish teachers now. Last year the employers made successful resort to unilateral arbitration; and, in any event, the Scottish teachers have already tabled a claim so ruling out any changes in the negotiating arrangements now.

5. The Secretary of State for the Environment has not yet consulted the water authorities and the local authority employers on this question. It would be clearly inopportune to do so during the current dispute over pay in the water industry. The next relevant pay negotiations for local authority employees - white collar workers - are not due until July.

6. The Secretary of State for Education does not state his own view. He believes, however, that it is necessary for all three Secretaries of State to act in unison and my reading of his paper is that he does not wish to make changes for the teachers in England and Wales now.

HANDLING

7. After the Secretary of State for Education has introduced his paper you will wish to invite the Secretaries of State for the Environment and for Scotland to state the position on the groups for which they are responsible and to give their views. The Attorney General is present to deal with any questions which might arise on the timing of the changes and the risk of court proceedings.

8. If the Committee accepts that teachers North and South of the border, and other local authority employees, have to be treated in the same way and at the same time as regards unilateral access, that probably rules out any change now.

9. The Committee may, however, not be persuaded that in principle it is necessary to keep all groups in step in this way. In that event, the main question before the Committee is whether a change now is in the best interests of securing a satisfactory outcome to the teachers' pay settlement for 1981 and of negotiating changes in the provisions in the Remunerations of Teachers Act for pay and conditions. The Committee will wish to give weight to the division of views between the local authority employers.

CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions on:-

(i) whether the Secretary of State for Education should formally consult unions and employers this week with a view to amending the arbitration arrangements for the 1981 pay round;

(ii) any consequential action which the Secretaries of State for Scotland and the Environment should take now on the groups for which they are responsible;

(iii) whether each Secretary of State should continue to urge changes in the arrangements as soon as practicable.

RA

(Robert Armstrong)

13th January 1981

CONFIDENTIAL

cc: Mr. Walters
Mr. Ingham
Mr. Duguid

PRIME MINISTER

E, 14 January: Arbitration on Public Services Pay

A decision has to be made this week on whether Mr. Carlisle should take steps to remove the unilateral right of access to arbitration for teachers for the 1981 pay negotiations. Mr. Carlisle has found it difficult to make a recommendation in his paper E(81)6 because of the links with unilateral access to arbitration for Scottish teachers, and for other local authority employees in England and Wales. Mr. Heseltine and Mr. Younger have not yet taken action to consult the employers.

I doubt if Mr. Carlisle is right to assume that action must be taken at the same time with all the groups involved, and it would seem right for E to take a decision on teachers in England and Wales on its merits. Those merits are not clear-cut: there are reasonable arguments both for and against, presented by the County Councils and by the Metropolitan authorities respectively. However, if no action is taken on teachers in the 1981 pay round, it seems unlikely that progress will be made with other groups in this pay round either, in which case the whole issue of unilateral access to binding arbitration will start to slip from our grasp. If Mr. Carlisle accepts the feasibility of proceeding independently, I think the balance of argument rests with so doing.

J.

13 January 1981

A.C.C. ✓

A.M.A. ✗

Welsh ✓ ✗ ?

CONFIDENTIAL

MR. LANKESTER

PL. 14/1

PUBLIC SECTOR PAY: THE MONITORING REPORTS AND NEW CABINET OFFICE MACHINERY

The relationship between these two continues to cause difficulty, and my minute to you of 16 December suggesting that the Monitoring Reports should now reach the Prime Minister via papers for the new Ministerial Committee was not the last word, because that system has proved capable of generating delay. The Treasury then proposed to revert to sending the Reports under cover of a letter from the Chancellor, to which I objected on the grounds that the Prime Minister would be receiving advice which partly duplicated and which could contradict work done by the Cabinet Office machinery. At my suggestion, Peter Dixon, Peter Le Cheminant and I discussed the whole thing again this morning, and although there is no need to trouble the Prime Minister with this, you should know what we have agreed.

Henceforth the Monitoring Report will be circulated as a Treasury paper to the Ministerial Committee under cover of a note from Peter Le Cheminant identifying the issues. If there is time for it to be looked at by the Official Committee, it will be, but if not, Le Cheminant will circulate it anyway.

But the Treasury will deal separately with that part of the Monitoring Report which relates to the nationalised industries; because they are outside the terms of reference of the Cabinet Office machinery, they will be dealt with by means of a letter from the Chancellor to the Prime Minister as before.

I hope this works.

JV

J. M. M. Vereker

12 January 1981

cc Mr Ingham
Mr Duguid

Econ Pol

MR VEREKER

Monitoring Reports

The Prime Minister has read your note of 16 December and is content with the revised procedures for the monitoring reports.

T. P. LANKESTER

17 December 1980

NPW

CONFIDENTIAL

Prime Minister
The proposed change of procedure seems sensible – i.e. no need for the Treasury to minute you separately.
[initials] 16/12

MR. LANKESTER

Agreed MT

c. Mr. Ingham
Mr. Duguid

MONITORING REPORTS

There has been a good deal of discussion about the future of the monitoring reports which are sent to the Prime Minister by the Chancellor every three weeks, now that formal Cabinet Office machinery has been set up to deal with public service pay. The Treasury and the Cabinet Office have agreed that the material prepared by the monitoring group will be an input to the new Official Committee, who will identify the issues it thinks need to be drawn to the attention of the Ministerial Committee; but that this need not prevent the Treasury from continuing to produce its reports directly for the Prime Minister.

The Treasury are now proposing to eliminate the stage of providing monitoring reports for the Prime Minister, on the grounds that the contents will be circulated not only as an Official Committee paper but also as one of the Ministerial Committee papers, which the Prime Minister will of course see.

I have said that I wished to consult the Prime Minister on this point. It was at her specific request that the monitoring arrangements were set up last summer, and the arrangements now proposed by the Treasury will mean that the monitoring group's report will not be accompanied as hitherto by a letter from the Chancellor or his Private Secretary indicating the issues to which he attaches importance, but will be accompanied instead by a short Cabinet Office summary of the issues. Furthermore, you recorded on 3 December that the Chancellor and the Prime Minister had had a brief word about the monitoring arrangements, and had concluded that they ought to continue unchanged.

If the Prime Minister is content, I think we can accept what the Treasury propose. Mr. Le Cheminant is moving the Official Committee's work along at a brisk pace, and I doubt if the new arrangements would mean that monitoring reports would

/reach the

CONFIDENTIAL

reach the Prime Minister very much later than they do at present; and if there are issues which the Chancellor wishes to draw to her attention, he is probably best placed to do so after they have been discussed in the Ministerial Committee. The next meeting of the Official Committee is on Thursday, and I should like to be able to convey the Prime Minister's decision then.

J.V.

16 December 1980

CONFIDENTIAL

MR. LANKESTER R 16/12

c. Mr. Ingham
Mr. Duguid

PUBLIC SERVICE PAY: CASH LIMITS

In view of recent correspondence at Private Secretary level - PS Chancellor on 21 November, PS Paymaster General on 24 November and PS Mr. Heseltine on 11 December - I think I should bring you up to date on discussions at official level concerning the issue of when cash limits for the public services and the NHS should be settled and announced.

The first meeting of the new Cabinet Office Official Committee, PSP(O), identified this as the main issue needing to be drawn to the attention of the new Ministerial Committee, E(PSP). The Secretariat have drafted a paper for E(PSP) which sets out the arguments for and against in a fair and balanced form. I have asked for a strengthening of the arguments in favour to pick out the point made in the letter from Mr. Heseltine's Private Secretary that no announcement will increase suspicions among local authority employees that they are to be discriminated against; and I have checked that the Treasury will be briefing the Chancellor in favour of an announcement - in accordance with his discussion with the Prime Minister on 26 November.

The first meeting of E(PSP) is to take place this Friday. We must expect that the Lord Chancellor, and the Secretaries of State for Employment and Health and Social Security will be opposed to an early announcement; the Chancellor will have to make a judgement as to whether or not this issue should be taken further, either in E or in Cabinet.

JV.

16 December 1970

CONFIDENTIAL

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CONFIDENTIAL

cc Duguid
Vereker

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/18918/80

Your ref:

NBPM

11 December 1980

Dear Clive

PUBLIC SECTOR PAY: MONITORING REPORT

My Secretary of State has seen John Wiggins' and Richard Prescott's letters of 21 and 24 November to you on this subject.

My Secretary of State believes that from the local authority employers' point of view the best possible course would be early announcement of cash limit pay factors for other groups which are demonstrably consistent with the 6% RSG figure. Anything else will compound the difficulty already created for them by the announcement of the RSG figure in isolation. Silence will increase their suspicion that other groups (particularly the Civil Service) are to be given softer treatment; announcement of clearly higher figures will confirm it. In either case their chances of achieving a reasonable settlement with the manuals are reduced. If cash limit pay factors for other groups are to be significantly higher, however, the timing of announcements will need to be considered case by case in the light of progress in the manuals' negotiations, which are due to start on 18 December. But even if the announcement of higher figures is delayed until after a manuals' settlement is reached (which may itself be well into the New Year) these will still affect the other major local government negotiations coming later in the pay round.

I am copying this letter to the recipients of the earlier correspondence.

Yours sincerely

Jeff Jacobs

J JACOBS
Private Secretary

C A Whitmore Esq

CONFIDENTIAL File

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Official Committee on Public Service Pay

The Prime Minister and the Chancellor had a word about the Chairmanship of this Committee when they met this evening, and the Chancellor said that he was prepared to go along with the Cabinet Office taking the Chair.

T. P. LANKESTER

3 December 1980

CONFIDENTIAL

Ref: A03719

Econ Pol

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PRIME MINISTER

Arbitration on Public Services Pay
(E(80) 131)

BACKGROUND

At their meeting on 16th October the Committee invited the Secretary of State for Employment to arrange for officials of his Department to co-ordinate an interdepartmental report on the scope for, and implications of, changing arbitration arrangements in the public services (E(80) 37th Meeting, Item 2). The Committee saw considerable disadvantage in perpetuating arbitration arrangements in the public services which provided for unilateral access to the arbitration process. They were concerned that any changes in the arrangements should be co-ordinated to avoid a piecemeal series of announcements.

2. In his present memorandum (E(80) 131) the Secretary of State for Employment makes a number of general points and then, in his paragraph 6, specific recommendations for particular public sector groups.

HANDLING:

3. After the Secretary of State for Employment has introduced his paper, and subject to any general points Ministers may wish to make, the discussion could be based on the proposals listed in paragraph 6 of E(80) 131, and decisions recorded on each group as the Committee works through the list.

Teachers in England and Wales

4. Following discussion in E(EA) the Secretary of State for Education and Science has now opened discussions on the review of the Remunerations of Teachers' Act, 1965 with a view to establishing a unified national negotiating machinery dealing with conditions of service including pay, and to gaining greater control of access to arbitration and of the implementation of arbitral awards. On present plans new legislation could not be introduced until the 1981-82 Session, but the Secretary of State for Education has now written to the Chancellor of the Duchy of Lancaster to urge him to find room for legislation this Session so that the arrangements are in place in time for the 1981-82 pay

round. Given the pressures on the 1980-81 timetable and QL's decision on 1st December to withdraw Bills previously in the programme, it is most unlikely that an Education Bill can now be added.

5. The immediate question for E is whether, irrespective of the timing of legislation, the Secretary of State for Education should be urged to negotiate for the withdrawal of unilateral access before negotiations begin, around next January, for the April 1981 settlement. If that is the view of E, the Secretary of State for Education will no doubt wish to make the taking of any such initiative subject to discussions first with the local authority employers, who may themselves have strong views on the pros and cons.

Scottish Teachers

6. The Education (Scotland) Bill which is now being introduced for enactment by no later than June 1981 will simplify the present arrangements for determining Scottish teachers pay, bring together negotiations on pay and on conditions of service, and strengthen the Secretary of State's hand over access to arbitration and setting aside arbitral awards.

7. The question for E is whether any changes on unilateral access should take place after the Bill is enacted or whether they should be negotiated prior to the April 1981 settlement. If it is decided to go now for such a change for England and Wales, that would point to keeping in step in Scotland unless the Committee is persuaded that a different approach North and South of the Border could be defended.

University Teachers

8. Present arrangements provide for a dispute to go to arbitration "if the two sides so agree (such agreement not to be unreasonably withheld)". Unless the qualification in brackets can be withdrawn by negotiation there is in effect a right of unilateral access.

9. The Secretary of State for Education makes a sound case, in his letter of 20th November to the Secretary of State for Employment, against taking action immediately: the negotiations for the October 1980 settlement are well under way and it is therefore too late to open the question of the existing arbitration arrangements, even if that were thought desirable. If that is accepted the question is whether the Secretary of State should aim to negotiate new arrange-

13°/o

ments prior to the 1981 settlement. If this proved impracticable - for example, if the price were too high - legislation at the next opportunity would probably be necessary. Could this be combined with the legislation on the remuneration of school teachers?

Non-industrial Civil Servants

10. The Civil Service Department find the present arrangements have considerable advantages for management. Either side can request reference of disputes on pay and other matters to the independent Civil Service Arbitration Tribunal. The Government however can deny arbitration on grounds of policy - for example, if a claim were in excess of the level permitted by the cash limits. This advantage to management would most likely be lost in any revised arrangements and would be worthwhile only if some other compensating benefits could be secured. The Secretary of State for Employment does not like the present arrangements because it is he who is in the embarrassing position of having to deny access to Civil Service unions on policy grounds.

11. The question for E is whether any changes for the Civil Service should be negotiated in due course in the context of the wider review of arrangements for pay or whether any initiative should be taken now to warn the unions that unilateral access to arbitration will not be available to them in respect of the April 1981 settlement.

Police

12. New arrangements were only recently set up under the Police Negotiating Board Act 1980. Either side can take the initiative on arbitration. The Home Secretary can refuse to implement an agreement for reasons of grave national importance.

13. The question for E is whether they agree that as the police are a special case (they have no right to strike), and as the new arrangements have only just been introduced, there should be no change at this stage.

Water Workers

14. The proposal is that the Secretaries of State for the Environment and for Scotland should invite the employers to consider re-negotiating the unilateral arbitration arrangements in their agreement.

Local Authority Staff and Craftsmen

15. It is proposed that, once the current settlements are out of the way, the local authorities should be encouraged to renegotiate their arrangements so as to remove unilateral access before the 1981 settlements. The Secretaries of State for Environment and for Scotland will wish to comment.

United Kingdom Atomic Energy Authority Staff

16. The question is whether the Committee accepts the Department of Energy's recommendation that the present agreement providing unilateral access should not be changed on the grounds that it has never caused difficulties and that the group have an automatic pay link with the Civil Service.

CONCLUSIONS

17. These will arise in the course of discussion on each of the groups listed in paragraph 6 of E(80) 131.

RA

(Robert Armstrong)

3rd December 1980

RESTRICTED CF MM

MR LANKESTER

cc Mr. Wolfson
Mr Duguid

PSP(O)

The first meeting of the new official committee on Public Service Pay - PSP(O) - will take place next Wednesday afternoon, and as agreed by you and Mr. Hoskyns I shall represent No.10. There is one point which I think the group will have to consider right away, and on which you and others may have a view.

David Miles in the Cabinet Office tells me that he expects that many Departments will be represented at Deputy Secretary level, although Mr. Dixon will almost certainly represent the Treasury. Such a group cannot be expected to meet too frequently, and will certainly not want to engaged in detailed monitoring work. But monitoring is an essential ingredient of public service pay work at present, since it is only by thorough examination of current issues that anticipation of problems can be done. The Cabinet Office are therefore at present assuming that the Dixon monitoring group will continue, although its report will be an input to PSP(O). My own feeling - and I think the Chancellor confirmed this at the Prime Minister's meeting on 26 November - is that two groups will incorporate delay (admittedly, on 26 November we were all assuming that both groups would be chaired by Mr. Dixon). If PSP(O) cannot meet until the Dixon group has chewed over the current situation and identified issues, and the new ministerial group cannot meet until PSP(O) has considered how to advise Ministers, it is virtually certain that the machinery will not generate advice to Ministers and if necessary to the Prime Minister in time for action to be taken in advance of events.

I think therefore that we should steer PSP(O) into meeting fairly regularly on the basis of a report prepared by its secretaries (who ought to include Mr Rayner in the Treasury),

RESTRICTED

/a report

a report which can be prepared, without a meeting, by the Treasury in consultation with the Department of Employment. Do you think this is right?

J.V.

3 December 1980 | JOHN VEREKER

CONFIDENTIAL

R H

cc:- Mr Vereker

MR HILTON
CABINET OFFICE

Public Service Pay

This is to confirm that the Prime Minister is content with the proposals set out in Sir Robert Armstrong's minute (A03592) of 28 November for the Ministerial and Official Committees on Public Service Pay.

I am sending a copy of this note to John Wiggins (HM Treasury).

T. P. LANKESTER

1 December, 1980

CONFIDENTIAL

cc Mr Walker
Mr Duguid

Ref: A03592

Prime Minister
I support these proposals. In particular, I think it is right - because they are such important public service employers - to include Mr Heseltine and Mr Jenkin on the ministerial committee and also that the official committee be chaired by the Cabinet Office.
Content?
TL 29/x

Yes mt

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MR. LANKESTER

Public Service Pay

Your minute of 27th November asked me to advise on the composition and terms of reference of the proposed new Ministerial Committee on Public Service Pay and of its supporting official committee.

Ministerial Committee

2. I attach suggested composition and terms of reference. What is proposed is, as indicated in your minute, a new sub-committee of the Ministerial Committee on Economic Strategy, with the Chancellor of the Exchequer in the chair. I have included on it, of course, the Lord President of the Council and the Secretary of State for Employment. The interaction between the Civil Service, local government and the National Health Service is such that I believe it would be right to have on the sub-committee, as permanent members, the Secretary of State for the Environment and the Secretary of State for Social Services. I have included the Paymaster General to cover presentational matters. I suggest also that the Chancellor may find it convenient to be accompanied by the Chief Secretary, so that he does not have to carry the whole load of the Treasury position from the chair.

G.E.
L.P.
Empl.
Env.
S.S.
PMG.
C.S.

Official Committee

3. Again, I attach suggested composition and terms of reference. I should like to suggest two departures from what was proposed in your minute:-

(i) I believe that the official committee is likely to be more effective if it is at Deputy Secretary rather than at Under-Secretary level. I have spoken to Sir Douglas Wass, who sees the force of this view and would go along with it.

(ii) Although the Treasury is the central Department with a co-ordinating role on public service pay, it is seen by Departments as very much parti pris in the argument. I believe that it might both be easier for the Treasury

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representative to speak to the Treasury point of view and more acceptable to other Departments if the committee were chaired by a neutral chairman. The attached composition suggests accordingly.

4. Once again I have proposed, in addition to the Civil Service Department the Treasury and the Department of Employment, the inclusion of representatives of the Department of the Environment and the Department of Health and Social Services. I believe that it may also be useful to include the Policy Unit at No. 10 and the CPRS on this official committee.

5. I am sending a copy of this minute to Mr. Wiggins, Treasury.

RTA

(Robert Armstrong)

28th November 1980

E(PSP)

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON PUBLIC SERVICE PAY

Composition

Chancellor of the Exchequer (Chairman)
Lord President of the Council
Secretary of State for Employment
Secretary of State for the Environment
Secretary of State for Social Services
Paymaster General
Chief Secretary, Treasury

Terms of Reference

"To co-ordinate the handling of pay issues in the public services, and to report as appropriate to the Ministerial Committee on Economic Strategy."

PSP(O) ___

OFFICIAL COMMITTEE ON PUBLIC SERVICE PAY

Composition

Mr. P. Le Cheminant (Cabinet Office) (Chairman)

and representatives of:-

Prime Minister's Office

Civil Sevice Department

Treasury

Department of Employment

Department of the Environment

Department of Health and Social Services

CPRS

Other Departments will be invited or can ask to be represented when issues involving their departmental interests are under consideration.

Terms of Reference

"To consider and advise the Ministerial Sub-Committee on Public Service Pay (E(PSP)) on the handling of pay issues in the public services."

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File

SUBJECT

bc John Vereker
John Hoskyns
David Wolfson

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG
CABINET OFFICE

BF 11.12.80

Public Service Pay

The Prime Minister discussed with the Chancellor last night his minute of 21 November on public service pay machinery. They agreed that a new Sub Committee of E should be established to cover public service pay. This would be chaired by the Chancellor, and other members would include Lord Soames and Mr. Prior. The Prime Minister's and the Chancellor's inclination was to keep the Committee small and invite other Ministers to it when issues for which they were responsible came up; but it was for consideration whether one or two other Ministers should be added to the regular membership. Because presentation was often an important aspect of pay issues, it might be desirable to include Mr. Maude on the Committee; another point - which the Chancellor mentioned to me after the meeting - was that it might be desirable to include a Minister who would "speak up for the private sector".

The Prime Minister and the Chancellor agreed that the new Ministerial Committee should be supported by a committee of officials, which would be chaired by a Treasury Under-Secretary and serviced by the Cabinet Office. In addition, the Treasury should continue to produce a regular monitoring note on public sector pay, which would draw attention to upcoming issues in both the public services and the nationalised industries. But the Ministerial group would not consider issues outside the public services.

The Prime Minister would be grateful if you would provide advice on the composition and terms of reference of the new Ministerial Committee and of its supporting official committee.

I am sending a copy of this note to John Wiggins (HM Treasury).

T. P. LANKESTER

27 November 1980

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PRIME MINISTER (E-Folder)

cc. Mr. Wolfson
Mr. Ingham
Mr. Hoskyns

E, 26 November: Arbitration on Public Services Pay

Mr. Prior's paper, E(80)131, makes a number of helpful recommendations designed to minimise the adverse effect on pay settlements of the right of some groups to unilateral access to binding arbitration.

2. It is particularly important for the outcome of the next pay round, and also in some cases for the outcome of this one, that these arbitration arrangements be withdrawn as far as possible. Of the eight groups listed in paragraph 6 of the paper, the proposals in respect of the first two (school teachers) and of the fourth (civil servants) meet this objective.

3. On the other five groups I have these comments:

University Teachers: Mr. Carlisle has written (flag A) to say that action to renegotiate should not be aimed at the current year's settlement, but at 1981. I think E can accept that: university teachers' access to arbitration is not entirely unilateral (an independent Chairman has to agree); and there is a considerable danger of adversely affecting the current pay negotiations if the arbitration arrangements are now re-opened.

The Police: As long as the police have their indexation agreement, their access to binding arbitration is probably not important; but E should not rule out looking at it again, and could merely agree not to renegotiate the agreement this year.

Waterworkers: The waterworkers are pursuing a large claim and are potentially disruptive; unilateral access to binding

/ arbitration

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arbitration reduces the chances of a satisfactory outcome. E should agree to ask the employers to renegotiate, not just to "consider renegotiating".

Local Authority Staff: The award for the APT & C (white collar) grades was high - 13 per cent from 1 July 1980, plus 2 per cent from 1 April 1981 and 5 days' extra leave. This reinforces the need to renegotiate the agreement urgently.

UKAEA staff: It is not at all clear why UKAEA staff should be allowed to retain their arbitration arrangements. Their automatic pay link with the civil service did not prevent their claiming 30 per cent from 1 October this year, and if arbitration is to be withdrawn from the civil service next year, it should surely also be withdrawn from UKAEA staff.

4. One group not mentioned in Mr. Prior's paper is the Probation Service. They also have access to arbitration, which they used this year. But the arbitration is not binding, because it is subject to the Home Secretary's veto. E could agree not to alter the arrangement provided the Home Secretary indicates he is prepared to use it.

J.

25 November 1980

Econ Pol

PRIME MINISTER

MEETING WITH THE CHANCELLOR AT
1830 HOURS ON WEDNESDAY 26 NOVEMBER

I suggest you discuss:-

(i) The latest monitoring report on public sector pay (Flag A), and also the Chancellor's minute at Flag B on public service pay machinery. There is also a note from John Vereker on all this (Flag C), and I suggest that we invite him in for this item.

Agree? ✓ Yes

(ii) The announcement of Departmental manpower reductions. Papers on this are at Flag D.

(iii) The Chancellor's proposal that Mr. Heseltine should be put on to NEDC.

TL

25 November 1980

PRIME MINISTER

cc. Mr. Wolfson
Mr. Ingham
Mr. Hoskyns

PUBLIC SECTOR PAY

You have agreed to discuss with the Chancellor this week:

(1) The latest report from the official monitoring group (Flag A), and
(2) The Chancellor's minute of 21 November on machinery for dealing with public service pay issues (Flag B).

This note identifies the main issues that need to be resolved.

1. Issues arising from the Monitoring Group Report

(a) Pay Review Bodies: Treasury officials are hoping that the Chancellor's paper can be put to E in the week beginning 8 December. There is no need for you to discuss this with the Chancellor yet.

(b) Cash Limit announcements: E decided that the pay factors in the cash limits should be finally decided, and announced, when operationally necessary. The NHS ancillaries have now put in their claim; the settlement date is 13 December but negotiations may not start in earnest until the New Year. Mr. Jenkin is understood to be reluctant to fix and announce the pay factor; but (a) an early announcement is needed to lower NHS expectations, and (b) the lack of an announcement tends to reinforce the belief that the Government is prepared to see the 6% pay factor edged upwards.

- Does the Chancellor agree that the NHS pay factor should now be settled and announced?

(c) Pressure on Nationalised Industry Chairmen: You asked sponsor Ministers to approach their Chairmen after the EFL announcement. The Chancellor fears this may lead to different

/ interpretations

interpretations in different industries, and suggests that he do it with all of them at the next Chairmen's group in mid-December. This seems sensible except in the case of the Water Service (see below) where earlier action is needed.

- If you agree, the Chancellor can be asked to speak to all NI Chairmen in mid-December, without prejudice to additional action being taken before then in the case of the water service.

(d) <u>More effort needed to put the message across</u>: The Chancellor's Private Secretary records the Chancellor's view that the message has not been getting across as clearly as desirable. There have certainly been difficulties over the 6% pay factor, partly because the RSG assumption has been announced without the central government cash limit pay assumption, and partly because the 11% for non-pay factors has not been announced; and the initial media reaction over firemen's pay was unfavourable. But the fall in pay expectations, and the fall in pay awards, since the summer has been dramatic - I doubt if anyone in July, when settlements were exceeding the rate of inflation by several percentage points, expected that by November settlements would be falling well short of a much lower inflation rate. The change in attitudes has probably largely been determined by events rather than by presentation, but Ministers have been, in general, very responsive to the need to explain the strategy. In the week of the announcement of the 6% pay factor, twenty Ministers - apart from Treasury Ministers - made speeches about pay and inflation. We have it in mind to stimulate more articles by Ministers in the national and regional press.

— Why does the Chancellor think the message is not getting across, and what more does he think should be done?

(e) <u>Arbitration Agreements</u>: Mr. Prior's paper comes before E tomorrow (I am briefing on that separately); there is no need to discuss with the Chancellor.

/ (f)

(f) Danger Areas: The monitoring group has identified four groups who may take industrial action shortly in pursuit of their pay claims:

(i) Firemen: The employers may be willing to negotiate up from 6%, but the firemen have so far ruled out coming down from full indexation. Contingency arrangements are therefore in hand for a series of lightning strikes; and we need to decide whether the time has come to start actively swinging public opinion in the Government's direction, by more interventionist Ministerial statements. The attached memo from Nick True in Conservative Research Department ~~(Flag C)~~ attached makes a convincing case for going on the attack. That is reinforced by the fact that some unions - notably NUPE - have made it clear they will regard the outcome of the firemen's negotiations as a comparator, not as a special case.

- Does the Chancellor agree we should now encourage Ministers to speak out on firemen's pay (if so I would put out a note through Mr. Maude's Office, cleared of course with the Home Office).

(ii) Water Workers: The Chairman of the National Water Council (NWC) has said that he hopes to keep the settlement within single figures; and has offered to talk to Ministers further before making an offer on 10 December (Letter at Flag D).

- Would the Chancellor agree that, before his own meeting with NI Chairmen in mid-December, Mr. Heseltine or Mr. King should have a further discussion with the NWC Chairman to stiffen his resolve (especially if the miners have by then voted to accept their offer).

(iii) NHS Electricians: The monitoring group is concerned about these negotiations. The electricians are seeking 24%,

/ are hard

are hard negotiators, and have great disruptive power. Announcing the cash limit will help lower their expectations, but they are unlikely to accept 6%.

- Would the Chancellor agree that these negotiations should be considered soon by the appropriate Ministerial group (see below).

(iv) Ambulancemen: The ambulancemen may well prove difficult, but there are other groups in the firing line first. There is no need to discuss with the Chancellor.

2. Machinery for dealing with Public Service Pay

The Chancellor recommends:

(a) Official machinery: a Treasury-chaired interdepartmental group to coordinate public service (ie not nationalised industries) pay issues, serviced by the Cabinet Office; plus the continuation of the official monitoring group for both public service and NI pay; and

(b) Ministerial machinery: a sub-committee of E, under his own Chairmanship.

The proposal for official machinery has some disadvantages: there will be duplication of both effort and personnel between the new group and the monitoring group; and excluding the NI's means excluding important and potentially disruptive negotiations. No-one wants to revive the Official Cabinet Committee (PY, technically still in existence; it was far too large to be useful), but a more efficient approach would seem to be to expand the terms of reference of, and if necessary the representation at, the existing groups. The proposal for Ministerial machinery seems also to exclude the NI's; even so, some of the issues coming to it seem likely to be of such importance that you will wish to be involved, in which case you would at least need to be able to have such issues put directly to E.

The points for decision on machinery seem therefore to be:

/(i)

(i) Should there be only one official group?

(ii) Should it include nationalised industry issues?

(iii) Should the important issues be taken in E, rather than in sub-committee?

My recommendation is Yes in each case.

J.V.

25 November 1980

Ref: A03654

CONFIDENTIAL

Prime Minister

[handwritten initials] 25/xi

MR. WHITMORE

Public Service Pay

I have seen a copy of the Chancellor of the Exchequer's minute of 21st November.

2. I agree with him that it would be useful to have a Ministerial Sub-Committee of E to co-ordinate the consideration of questions about pay in the public services; and that it would be advantageous that that Committee should be supported by a Committee of officials, with the appropriate Treasury Under-Secretary in the chair.

3. If the Prime Minister is minded to accept the Chancellor's proposals, I will make detailed proposals to her for composition and terms of reference of the two Committees.

4. I am sending a copy of this minute to the Private Secretary to the Chancellor of the Exchequer.

RTA

(Robert Armstrong)

25th November 1980

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PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

24 November 1980

C A Whitmore Esq
Principal Private Secretary
10 Downing Street
LONDON SW1

Dear Clive,

The Paymaster General has seen John Wiggins' letter to you of 21 November with the attachments, and has noted the Chancellor's request for his comments on the timing of cash limit announcements.

The Paymaster General takes the view that it is almost impossible to estimate the effect of an early announcement of a particular cash limit without knowing what the figure is going to be.

The announcement of the 6 per cent local authorities' pay figure was no doubt useful in stiffening the employers' stance before their main negotiations started, but it almost certainly created a worse than necessary situation in respect of the firemen.

The Prime Minister stated in a Commons written answer on 7 November that "on other cash limits, pay will be dealt with broadly within the same financial disciplines". This has been interpreted by most commentators (with some official guidance?) as meaning "somewhere between 6 and 10 per cent".

The Paymaster General believes that experience suggests (e.g. Ford in 1978 and British Steel last year) that the too early announcement of a figure unrealistically low simply precipitates a crisis, with costly industrial action substituted for realistic negotiation.

He feels, therefore, that announcement of cash limits with pay factors above 6 per cent are likely to do little harm and might do some good, but that announcements of a 6 per cent limit (or below) require very careful judgement and timing if they are not to invite early industrial action.

/ Copies of this

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Copies of this letter go to the Private Secretary to the Chancellor of the Exchequer, the Home Secretary, The Secretary of State for Industry, The Lord President, The Secretaries of State for Employment, Environment, Scotland, Social Services, Education and Science, Mr Ibbs, and Sir Robert Armstrong.

Yours sincerely

Richard Prescott

R E S PRESCOTT
PRIVATE SECRETARY

CONFIDENTIAL

cc Mr. Wolfson
Mr. Hoskyns
Mr. Ingham

MR. LANKESTER

Machinery on Pay

I had a brief conversation with the Chancellor last night, in the course of which he raised the issue of machinery for dealing with public sector pay. He repeated his previously expressed views on the need to strengthen his official team within the Treasury, and made the new suggestion that the spare manpower capacity which was presumably not now being used in the OME and the PRU might be brought in to help. I made unenthusiastic noises, and asked what he had in mind for Ministerial machinery. He said that his present feeling was that a Sub Committee of E was needed, to be chaired by himself, including Mr. Prior and Lord Soames, with sponsor Ministers being called in ad hoc. I said that I was not sure whether the Prime Minister might not wish to continue to play a direct part in Ministerial discussions of difficult pay issues. No doubt the Chancellor will be elaborating his ideas when he forwards the next Dixon group report, which should be very soon.

J.M.M. VEREKER

21 November 1980

Pub. Sector Pay Pt 3

Prime Minister

Would you like to discuss with the Chancellor?

Agreed

For 18:30 only Wednesday

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

PRIME MINISTER

PUBLIC SERVICE PAY

At Cabinet on 13th November I said I would be considering how arrangements for handling questions on public service pay might be strengthened to make sure that there is better co-ordination.

2. We must of course continue to avoid any appearance of a generalised pay policy or the governmental trappings which go with that. But I do not think we need be anxious about establishing machinery, especially at official level, for co-ordinating the consideration of questions about pay in the public services where Government, central or local, is the employer. I distinguish this from the rest of the public sector. I think it would not be wise to set up any new machinery to deal with nationalised industries because of the danger that that would be seen as an attempt to impose a policy for pay on them.

3. The role of co-ordinator must, I think, fall to the Treasury. It will be for the Treasury to ensure that issues are anticipated in good time and considered in the proper forum. To enable us to carry out this task, I suggest that a Committee of officials should be established, with the appropriate Treasury Under Secretary in the chair, consisting of the central Departments plus the main Departments concerned with public service pay issues - those with only a peripheral interest could be kept in touch without

swelling the numbers on the committee. I suggest that the Committee should be serviced by the Cabinet Office.

4. As to discussion at Ministerial level, my initial instinct was to avoid any special new machinery. But I and others concerned have found it useful to meet to discuss pay issues; and I think the experience of recent weeks - and the prospect of a considerable series of difficult negotiations in the public services sector - points towards the existence of regular machinery which can be mobilised very quickly. I have in mind a sub-Committee of E, which I would chair myself, which would consist of Ministers from the central Departments (Jim Prior and Christopher Soames) plus those from the main Departments with responsibilities for public service pay - possibly only when their department was affected. Others would attend as required. Apart from dealing with specific public service negotiations, the sub-Committee would have the advantage that it would be able to process more general issues - like that of Arbitration or evidence to the Review Bodies - in the pay area, and so save the time of the main Committee.

5. The arrangements for monitoring pay developments both in the public services and in the nationalised industries, and reporting to a limited number of Ministers every three weeks, would continue. But these reports would now be in two separate documents and the report on developments in the public services would go to a large number of Ministers, ie everyone with an interest in public service pay. The report on nationalised industry pay would continue to get the present very restricted circulation.

6. I shall be glad to know whether you think these arrangements would be appropriate.

GH

(G.H.)
21 November 1980

Pub. Sector Pay Pt 3

Copy to Mr Duguid
Mr Vereker.

2,

1830 only
Wednesday.

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

21st November 1980

C.A. Whitmore Esq.
10 Downing Street
LONDON
SW1

Prime Minister.

The points made below reinforce the case which the Chancellor has put to you in a separate minute for improving our machinery at Ministerial and official level for dealing with public service pay.

You can reach a decision on x/ below when you see the Chancellor to discuss his minute.

21.xi.

Dear Clive,

PUBLIC SECTOR PAY: MONITORING REPORT

I attach the usual note by Treasury officials on pay negotiations in the public sector.

On the new items raised in the covering note, the Chancellor will be preparing a paper for E Committee on the pay review bodies (Tim Lankester's letter of 17 November refers).

The question of whether holding back from firm announcements on particular cash limits is damaging is one on which the Chancellor hopes that the Paymaster General (on presentation generally) and the Secretary of State for the Environment (on the implications for local authority negotiations) might comment in the light of this letter. The negotiating tactics of NHS unions suggests that the time when it is operationally necessary to announce the pay factor for the cash limit for the NHS may have arrived.

Mr Maude's comments are set out in the letter below.

On nationalised industries, Tim Lankester's letter of 17 November recorded the Prime Minister's wish that sponsor Ministers should again be invited to talk to their Chairmen about pay settlement levels. The Chancellor's view is that, while there is certainly no objection to a further round of persuasion, one round of meetings has already taken place in the last few weeks; further, fragmented meetings mean that the Government's message gets put across slightly differently to different chairmen, and different interpretations therefore grow up. The Chancellor therefore wonders whether it might be preferable for him to take the opportunity of the next Nationalised Industry Chairmen's Group meeting in mid-December to put the message across to all the Chairmen himself.

x

/The Chancellor.

The Chancellor feels that presentation on public service pay is a difficult problem. Like the Prime Minister, Treasury Ministers take every opportunity to put the Government's message across. The Paymaster General has been putting out valuable speaking material, and the Chancellor is grateful for the support other Ministers have been giving in speaking on this subject. The fact remains that the Government's message has not been getting across as clearly as desirable and it is necessary to press ahead with the effort.

On particular groups:

(i) Firemen - now that it appears that the local authority manuals and NHS ancillaries may be looking to developments in the firemen's dispute before entering their own negotiations, it becomes all the more important for the Government not to do anything that would weaken the local authorities' stand.

(ii) Water manuals - the timing issue may well have been taken out of our hands by the developments in (i) above. On negotiating tactics, the Chancellor's view is that they are sensible. He would feel happier if he had more confidence in the NWC as negotiators.

Copies of this letter go to the Private Secretaries to the Home Secretary, The Secretary of State for Industry, The Lord President, the Secretaries of State for Employment, Environment, Scotland, Social Services, Education and Science, The Paymaster General, Mr Ibbs, and Sir Robert Armstrong.

yours ever

John Wiggins

A.J. WIGGINS
Private Secretary

PUBLIC SECTOR PAY: CURRENT AND PROSPECTIVE PAY NEGOTIATIONS AND ISSUES ARISING FROM THEM

NOTE BY TREASURY OFFICIALS

Introduction

This report has been prepared with the assistance of officials in the Department of Employment, Civil Service Department, Cabinet Office, CPRS and No 10. Current and prospective pay negotiations in the public services and public trading sector are set out in Annexes A and B respectively. The issues which officials consider to be important enough, either in themselves or because of the general issues which they raise, to bring to the attention of Ministers, are set out below:

1. New issues since the last report:

i) The Pay Review Bodies

The Prime Minister announced in August the Government's intention to allow the Review Bodies to continue. The apparent reluctance by the TSRB (on which the Chairman of the AFPRB also serves) to take account of considerations other than 'comparability' in making their recommendations suggests that the Government's approach needs to be reassessed. The Chancellor is preparing a paper for E Committee on the issues involved.

ii) Cash limit factors, and the impact of settlements in the public services early in the round

Cabinet has now reached decisions, to be announced as operationally necessary. The RSG cash limit announcement has been seen as setting the climate for the public services as a whole, but there cannot be certainty until firm announcements are made. Will holding back the announcements cast doubt on the Government's resolve and thus (particularly in respect of NHS groups) create difficulties for the local authority employers?

iii) The Government's standpoint on public service pay

There is a risk of ambivalence between the Government's expenditure-based attitude to pay, and its concern to keep individual settlements to 6%. The balance was well expressed in the Paymaster General's speech on firemen last weekend, but it is a narrow path to tread. The 6% RSG cash limit announcement has been interpreted in some quarters as a 'norm', and this has led to the Government's being blamed for breaking the firemen's index-linking agreement. A very considerable effort will be needed to get the Government's position across.

2. Issues raised in previous reports:

i) University technicians

The final settlement now reached, raising salaries by about 19% in stages over 18 months, is far from satisfactory from the Government's point of view.

ii) Nationalised industry pay

With EFLs very close to being set, the main means of influencing developments must lie between sponsor Ministers and Chairmen. Chairmen have already been told individually in recent weeks of the need for single-figure settlements. An appropriate occasion for repeating the message would be the Nationalised Industry Chairmen's Group meeting in mid-December. Contact between sponsor Ministers and Chairmen will be particularly important as settlement dates approach (eg gas, shipbuilding, steel and airways on 1 January).

iii) The presentation of outstanding settlements from the 1979-80 pay round

The main outstanding settlement was the local authority APT&C arbitration. When it was announced, all the presentation clearly distinguished it from current round negotiations, and there are no signs that it has had any adverse effects.

iv) The timing of negotiations with the water manuals and local authority manuals

This no longer seems a major problem (see Annex A, item 6).

v) Index linking

The local authority employers have offered the firemen 6% and not index linking.

vi) Arbitration agreements

The Secretary of State for Employment has put a paper to E Committee. This covers local authority APT&C; university teachers; teachers; local authority craftsmen; water workers.

3. Danger areas:

i) firemen

ii) water manuals (Annex B, item 4)

iii) NHS electricians (Annex A, item 12)

iv) ambulancemen (Annex A, item 11)

4. Groups considered in the Annexes are:

Annex A - Public Services

1. Local authority APT&C
2. Probation service
3. Justices' Clerks' Assistants
4. University teachers
5. University technicians
6. Fire service
7. LA manuals
8. LA craftsmen
9. University manuals
10. NHS ancillaries
11. Ambulancemen
12. NHS Electrical, Plumbing and Engineering Craftsmen
13. Non-industrial civil service
14. Pay Review Bodies

Annex B - Public Trading Sector

1. Nationalised Industries - General
2. Coal Mining
3. Gas Supply
4. Water Service Manuals
5. British Airways
6. Radio Chemical Centre
7. UK Atomic Energy Authority
8. British Steel Corporation

ANNEX A

PUBLIC SERVICE

1. Local Authority APT and C Grades (662,000)

*Settlement date: 1 July

Unions: NALGO, NUPE etc

The arbitrators have awarded 13% from 1 July (reflecting the local authorities' arguments about ability to pay) plus 2% from 1 April 1981 (to go some way to meeting the comparability objective of the union's claim, but related to a superficial assumption that finance could be made available in the next financial year). They have also awarded holiday improvements.

Comment

The 13% increase operative from 1 July 1980 is at the maximum level which most authorities said they could afford and some said they would have in any case to cut manpower: it is consistent with the level of other local authority settlements in the last round. The full year cost of the further increase from 1 April 1981 together with the cost of extra holidays may cause serious financial difficulties. Local authorities may seek extra finance from the Government: this would raise objections both of policy, and technically (because the RSG base cannot now be adjusted). The operation of the grant mechanism will discourage employers from increasing rates. The only other options are reductions in manpower levels or a compensating reduction below 6% in the level of the July settlement next year.

Although the arbitration award was not entirely satisfactory, ability to pay was undoubtedly regarded as a major factor.

2. Probation Service (5,300)

Settlement date: 1 July

Union: NAPO

This group resorted to arbitration on a claim worth 25% and an offer of 13%. The award was for 13.85% (13% on scales but some other minor improvements). The Home Secretary has not yet formally approved the new scales, and has written to colleagues on the subject. 20% of pay is found from local authority sources, of which the RSG element is cash limited.

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* Settlement date means the normal date if implementation; negotiation may be concluded before or (more often) after the settlement date.

Comment

The award is in line with settlements in the last round, and should raise no issues of presentation in such terms. There may however be financial problems.

3. Justices' Clerks' Assistants (outside Inner London) (6,000+)

Settlement date: 1 July

Union: Association of Magisterial Officers

The group received a 12 per cent interim payment across the board from 1 July pending the recommendation of the Clegg Commission (Cmnd 8061 published on 14 October). The Commission concluded that the group were due for 1 per cent extra from 1 December 1979 above the payments made on account, but - describing such an increase as "pointless" - recommended no increase up to 1 July. The group have traditionally followed the LA (APT&C) grades and the Clegg Report gives support for re-establishing that link. The management side (LA and employers) propose to award the outstanding Clegg 1 per cent and the same terms as the APT&C grades receive; and they have asked the Home Office for an assurance that specific grant will be paid for that purpose. 20 per cent of pay is found from LA sources, of which the RSG element is cash limited.

Comment

The Home Secretary has ultimate power to withhold specific grant but this weapon has been used only once. Failure to underwrite the proposed settlement would mean preserving a pay structure which Clegg criticised as unfair (because the lower paid are subsidising the higher paid).

Issues

Does the Government accept the argument for awarding the Clegg 1 per cent? Is the Government prepared to allow this group to fall behind LA employees (their traditional analogues)?

4. University Teachers (38,000)

Settlement date: 1 October 1980

Union: AUT

The university authorities and the dons (jointly comprising Committee A) have submitted to DES a proposal for a 13% increase in pay scales as a basis for negotiation with the Department in Committee B. The proposal is aimed at restoring the dons' relativity with FE teachers. The DES has arranged a meeting of Committee B for 20 November. The university authorities are aware of the Government's general intention that the 6% pay factor in cash limits for the Rate Support Grant for local authorities should be followed elsewhere in the public-funded services, including universities. The implications will be brought out at that meeting.

Comment

The pay factor for the university cash limit has been set at 6%, and DES is in no doubt that the claim for a 13% increase must be resisted. The agreement for university technicians (see item 4) is awkward but is not predominant. A practical difficulty for DES at the meeting of Committee B is that the full implications of Ministerial decision on "overhang" has not been generally promulgated. However, the announced 6% in limit in the pay factor in cash limits will probably suffice to make the university authorities think again, and it is very likely that Committee A will ask for an adjournment to reconsider its claim. In that event, the university authorities may propose a reduction in the claimed increase. Equally, the AUT may ask for submission of the claim to arbitration. In that case, it would fall to the independent Chairman of Committee A to decide the proposal to be put forward. His response is not entirely predictable.

Issues

Much will depend on the attitude of the Chairman of Committee A. Difficult problems will arise, particularly over access to arbitration, if he sides with the university teachers. But there is little point in speculating until the position becomes clearer.

5. University Technicians (15,000)

Settlement date: 1 October 1980

Unions: ASTMS, NUPE, AUEW

Employers' representative body: the Universities' Committee for Non-Teaching Staffs.

The parties have now reached an agreement for an 18-month deal giving increase of up to 9.9% from October 1980 and a further 8.5% from July 1981, which will raise salaries from the September 1980 level by about 19%.

Comment

Before the agreement was finally concluded between the two negotiating parties, the Secretary of State for Education and Science warned the Chairman of the Committee of Vice-Chancellors and Principals of the possible consequences. However, the university authorities have on this occasion decided to take a calculated risk. On the one hand, the unions concerned have substantial capacity for disruptive industrial action, and the better qualified university technicians, whose skills are in short supply, can vote with their feet and leave university employment. On the other hand, the university authorities would prefer to operate by imposing manpower reductions across the board in order to keep in their employment a skilled and co-operative force of specialised technicians.

6. Fire Service (36,000)

Settlement date: 7 November

Unions: FBU, NAFO

An offer of 6%, made after the announcement of the 6% pay provision in the cash limit on the Rate Support Grant to local authorities, was rejected on 13 November. The firemen's index-linked pay agreement would have given them an increase of about 18% on earnings. The firemen are taking official action, dealing with emergencies only. A national delegate conference on 21 November will decide what further action to take: the FBU executive is recommending a series of lightning strikes.

Comment

The local authorities are divided as to whether they should meet the firemen again before 21 November; and as to whether their offer should be increased. Some authorities may break ranks. There may be financial scope for an improved offer. [illegible]

[illegible]. Cabinet discussed on 13 November and agreed the Home Secretary should convey to the employers the Government's view that there should be further talks before 21 November. The Home Secretary's minute of 17 Novembe[r] reports on the latest situation, and argues against any direct Government interventio[n]

7. LA Manuals (1,100,000)

Settlement Date: 4 November
Unions: GMWU, NUPE, TGWU

A formal claim, submitted on 24 October, seeks a substantial increase (put at 22%), longer holidays and shorter working hours. An announcement has now been made on the pay provision in the Rate Support Grant. A negotiating meeting tentatively fixed for 1 December has been cancelled, and no new date fixed.

Comment

Local authority manuals are the key group in determining the tone for all local authority groups and many other manual groups. Although the employers have yet to make a formal offer, they indicated to the unions that their claim was out of the question; this provoked an unexpectedly conciliatory response from the unions at the time but attitudes have hardened since then. Although the firemen's settlement would normally have only a marginal effect on the manuals' negotiations, the outcome now is likely to have considerably more significance and the unions may well be deferring negotiations for that reason. They will in any case be challenging the 6% offer (on which the employers we believe will stand firm) possibly even to the point at which there may be a risk of official or unofficial industrial action: also they will be looking for improvements in conditions especially hours (water and university manuals take a one hour reduction from November/December) but the employers do not appear to be ready to make concessions.

A major issue, raised in previous reports, is the timing of negotiations in relation to water. Local government employers are concerned that a premature offer to the water manuals could embarrass or prejudice their negotiations. There are historical and other links to support this possibility and the unions are common to both groups. But the link is more tenuous than it was and negotiations may no longer be decisively interactive, provided the employers stand firm as they probably will. Ideally as water are already proposing to offer 7 to 8%, there would be advantage in settling the local government manuals first. But the water employers, who consider that deferment of their settlement last round under ministerial pressure led to an unnecessarily high settlement, may not readily respond to similar pressures this time; also the unions may well decide to use water as a pressure point and hold back in the local government negotiations. A possible scenario is that we could be faced with a choice between the risk of industrial action in local government or in water; potentially the former would certainly be the least damaging. DOE Ministers are in close touch with the employers of both groups and are actively exerting what pressures they can to keep the settlements at acceptably low levels and to influence the relative timings in the light of developments.

Issues

i) Is there anything further to be done at this stage?

ii) negotiations to reduce working hours may arise on this and other public sector negotiations; but the picture is not yet clear enough to warrant Ministerial consideration.

8. LA Craftsmen (97,500)

Settlement Date: 4 November

Unions: UCATT, TGWU, GMWU, EETPU

The three groups (builders, engineers and electricians) have submitted claim for a substantial increase in pay, a shorter working week and longer holidays.

Comment

In the past negotiations have tended to follow the manuals' negotiations although, because of the Comparability Commission's recommendations, they may this time round be more influenced by private sector craft negotiations and by a joint study of incentive bonus schemes. Although the group has an arbitration agreement allowing either side to ask for arbitration, it is thought that this is subject to Section 3 of Employment Protection Act thus requiring the specific agreement of the other side.

9. University Manuals (21,000)

Settlement Date: 4 November

Unions: NUPE, TGWU, GMWU, AUEW, CSEU, UCATT

The unions have presented a claim for a substantial pay increase, a reduction in the working week and longer holidays. Negotiations usually follow those for LA manuals.

Comment

LA manuals traditionally act as the key group in determining the level for this group. Although reduction in hours features in the claim this group have already secured an agreement to a 39 hour week from November 1980. A pay factor of 6% has been agreed by Cabinet for the universities. Although the decision on overhang means that the universities might be able to afford an increase of more than 6% in the current academic year, the follow-through of the cost of any increase into the next academic year's cash limit should ensure that the appropriate financial constraint is applied to these negotiations. A premature offer higher than 6%, could prejudice negotiations for LA manuals and NHS ancillaries, but the university authorities have no intention of going beyond 6%, unless and until the local authorities do.

10. NHS Ancillaries (211,000)

Settlement Date: 13 December

Unions: GMWU, NUPE, TGWU, COHSE

The unions have presented a claim for a substantial flat-rate increase in basic pay, a reduction in the working week without loss of pay; longer holidays (4 weeks basic, which means an extra day for all staff, with an additional day on long service leave: the former is also part of the claim for LA manuals) and better shift allowances, to bring them in line with LA manuals.

Comment

This will be first negotiation in the NHS of the new round and will set the tone for other NHS groups. These negotiations usually follow those for LA manuals. The Whitley Council meeting fixed for 28 November has been cancelled and no subsequent date fixed before the next regular meeting on 9 January. It seems/likely that the ancillaries, like the LA manuals, will await developments in the firemen's dispute. No final decision has yet been taken about the level of the pay factor. But 6% for FY 1981-82 hasbeen assumed for planning purposes.

Issues

When does Cabinet need to decide/announce the level of the pay factor? Will holding back on an announcement cast doubt on the Government's resolve and thus create difficulties for the LA employers?

11. Ambulancemen (17,000)

Settlement Date: 1 January

Unions: GMWU, NUPE, TGWU and COHSE

The Staff Side claim for 1981 has been made in similar terms to that for NHS ancillaries. No moves are expected in advance of an announcement of NHS cash limits and the ancillaries' negotiations.

12. NHS Electrical, Plumbing and Engineering Craftsmen (14,000)

Settlement Date: 1 January

The electricians form the lead group and their rate of pay has been kept in line with that of the Electrical Contracting Industry. This was increased in January 1980 and was matched in NHS craftsmen. The ECI rate was further increased in September, which would call for a further increase of nearly 24% in NHS basic rates. The union have been told that cash limits for the current year are fully committed by the January 1980 increase; and that until the 1981-82 cash limit is known, it is not possible to make any firm offer in respect of the January 1981 settlement. EETPU has seen Dr Vaughan and further discussions are to be held at official level to seek a possible solution by means of consolidating parts of the bonus payment.

Comment

This is a potentially dangerous situation. A settlement within cash limits for the electricians is unlikely to be achieved by negotiation, and they have the muscle to prevent hospitals operating very quickly.

13. Non-industrial Civil Service

Settlement date: 1 April

The Lord President informed the unions on 27 October that the Civil Service pay agreement was being suspended in respect of the 1981 settlement. This is intended to stop the delivery of the pay research evidence to the parties under the agreement, since the availability of that evidence could only embarrass the Government in negotiating a settlement in line with the cash limit provision. The validity of this is now being challenged in the courts. No pay factor for cash limits has yet been set. But 6% has been assumed for planning purposes.

14. The Pay Review Bodies

Armed Forces	(320,000 - 1 April)
Doctors and Dentists	(97,500 - 1 April)
Top Salaries	(2,000 - 1 April)

The Government has announced that the review bodies can continue their work. (Hansard 4 August WA cols 49-50). The Cabinet has decided to give further thought to what Government evidence should be submitted to all three review bodies.

Comment

The next TSRB report is likely to be embarrassing for the Government. Full implementation of its last report, which it is certain to recommend, would alone require a 12% increase. Recommendations for high increases for senior civil servants would sit uneasily with a low increase for the rest of the service. A similar problem may arise from the next report of the DDRB. Recommendations for high pay increases for doctors would compare badly with low pay increases for other hospital workers - nurses in particular - as they did in 1980, and the nurses have already indicated that they might well want to see what the doctors get before settling themselves. On the other hand, relatively high increases for senior officers and armed forces doctors may cause problems at the interface with their counterparts in the civil service and in NHS hospitals.

The Prime Minister (No 10 letter of 17 November) has asked the Chancellor to prepare a paper on the problem of Review Bodies. The Chancellor also has the remit to consider the question of Government evidence. Relevant to this will be the TSRB letter (expected at the end of this week) setting out its views on how it should operate.

Issues

i) Do the terms of reference need to be changed, or other pressures brought to bear, to ensure that the Review Bodies do not simply base their recommendations on 'comparability', but have regard to economic circumstances and ability to pay as evidenced by cash limits?

ii) Given the doubts about whether they will take account of economic factors (see No 10 letter of 10 November recording the Prime Minister's lunch with the TSRB), should further thought be given to the possibility of suspending the Review Bodies - now that PRU has been suspended?

ANNEX B

PUBLIC TRADING SECTOR

1. Nationalised Industries - General

E Committee agreed on 5 November, subject to the final approval of Cabinet, to make a reduction equivalent to 6% of investment in nationalised industry EFL's to be achieved as far as possible by greater efficiency, sales of assets and low pay settlements. The EFL for each industry on this basis is being agreed with the Chief Secretary.

In the course of discussions about EFL's, sponsor Ministers have informed nationalised industry Chairman of the need for single figure settlements. The industries assumptions about pay have in many cases been reduced in discussion and the reduced level of EFL's now proposed will put further pressure on the level of settlements. The Prime Minister has asked that Sponsor Ministers should again see Chairmen to press them on single figure settlements.

Attention is likely now to focus more on individual cases. However, unlike the public services, the Government will not be involved in the pay negotiations themselves of the nationalised industries and Ministers have ruled out direct intervention. Ministers have been asked to ensure that they receive at least 7 days advance notice of any offers to be made by nationalised industries and as negotiations in individual cases progress it will be necessary to consider whether further action can be taken by the sponsor Minister to bring home the Government's policies to the Chairman concerned. There may in addition be opportunities from time to time for more general approaches to be made to industry Chairman in order to emphasise the importance of low pay settlements. This section of the Report is consequently concerned mainly with reporting developments and prospects in the nationalised industry field and at times considering the role of the relevant sponsor Minister.

2. Coal Mining (217,000)

Settlement to operate from 1 January 1981 to 31 October 1981.

Union: NUM

It is reported that NUM leaders have narrowly voted to accept an offer described as worth 13%, subject to a ballot whose results are expected on 2 or 3 December. Leaders in Yorkshire and Scotland are reported to be preparing a campaign for the rejection of the offer. Mr Howell's letter of 14 November reports that the offer will add 9.7% to the total earnings bill, and the basic rate increases are equivalent to 9.8% on rates. He advises that Ministers should say as little as possible on the matter, and that they should not disclose the percentage figures until after the results of the ballot.

Issues

The percentage figures may leak out anyway. If they do not leak before the ballot there is a finely balanced issue as to whether they should be disclosed then and if so, how.

3. Gas Supply (Manuals - 41,000)

Settlement Date: Mid January

Unions: GMWU, TGWU

The formal claim was presented at the NJIC meeting on 17 November. The FT (18 November) reports the claim as costed by the unions at 23%, and that it includes consolidation of bonuses, a basic pay rise to match price inflation, improved holiday pay, a shorter working week, longer holidays, phased reduction in hours before retirement and a family leave agreement. The Corporation has promised that it will respond in January. The present EFL assumption is for an increase of not more than 10% on earnings FY1981-82 on FY 1980-81.

Issues

It is hoped the BGC will aim to reach a settlement with the EFL objectives in mind and that their hand will be strengthened by the favourable development on Miners and BL workers pay. BGC have not yet formulated their response and there is nothing to be gained from Ministerial intervention until it has done so.

4. Water Service (Manuals 33,000)

Settlement Date: 7 December 1980

Unions: GMWU, TGWU, NUPE, NUAAW

The claim was presented on 23 October. Its terms were - £20 a week increase; consolidation of the broadbanded efficiency supplement; further progress to a 35-hour working week without loss of pay; improvements in the shift allowances; a minimum of 5 weeks annual holiday; and a review of the Supplementary Provisions for Services. Mr King has drawn the industry's attention to the 6% announcement affecting local authorities, and asked that chairmen should have this in mind. The employers' side met on 12 November to consider their opening position. Their conclusions are to make an opening offer of 7-8%, and to stay as close as possible to the opening figure, with an overriding aim of staying within single figures (DOE letter of 17 November to No 10). They consider however that the NCB's final offer has made this task more difficult.

The timing of negotiations vis a vis the local authority manuals may not be as decisive as in the past, but it may become a problem as the two negotiations develop.

Comment

As a member of NICG and because it sees gas and electricity as its most significant analogues (thus relating it to the coal miners also) the water industry believes it should be treated on a similar basis to other nationalised industries. Ministers have no effective means of influencing the employers' decisionsother than by personal persuasion, and DOE Ministers are so far taking a firmer line than has been taken elsewhere in the nationalised industry sector. The relationship with local government cannot be entirely disregarded even though it may be of less practical significance than in the past (in Scotland the water service workers are still employed directly by local authorities). There is a possibility that the public service unions may decide to use their industrial muscle in this industry to challenge the government's stance on public service pay by threatening industrial action if a settlement reasonably consistent with the miners is not agreed: on the other hand, the potentially serious effects on the general public and the consequetial backlash may deter them from actually taking such action officially. DOE ministers are continuing to press the employers.

Issues

Is the negotiating strategy as described acceptable? If not, should Ministers press for a tougher one given the real risks that industrial action could pose?

5. British Airways (50,000)

Settlement Date: 1 January 1981 (April for pilots and cabin crew)
Unions: TGWU, AUEW,EETPU,NUSMW,ACTSS,APEX,ASTMS, GMWU, FTATU, UCATT, AUEW (S&T) BALPA

At a meeting on 7 November BA informed the unions of the serious business situation, and sought their agreement to deferral of the date for implementation of the pay settlement by six months and to an increase in basic pay of 7½% for the remaining six months of the year. The BA negotiators considered the union reaction to be low key. They think the unions will wait to see how other groups fare. The EFL pay assumption was 10%.

6. Radio Chemical Centre (1,500)

A settlement has been reached giving 10½% on pay scales. The Department of Energy cannot say what this means in terms of the increase in average earnings in the 12 months prior to the settlement date - 1 November 1980.

7. United Kingdom Atomic Energy Authority (Manuals - 4,700)

A settlement has been reached adding about 9% to the wages bill. The Department of Energy cannot say what this means in terms of the increase in average earnings in the 12 month prior to the settlement date - 1 October 1980.

8. British Steel Corporation (140,000)

Settlement Date: 1 January 1981

Unions: BSC-ISTC, BSC-NCCC, NUB, GMWU, TGWU, MATSA, ACTS, ASTMS, APEX

On 11 November the Financial Times reported that an ISTC working party was considering their pay claim. The Department of Industry has no knowledge of this or other claims by the steel unions, but expects negotiations to have started by 12 December. The Corporation's main preoccupation is with the Corporate Plan which is due to be submitted during week ending 12 December. The Secretary of State for Industry has been assured by the Chairman that he is fully aware of the need to keep the next pay increase as low as possible.

CONFIDENTIAL

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DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

B con Pol.

The Rt Hon James Prior MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NA

cc Mr Vereker
Mr Duguid

20 November 1980

R
27/11

Dear Jim,

ARBITRATION ON PUBLIC SERVICES PAY

I have seen your memorandum E(80)131, and understand we will be discussing it in E Committee next week. There is however one small misapprehension that I think I should mention.

In your paragraph 4 you say that the general aim must be to achieve such changes as are possible before the next important negotiations for each group. This must be right: it could be open to serious criticism, and probably also counter-productive, to try to overthrow existing arbitration arrangements while negotiations are actually in progress. But this affects what you say in your paragraph 6(3) about the university teachers, whose negotiations in respect of October 1980 began over six weeks ago. As I mentioned in Cabinet on an earlier occasion I was under considerable pressure to respond but deliberately delayed doing so until after the final decision was taken in Cabinet last Thursday. Following that decision a meeting of the negotiating committee was convened for this week. Action to try to re-negotiate the arbitration arrangements for them should therefore be aimed at affecting the 1981 settlement, as you are proposing for other groups.

In any event we are not yet at the position of arbitration being proposed in the current negotiation. Given that the university interests can only propose it if the Association of University Teachers can secure the support of either the University Authorities' Panel or the independent Chairman (see Annex 3 to your paper), it is

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much less likely in present circumstances than it was in July in relation to the October 1979 settlement. In the event of its being proposed, I would of course seek colleagues' views before responding.

I am copying this letter to the members of E Committee, the Attorney General and Sir Robert Armstrong.

Yours ever

Mark MARK CARLISLE

CONFIDENTIAL

E(80)52
file KB

10 DOWNING STREET

From the Private Secretary 17 November 1980

As you know, the Prime Minister had hoped to discuss the latest monitoring group report on public sector pay with the Chancellor, but this has not proved possible. The Prime Minister has, however, been able to look at the report again, and she has asked me to pass on the following further comments.

As regards the nationalised industries, she understands from your letter of 11 November that the individual Chairmen have been informed of the need for single figure settlements with varying degrees of explicitness. She believes it would be worthwhile if they could be approached again by sponsor Ministers after the announcement of their EFLs next week.

The Prime Minister is also concerned about the recommendations which the three Review Bodies may come up with next year. She understands that Treasury officials are starting to look at this whole question, including the possibility that the Review Bodies' Terms of Reference might be changed. She believes that the Government needs to clarify its position fairly rapidly, and would be grateful if the Chancellor would bring forward a paper to E Committee in the near future.

The Chancellor mentioned in Cabinet last week that he was considering whether the arrangements for monitoring public sector pay issues could be strengthened. The Prime Minister would like to be kept informed of any changes in the official machinery, that he may have in mind; and she assumes that he will not be proposing any new Ministerial machinery.

I am sending copies of this letter to Richard Dykes (Department of Employment), Jim Buckley (Lord President's Office), Ian Ellison (Department of Industry), Gerry Spence (CPRS) and David Wright (Cabinet Office).

T. P. LANKESTER

Peter Jenkins, Esq.,
H.M. Treasury.

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KB

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

PAYMASTER GENERAL

12 November 1980

2

TO ALL MINISTERS

PRIME MINISTER
MJS
12/11

PUBLIC SERVICE PAY

Attached is a speaking note on Public Service Pay. It would be helpful if as many Ministers as possible could make use of it in their speeches this weekend, avoiding copying the text word for word.

Angus Maude

ANGUS MAUDE

PAY IN THE PUBLIC SERVICE

Objective

The object of this note is to provide material for Ministers to use in their speeches, broadcasts or writing, particularly this coming weekend, to explain the meaning of the announcement last week of the 6% figure for the pay assumption in the Rate Support Grant, and the accompanying explanation that "broadly the same financial disciplines" will apply to other cash limits. These announcements have led to wide assertions in the media that the Government is now operating a 6% incomes policy, and it is particularly important that the message in this note is put across as widely as possible.

Presentation

On 6 November, the Government announced that the figure for the increase in the local government ~~annual~~ pay ~~settlements~~ provided for in the Rate Support Grant would be 6% ~~for~~ in the current pay round. ~~from 1 November 1980~~. The Prime Minister subsequently confirmed that the rest of the public service would be subject to the same sort of financial discipline on pay.

The Government has set its face against an incomes policy, with all its inbuilt rigidities and distortions. But, like other employers, it has to make a judgement about what it can afford to pay its own employees; and it has to tell local authorities what it thinks they can afford to pay their employees in total, because a large part of their finance comes from central government.

Last week's announcement means that local authorities will only be able to afford pay increases over 6% this pay round if the number of employees is reduced, unless they are prepared to put up their rates again. So in general, those who work for local authorities should expect no more than 6%, unless there is increased productivity, or unless settlements somewhat higher for some groups are offset by lower settlements for others. Pressing for more threatens their own jobs.

/ As for the ...

As for the civil servants and others who work for central government, you can be sure that they will be operating broadly within the same financial disciplines. The need to control inflation and to cut Government spending applies right across the board.

It would be quite wrong if the public sector were to continue with levels of increases way above those in the private sector. In the year from spring 1979 to spring 1980 the average earnings increase in the private sector was rather less than 21%, but in the public ~~sector~~ services it was almost 29%. Pay is a crucial element in public expenditure; every extra 1% costs £300 million.

The Government isn't trying to make an example of its employees. These pay increases for the public services well down into single figures reflect economic reality, just as the moderate pay increases in the private sector do. Whether we work in the private or the public sector, we have put behind us the days of double-figure pay rises.

A real sacrifice is involved , but it is reduced by the fact that inflation is coming down. In each of the last four months the rise in retail prices has been well below 1%. On the 12-month comparison the rise in retail prices was below 16% in September against nearly 22% last May. There will be a considerable further fall in inflation next spring; and provided we are realistic about pay rises inflation will fall further later on.

And that doesn't just mean we've forgotten about it for one year, with the intention of returning to our bad old habits next year. The Government is resolved to get inflation down permanently, and it's not going to print money for unrealistic pay claims in the future. If we let pay settlements creep back up again, after all the progress we've made in reducing the rate of inflation, all our effort will have been in vain. But if we accept that there is never any point in paying ourselves more than we can afford, the basis will be laid for steady growth, more jobs, and a new prosperity.

Paymaster General's Office
Privy Council Office
Whitehall
LONDON SW1

12 November 1980

CONFIDENTIAL Original on:— Public Exp: Pt 11

Ref. A03539

PRIME MINISTER

Pay Factors in Cash Limits
(C(80) 60, 65 and 70)

BACKGROUND

At its meeting last Thursday the Cabinet agreed that the price factor, throughout the public services, should be 11 per cent (except in the case of defence where a decision was reserved); that for planning purposes the objective on the pay factor for cash limits should be 6 per cent throughout the public services, subject to a deferred decision on the reconciliation of this cash limit with the outcome of the next report of the Armed Forces Pay Review Body; that the 6 per cent pay cash limit should be applied forthwith to the Rate Support Grant settlement; that announcements of cash limits for other parts of the public services should not be made before they were operationally necessary (the public formula being that settlements in the remainder of the public services would be dealt with "broadly within the same financial disciplines" as were being applied to local authorities); and invited the Chancellor of the Exchequer to circulate a memorandum for discussion at the present meeting on the implications of these decisions particularly as regards the timing of any announcements. The memorandum (C(80) 70) by the Chancellor of the Exchequer fulfils this remit, and reverts also to the outstanding "technical" decisions left over from his earlier paper C(80) 65 (dealing with the treatment of "staging" and "overhang").

2. In the course of their discussion the Cabinet accepted that a 6 per cent limit could be very tight, particularly in cases like the NHS where there were no alternative sources of finance and no significant possibility of staff reductions. They also wanted to avoid converting a 6 per cent cash limit into a rigid 6 per cent "norm". In short they wanted to preserve as far as they could a measure of flexibility to deal with the circumstances of particular negotiations as they arise and, as Sir Keith Joseph put it, to be prepared to envisage a "scatter" of settlements in the public services around, but not necessarily at, the 6 per cent figure.

3. In effect the Chancellor's new paper is saying that there can be no flexibility around 6 per cent and that the only flexibility available is in the timing of announcements. Even here it is, he argues, necessary to confirm publicly the 6 per cent figure very soon for the universities and the NHS (the next groups to negotiate) and that, while no early announcement need be made about the applicability of 6 per cent to the Civil Service, that figure should be used now for the construction of the estimates in the knowledge that in practice no higher figure is conceivable. In political terms this is no doubt a realistic assessment. Certainly if a 6 per cent figure is announced for the NHS there could be no question of later flexibility for the Civil Service. The key question therefore is whether 6 per cent is realistic for the NHS, both for the immediate negotiations on ancillary staff and later for the nurses, the doctors and the dentists. If colleagues are prepared to run the risks here, the rest follows.

4. Some of the colleagues may complain that, in the treatment by the media of the 6 per cent pay factor in the cash limit for the RSG, and of your Written Answer to a Question the following day, the implication that 6 per cent would be the pay factor in cash limits for other public services as well as for local authorities came across much harder than the Cabinet intended; these Ministers can be expected to reiterate their arguments in favour of retaining as much flexibility for as long as possible on the cash limit for other public services. The Home Secretary may want to reiterate that 6 per cent is a cash limit not a pay norm: he is not happy with a letter which he received from the Secretary of State for the Environment, to the effect that taking that line made life more difficult for the local authority employers in their negotiations on the pay of firemen and other employees.

HANDLING

5.. You will wish to ask the Chancellor of the Exchequer to introduce his paper and then call on the Secretaries of State for Social Services and Scotland to comment particularly on the NHS point and the Secretary of State for Education and Science to comment on the universities. If these three Ministers are prepared to go along with the Chancellor's recommendations, the Cabinet will no doubt readily accept them, including those on the "technical" points in paragraph 7 of C(80) 70. If however serious doubts emerge about the practicality of successfully enforcing a 6 per cent "norm" on the NHS groups (the university groups have no real muscle and must lump it), the choice is between setting a higher figure now for the NHS (which the Cabinet would no doubt be most reluctant to do); accepting that, in the event, there may have to be some give as negotiations unfold (a decision which would become rapidly apparent in the case of the NHS ancillaries and risk the policy as a whole).

CONCLUSIONS

6. The choices would appear to be:-

either

(i) to accept the conclusions in paragraph 8 of C(80) 70;

or

(ii) to accept the conclusions in paragraph 8 of C(80)70 with the proviso that the Government would need to weigh, as negotiations with NHS ancillaries, nurses and doctors proceed, the balance between relatively minor breaches in the cash limit against the costs of disruption.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

12th November, 1980

CONFIDENTIAL

P.a.

Overtaken

PRIME MINISTER

c. Mr. Wolfson
Mr. Hoskyns
Mr. Ingham

R.

Meeting with the Chancellor: Pay
12 November

You have asked for a regular discussion with the Chancellor on public sector pay, on the basis of the report of the official monitoring group (Flag A). This note suggests the issues you may wish to discuss with the Chancellor tomorrow.

1. Procedure

You may want to have a brief word about the procedure for handling public sector pay issues. The official monitoring machinery seems to be working well; a regular discussion of the report with the Chancellor will ensure he is aware of your particular concerns; and *ad hoc* groups of your colleagues can be summoned at any time - as in the cases of the miners and the firemen - to consider action urgently required.

- Does the Chancellor agree that nothing more formal is required?

2. Points arising from the Official Report

Your comments on three particular issues in the latest report have been passed on to the Chancellor, and he will be expecting you to raise them:

(i) Handling of nationalised industry pay

You asked if all sponsor Ministers had informed their Chairmen of the need for single-figure settlements. The Chancellor will be writing to you this evening to say that all sponsor Ministers have spoken to their Chairmen, but some in more specific terms than others.

- Does the Chancellor agree that the 6% RSG pay assumption, and the EFL's when decided, constitute a basis for Ministers speaking again and in very specific terms to their chairmen?

/ (ii)

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(ii) University technicians

You said this case strengthened the case for an early cash limit announcement, because of a provisional agreement at an 18 per cent annual rate. There was of course no such announcement; and the Vice Chancellors have confirmed their offer, which it is expected ASTMS will accept.

(iii) University teachers

You said the Government must resist the proposed 13 per cent offer. There have been no further developments, but the link with university technicians (above) is awkward.

- In the absence of a cash limit announcement, the Chancellor may want to ask Mr. Carlisle to remind the negotiators of the "broadly the same financial considerations" formula.

3. Other Active Groups

You will want to review with the Chancellor the state of the negotiations on the other active public sector groups:

(i) UK Atomic Energy Authority workers have settled for 9 per cent, which is satisfactory, given the 30 per cent claim and that it is not cash limit controlled.

(ii) The Miners: the NUM meet the NCB tomorrow. Negotiations appear to be going in accordance with the plan broadly endorsed at your meeting with the Chancellor and Mr. Howell on 21 October; there is wide public expectation that the miners will get away with more than others, and a settlement in the range of 10-15 per cent on basic rates would probably not affect pay behaviour elsewhere too badly.

/ Would the

- Would the Chancellor agree that if it looks as though the settlement might go above 15 per cent, Sir D. Ezra should be encouraged to stand firm?

(iii) The Firemen: The firemen's initial reaction to the 6 per cent offer has been adverse, but we shall not know the formal FBU position until after their conference on 21 November. Between now and then we must try and mobilise public opinion; and persuade the firemen it is not in their interest to strike.

- Would the Chancellor agree that he should discuss with Mr. Whitelaw and Mr. Heseltine whether to encourage the local authorities to give the firemen, who constitute a small proportion of the local authority wage bill, a few percentage points more than 6 per cent? It is a difficult judgement whether the risk of setting the pattern for others is worth the attempt to avoid industrial action.

4. Groups which are about to cause difficulty

Three difficult groups can be seen clearly on the horizon:

(i) Local Authority workers - manuals and craftsmen both have settlement dates of 4 November and have been awaiting the RSG announcement. Now that the 6 per cent pay assumption is known, the Government can only influence the outcome of the negotiations by repeated explanation of the policy, and by encouraging the use of the flexibility inherent in a 6 per cent assumption for the pay bill, as opposed to a 6 per cent incomes policy.

(ii) Water workers - the Chancellor wrote to Mr. Heseltine on 23 October asking whether we should try and influence the relative timing of the local authoirty negotiations and those of the water workers, whose settlement date is 7 December.

- What is Mr. Heseltine's view? Surely, since the water workers are a more powerful group than local authority manuals, we should try and settle the manuals first?

(iii) The Civil Servants - although their settlement date is not until 1 April 1981, the suspension of PRU and the RSG pay assumption announcement makes it more likely that selective industrial action will be called for.

- Can such selective action be forestalled by continuing to withhold the cash limit pay assumption?

5. Presentation

There are two particular presentational points you may wish to discuss:

(i) The 6 per cent pay assumption
Public expenditure considerations have led to the choice of a rather lower pay assumption than was expected. We shall need to emphasise, as Mr. Whitelaw did yesterday and you did today, the difference between a pay assumption and an incomes policy. But because the figure is low, there is a danger that it will be accepted this year only at the expense of higher expectations for next year, as wage bargainers attempt to recoup lost purchasing power.

- Should we act now to lower future expectations by emphasising that pay assumptions in the remaining years of the MTFS will certainly be no higher?

(ii) The Armed Forces
The commitment to honour the AFRB report is widely seen as an anomaly. Without breaking that commitment, its possible effect on other groups could be reduced:

/ (a)

(a) by announcing that the MOD cash limit pay assumption will be no different from that of the civil service, and

(b) by letting it be known that the AFRB do take into account the pay of civil servants.

- Should we adopt both of these courses? (a) would of course require a Cabinet decision.

J.V.

John Vereker
11 November 1980

A

PUB[illegible] SECTOR PAY: CURRENT AND PROSPECTIVE PAY NEGOTIATIONS AND ISSUES ARISING FROM THEM

NOTE BY TREASURY OFFICIALS

Introduction

This report has been prepared with the assistance of officials in the Department of Employment, Civil Service Department, Cabinet Office, CPRS and No 10. Current and prospective pay negotiations in the public services and public trading sector are set out in Annexes A and B respectively. Annex C sketches the background on private sector settlements and negotiations. The issues which officials consider to be important enough, either in themselves or because of the general issues which they raise, to bring to the attention of Ministers, are set out below:

1. New issues since the last report:

   i) The handling of nationalised industry pay

   In discussion of EFLs, the need for sponsor Ministers to leave chairmen in no doubt of the Government's views on the desirability of single-figure settlements, has been stressed. Is any further follow-up needed? Should sponsor Ministers be given specific instructions to meet chairmen again and explicit guidance on what to say?

   Do we know if all sponsoring ministers have done this?

   ii) University technicians

   In spite of DES pressure not to go ahead, the university authorities have agreed with the unions a provisional settlement staged over 18 months, which amounts at an annual rate of about 18%. Further pressure has been put on the universities by the Secretary of State. Can anything further be achieved in advance of the pay element for this year's cash limits being announced? Does this case affect the balance of argument for an early announcement?

   Yes ~~no~~

2. Issues raised in previous reports:

   i) The presentation of outstanding settlements from the 1979-80 pay round

Official letters have now been sent to the Departments involved (Treasury letter of 15 October to No.10 refers).

ii) The timing of negotiations with the water manuals, local authority manuals and NHS ancillaries

The Chancellor has written to Mr. Heseltine.

iii) Index linking

The Chancellor wrote to Mr. Whitelaw on 23 October about index-linking for firement. Mr. Whitelaw's reply of 29 October argues against any Government action this year, mainly on grounds of reluctance to commit in advance troops and police to deal with the consequence of the strike that is likely to result. This problem is likely to occur whenever a decision to break the link is taken but it would be particularly acute now in view of the prison officers' dispute. If action is to be taken this year, decisions will now have to be taken very quickly.

We have dealt with this.

iv) Cash limit factors, and the impact of settlements in the public services early in the round

It is expected that Cabinet will decide on the pay element to be included in cash limits for 1981-82 at its meeting on 4 November with a view to making an early announcement.

v) Arbitration agreements

This was discussed at E Committee on 16 October. Following this, sponsor departments are urgently considering the scope for changing binding arbitration agreements with unilateral access. The Department of Employment is co-ordinating them, and is seeking responses by 4 November.

The situation in particular negotiations is discussed more fully in Annexes A and B as follows (changes from the last report are side-lined):

Annex A - Public Services

1. Local Authority Administrative, Professional, Technical and Clerical Grades
2. Probation Service
3. University teachers
4. University technicians
5. Fire service
6. Local authority manuals
7. Local authority craftsmen
8. NHS ancillaries
9. Ambulancemen
10. NHS Maintenance Craftsmen
11. Non-industrial civil service

Annex B - Public Trading Sector

12. Nationalised Industries - General
13. Coal Mining
14. Radio Chemical Centre
15. United Kingdom Atomic Energy Authority
16. Gas supply
17. Water service

PUBLIC SERVICE

1. Local Authority APT and C Grades (662,000)

*Settlement date: 1 July.

Unions: NALGO, NUPE etc

The employers have stood firm on an offer of 13% in response to a claim of over 21 per cent. They reluctantly agreed to arbitration, bound by a written agreement which allows unilateral access and binds both parties. The hearing took place on 21 October and the CAC aims to make an award early in November. The award will be considered at the NJC on 25 November and no settlement will be reached before then.

[illegible] is a dread[illegible] which the government is now being reviewed. Have we yet got a list of such unilateral access agreements.

Comment

This is the last major LA settlement outstanding from the last round. A settlement above 13% would be out of line with settlements for LA manuals and craftsmen, and is said by the employers to be beyond their resources. The outcome of arbitration falls awkwardly after negotiations for LA manuals have begun.

Issues

Presentation of award in order to isolate it from current negotiations;

Following decisions at E, sponsor Departments are considering the scope for changing unilateral arbitration agreements. The DE is co-ordinating them, and is seeking responses by 4 November.

2. Probation Service (5,300)

Settlement date: 1 July

Union: NAPO

This group traditionally follow LA (APTC) settlements closely. This year the union decided not to await the APTC arbitration award. They have resorted to

* Settlement date means the normal date if implementation; negotiations may be concluded before or (more often) after the settlement date.

arbitration on a claim worth 25% and an offer of 13%. Arbitration arrangements are similar for both groups. But the Home Secretary must formally approve the new scales before they can be implemented. Cash limits apply only to the 20% of pay found from local authority sources.

Comment

The Home Secretary has discretion to vary or veto a settlement or arbitration award (sparingly used).

Issues

- if the arbitration award recommends a higher award than settlements generally in the public services in the last round should the Home Secretary approve it?

- how to present the delayed settlement to minimise new round repercussions;

3. University Teachers (38,000)

Settlement Date: 1 October

Union: AUT

The university authorities and the dons (Committee A) have submitted a proposal
for a 13% increase to the DES as a basis for negotiation with the Department in
Committee B. The proposal is aimed towards restoring the dons' relativity with
FE teachers. The DES are intending to delay any substantial response until the
Government has announced cash limits and their implications for pay settlements
for FY 1981/82: the Chancellor wrote to Mr Carlisle on 27 October and Mr Carlisle
replied on 29 October.

Comment

We must resist it

This is an important early settlement. Since the DES has control over the timing
of negotiations in Committee B, it can delay a settlement until there is a firm
announcement on cash limits. But, after the delayed negotiations over the dons'
comparability claim earlier this year, there is likely to be some protest. The
provisional agreement for university technicians (see item 4) is potentially
awkward.

Issues

- the provision in the 1980-81 cash limit is sufficient to finance a 13% award until the end of the financial year (covered in E(80)122);

- the staging of the dons' "catching-up" settlement will add about 3½% to earnings in FY 1981-82 compared with FY 1980-81 (covered in E(80)122);

- within Committee B the written but non-statutory agreement is that access to arbitration shall not be unreasonably withheld; following the decisions of E(80) 37th, the DES are considering the scope for changing the agreement.

4. University technicians (15,000)

Settlement Date: 1 October

Unions: ASTMS, NUPE, AUEW

Employers representative body: the Universities' Committee for Non-teaching Staffs

The parties have reached a provisional agreement for an 18-month deal giving increases of 9.9% from October and 8.5% from July 1980, equivalent to an annual rate of around 18%. The agreement is subject to ratification by the unions and by the university authorities. The universities, through the Committee of Vice-Chancellor and Principals, (CVCP) were alerted by DES before the provisional agreement was reached to the potentially awkward implications of an agreement for their cash limit, and this has been re-emphasised following the provisional agreement at a meeting between the Secretary of State and the Chairman of CVCP.

Comment

The agreement, if ratified, would exceed for the technicians the proposed provision for the increase in aggregate pay in the cash limit for FY 1981-82 (it raises the paybill approximately 12% over FY 1980-81). Even if the Chancellor's proposal in E(80)122 not to cut the FY 1980-81 cash limit is agreed, there will be insufficient provision to finance increases in the next financial year. The Government has no direct influence over the university authorities' decisions. The university authorities know the problems, but the DES assessment is that they are unlikely to court trouble with a difficult and potentially disruptive group by going back on the agreement.

Issues

At what level should the pay element be set in the universities' cash limit, an issue already raised by the university teachers and being considered in the general cash limit context? We do not see that further intervention by the Government will achieve anything, given what has already been done, apart from making a very early announcement on the pay element in cash limits, if this is possible.

5. Fire Service (36,000)

Settlement Date: 7 November

Unions: FBU, NAFO

The employers' side do not appear disposed to break the indexation formula (agreed after a long strike in 1977) which links firemen's pay to the upper quartile of male manual workers earnings (NES). Figures of average earnings projected to November, adjusted according to the formula, suggest a settlement of the order of 19%. The employers side have canvassed the views of fire authorities on pay and manning levels and preliminary negotiations to which the Government are not a party, began on 17 October and are now well advanced.

Comment

An attempt to break the agreement after 2 years of its operation is almost certain to provoke industrial action, at a time when the police are under pressure from the prisons. Few groups directly follow this one (central government and airport fire services). But the high settlement that will inevitably result from the continuation of index-linking could have widespread repercussions throughout the public sector - most notably on LA manuals, water workers and ambulancemen. Any decision to break the link would have implications for police pay (linked to the Index of Average Earnings).

Issues

- should Ministers seek to encourage the LA employers to break the link and if so when? The Chancellor wrote to the Home Secretary on 23 October about this; the decision to suspend pay research this year strengthens the case of taking action on firemen. The Home Secretary's reply of 29 October argues against this, mainly on grounds of reluctance to commit in advance troops and police to deal with the consequences of the strike that is likely to result.

6. LA Manuals (1,100,000)

Settlement Date: 4 November

Unions: GMWU, NUPE, TGWU

A formal claim was submitted at the meeting on 24 October and is likely to seek a substantial increase (put at 20%), longer holidays and shorter working hours. The employers are unlikely to enter negotiations until they know the pay element for the 1981-82 RSG cash limit.

Comment

LA Manuals are the key group in determining the tone for all LA groups and many other manual groups. A relatively low increase last year may create pressure for a settlement nearer to the RPI figure. Reductions in hours of work are likely to feature strongly in the claims (definitely in the case of the manuals) particularly as university manuals take a one hour reduction to 39 from November.

Issues

- the timing of negotiations for NHS ancillaries and water manuals needs to be watched. Premature offers could prejudice negotiations for LA manuals. The Chancellor has written to the Environment Secretary about this.

- negotiations to reduce working hours may arise on this and other public sector negotiations: but the picture is not yet clear enough to warrant Ministerial consideration.

- should the cash limit be adjusted to constrain negotiations within the pay assumptions for FY 1981-82 (see E(80)122)?

7. LA Craftsmen (97,500)

Settlement Date: 4 November

Unions: UCATT, TGWU, GMWU, EETPU

The three groups (builders, engineers and electricians) tend to await the completion of the manuals' negotiations and to follow their negotiations. Recommendations of the Comparability Commission (in effect no cash increase) are currently under discussion, and consolidation of some bonus pay (per Clegg) has been agreed from 11 September. Negotiations on the new round have not yet begun.

8. NHS Ancillaries (211,000)

Settlement Date: 13 December

Unions: GMWU, NUPE TGWU, COHSE

The unions have presented a claim for a substantial increase in flat-rate basic pay to preserve the real value of the November 1978 Clegg award, a reduction in the working week (unspecified); longer holidays (one more day brings parity with LA's 4 weeks), and better shift allowances, on the same basis as LA manuals. The management side of the Whitley Council is due to meet on 14 November to consider the claim further. The full Council will then meet on 28 November.

Comment

This will be the first negotiation in the NHS of the new round and will set the tone for other NHS groups. These negotiations usually follow those for LA manuals.

Issues

- timing of negotiations so as to achieve some consistency with LA manuals (the Chancellor's letter to Mr Heseltine on LA manuals is relevant)

- should the cash limit be adjusted to constrain negotiations within the pay assumptions for FY 1981-82 (see E(80) 122)?

9. Ambulancemen (17,000)

Settlement Date: 1 January

Unions: NUPE, TGWU, GMWU and COHSE negotiate in the Whitley Council on behalf of the staff side.

The staff side claim for 1981 was received on 23 October. This seeks, in terms which are unspecified:

- a substantial increase in basic pay having regard to all the relevant factors.

- a reduction in the working week without loss of pay

- longer holidays.

- review of shift allowances.

The value of the claim is estimated to be at least 20%. No moves expected until cash limits are announced.

10. <u>NHS Maintenance Craftsmen (24,000)</u>

Settlement date: 1 January

The electricians form the lead group and receive the Electrical Contracting Industry rate. This was increased in January 1980 and was paid to NHS craftsmen. The ECI rate was further increased in September, which would call for a further increase of nearly 24% in NHS basic rates. The union have been told that cash limits for the current year are fully committed by the January 1980 increase: any meaningful response to the September ECI increase will depend on next year's cash limits. The General Secretary of the EETPU is seeing Dr Vaughan on 30 October for further discussions at Ministerial level. Dr Vaughan is likely to be reporting the outcome to colleagues.

11. <u>Non-industrial civil service</u>

Settlement date: 1 April

The Lord President informed the unions on 27 October that the Civil Service pay agreement was being suspended in respect of the 1981 settlement. This is intended to stop the delivery of the pay research evidence to the parties under the agreement, since the availability of that evidence could only embarrass the Government in negotiating a settlement in line with the cash limit provision.

sues

- should the forthcoming review by TSRB be suspended given that even full implementation of the recommendations of last April would require a 12 per cent increase? CSD are examining this.

- should differential increases be allowed or should all non-industrials Civil Servants have the same percentage increase? CSD are examining this.

ANNEX B

PUBLIC TRADING SECTOR

12. Nationalised Industries - General

Ministers had a first discussion of nationalised industry EFLs for 1981-82, on the basis of figures proposed by the Chief Secretary, in E on 22 October. It was agreed that sponsor Ministers would need to consider further, in consultation with the industry Chairmen if necessary, what further measures were needed to achieve the Chief Secretary's proposals. Concern was expressed at the relatively high level of the industries' own pay assumptions. Ministers were inclined not to substitute the Government's assumptions for those of the industries, but asked sponsor Ministers, in looking for savings, to impress on their Chairmen the importance which the Government attached to achieving lower pay settlements. The continuing role of sponsor Ministers in this respect was also stressed in the discussion. Ministers are due to resume their discussion of EFLs at E on 5 November.

Issues

Once decisions on EFLs are taken, it will be important to bring the maximum pressure to bear on Chairmen. This was agreed at the Chancellor's meeting with them on 13 October. It is particularly urgent for the groups with settlement dates at the beginning of next year. (BSC, British Shipbuilders, British Airways, British Gas). Is any further follow-up needed? Should sponsor Ministers be asked specifically to meet Chairmen again and to report the results of their meetings to colleagues?

13. Coal Mining (223,000)

Settlement to operate from 1 January 1981 to 31 October 1981.

Union: NUM

The claim was formally presented on 23 October. Its terms were -

increase in the minimum grade rate to £100 with similar percentage increases (35%) in other grade rates, basic rates to be paid as salary,

4-day week,

increased holidays paid at average earnings instead of at base rates,

and extension of voluntary retirement scheme and lowering of the minimum age to 55 from 60.

In reply the Board are reported to have indicated the maximum amount of cash available, leaving the NUM to deduce what this meant on rates (10%) and earnings (8%). Press coverage has been helpful to the Government and the NUM reaction muted. Ministerial comment would probably therefore be counter-productive at this stage. A formal offer will be made on 6 November. Between then and the expected conclusion of the negotiations it is thought inevitable that an improved offer will have to be made. A possible scenario is that negotiations might conclude on 11 November and that the results might be put by Mr Gormley to the NEC on 13 November, to be followed by a delegate conference on 14 November calling for a ballot, probably with a recommendation for rejection. The Board are taking steps to win miners' understanding of the constraints on the industry. The Prime Minister, while regretting that the opening offer could not be lower, has said that, for the time being, the Board should be allowed to pursue their chosen tactics.

14. Radio Chemical Centre (Industrial and non-industrials - 1,300)

Settlement date: 1 November 1980

Unions: GMWU, TGWU, AUEW, IPCS, SCPS CPSA

An offer of 9% was made on 25 September. The parties met again on 14 October and the Department of Energy understands that the offer was slightly improved and that the unions are putting it to their membership.

Comment

At E(EA) on 13 October, ministers agreed that it should be left to the Secretary of State for Energy to decide whether any further intervention would be appropriate.

15. United Kingdom Atomic Energy Authority (Manuals - 4,700)

Settlement date: 1 October 1980

Unions: GMWU, AUEW, TGWU, EETPU

The Authority offered 8½% on 26 September on the claim of about 30%. The NJIC met again on 15 October. The Department of Energy understands the offer was then marginally improved to about 9% and that the unions are putting it to their membership.

16. Gas Supply (Manuals - 41,000)

Settlement date: Mid-January

Unions: GMWU, TGWU

On 21 October, the Times reported that the claim would include demands for job security, salary status instead of hourly rates, consolidation of bonus earnings into basic pay, reduction in working hours from 40 to 37, a limit on overtime working, voluntary early retirement and a phased reduction to a 20-hour week preparatory to retirement. The report said that failing agreement on these terms, there would be a claim for a 25% increase in pay. The present EFL assumption is for a 10% earnings increase FY 1981-82 on FY 1980-81.

Department of Energy say that, despite press reports, no claim has yet been lodged. The claim will be formally presented on 17 November at a meeting of the NJIC.

17. Water Service (Manuals - 33,000)

Settlement date: 7 December 1980

Unions: GMWU, TGWU, NUPE, NUAAW

The claim was presented on 23 October. The Department of the Environment understands that the unions are seeking £20 (30%) on the basic rate, a shorter week, longer holidays and other improvements. The parties are now unlikely to meet until the end of November.

Comment

Mr King met the chairmen of the National Water Council and the Regional Water Authorities and stressed the Government's views on the need for a single-figure settlement. The chairmen indicated that the unions were this year looking towards the miners' settlement and intended to wait until it was concluded. Mr King's letter of 23 October to the Chief Secretay reports more fully on the meeting.

Issues

Should Ministers seek to influence the timing of the negotiations so that they are not concluded before those for LA manuals and NHS ancillaries (the Chancellor has written to Mr Heseltine about this)?

ANNEX C

BACKGROUND: PRIVATE SECTOR SETTLEMENTS AND NEGOTIATIONS

The average level of settlements in the private sector monitored by the Department
but this figure is not a reliable guide because of the small number of groups which hav
of Employment (covering some 60% of employees) so far this round is 13%, /There /settled
is a clear drop from the average level of 18% last round. The range is wide - from 7% to over 20%. No going rate is yet apparent. Few single-figure settlements have been made. Out of 75 settlements reported, 10 are in single figures, but some are interim agreements which are likely to be supplemented later in the round. The significant low settlements are at Vauxahlls (8.4%), the glass container industry (8-9%), engineering (8.2% on minimum rates) and FMC (8.7%). Improvements in holidays continue to be agreed in many settlements. Reduced hours feature in most claims, but as yet few new reductions have been conceded. Several interim settlements have been made, allowing for review in less than 12 months' time.

cc Mr Duguid
Mr Vereker

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

11 November 1980

Tim Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Tim,

PUBLIC SECTOR PAY: MONITORING REPORT

Thank you for your letter of 5 November, recording the Prime Minister's comments on the last Monitoring Report.

On the question of nationalised industry pay the position is fairly satisfactory. In most cases sponsoring Ministers have already informed the chairmen of their nationalised industries that the Government is looking for single-figure settlements. Where this has not been done by Ministers, either senior officials have conveyed the same message or the chairman concerned has indicated that the industry cannot afford a settlement outside this range (for example, British Steel claim that they cannot afford any increase in unit labour costs). In the case of posts and telecommunications, Sir K Joseph is not sure that the message has really gone home, and intends to see both chairmen again shortly.

The Chancellor is well aware of the urgent need for agreement on a pay factor for University teachers and technicians, and hopes to obtain the agreement of his colleagues to a figure which can be indicated to the University authorities, at Cabinet on Thursday, 20 November.

I am copying this letter to Richard Dykes (DE), Jim Buckley (Lord President's Office), Ian Ellison (DOI), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours

John

A J WIGGINS
Principal Private Secretary

CONFIDENTIAL

1

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

Prime Minister

This was my worry too – but you did not give any such impression

My ref:

Your ref:

10 November 1980

cc Mr Ingham

MT.

Dear Geoffrey

T. 12/11

LOCAL GOVERNMENT PAY

You will have seen the reports in today's Times - attributed to "senior sources" - disclaiming government responsibility for any agreements on firemen's pay and suggesting that it is open to local government tp pay the full amount due under the formula provided they keep within an overall 6% limit. I have to say that if this representation of the facts emanated from Whitehall, I greatly regret it. There is a very real danger that in adopting this posture so specifically we should undermine the ACC and the GLC, and our supporters on the AMA, in the firemen's negotiations. They have already complained about this.

I feel that we should as far as possible avoid any statement or background guidance of this sort. LA negotiators have a tough enough task as it is without the union representatives getting the impression that the government is not fully behind the need to lower all settlements. We should perhaps confine ourselves to the general statement that, while we are obviously looking for settlements well into single figures, it is for the local government employers to negotiate for their own employees in the light of our announcement last week.

I am copying this to Willie Whitelaw and other members of E Committee and to Sir Robert Armstrong.

Yours ever

MH

MICHAEL HESELTINE

Rt Hon Sir Geoffrey Howe MP

CONFIDENTIAL

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 ....

W S Ryrie CB
Second Permanent Secretary
Domestic Economy

10th November 1980

Sir Brian Cubbon KCB
Home Office
Queen Anne's Gate
LONDON SW1H 9AT

Dear Brian,

Thank you for your letter of 3rd November about our fortnightly reports on public sector pay questions. We shall certainly arrange for the Home Secretary to receive copies of future issues and, in case he has not seen it, I enclose a copy of the last one which went to the Prime Minister last Friday.

I have mentioned this to the Chancellor and he agrees. I am also sending a copy of this letter, with a copy of yours, to Tim Lankester at No 10, and to Sir Robert Armstrong.

You will recall that the intention was that these reports should be factual and should not contain policy recommendations. However, with the Prime Minister's approval, we are attaching to each one a short note about the issues which appear to arise, together with proposals, where appropriate, about how they should be considered - eg a letter from the Chancellor to the Minister concerned or a reference to E Committee or an ad hoc meeting.

Yours ever,

Bill

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FILE

Copied to Nat Ind: Policy. Pt 3

be: John Hoskyns
David Wolfson
John Vereker
Industry

10 DOWNING STREET

From the Private Secretary

5 November 1980

Econ Pol

Dear John,

Public Sector Pay: Monitoring Report

The Prime Minister has now read the latest Monitoring Report which you sent over with your letter of 31 October. She has commented that this is an excellent Report, and she would like to discuss it - and subsequent Reports - with the Chancellor. She has no objection to your producing the Report on a three-weekly basis rather than fortnightly at least for the moment.

On individual issues in the Report the Prime Minister has the following comments:

i) Handling of nationalised industry pay. She asked whether all sponsoring Ministers have informed the chairmen of their nationalised industries that the Government is looking for single-figure settlements?

ii) University technicians. She believes that this case provides a further argument for getting an early announcement on the pay element for next year's cash limits.

iii) University teachers. She has commented that the Government must resist the 13% offer proposed by Committee A.

I should be grateful for a note on the first point above, and no doubt the Chancellor will take up the question of University teachers' pay further with the Secretary of State for Education as necessary in the light of the Prime Minister's comment.

I am sending copies of this letter to Richard Dykes (Department of Employment), Jim Buckley (Lord President's Office), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours ever

Tim Lankester.

John Wiggins, Esq.,
HM Treasury

CONFIDENTIAL

DS

~~M. R.~~

File

cc:- Mr Ingham
Mr Gaffin

MR SANDERS

RESTRICTED

PAY TRADE-OFFS

Some time ago I asked the Treasury to do some work on the relative effects of pay increases compared to reductions in the interest rate, or reductions in public expenditure. The conclusions are not particularly surprising or original, but you may find it convenient to have a summary of them, in case you want to draw on them in your briefing for Questions.

Forms of words which would have Treasury blessing including the following:-

1. The CBI have estimated that for industrial and commercial companies as a whole, 1% less in pay increases has three times as large an effect on profits as a 1% cut in interest rates.

2. Each extra 1% increase in the pay bill for all public service employees costs £300 million. That £300 million is equivalent to, for instance, an annual cut of £35 in the pension of every pensioner in the country.

3. Each extra 1% increase in the pay bill for the National Health Service costs about £7 million. Finding this sum from other expenditure would be equivalent to cutting nearly three new hospitals, or 140 new old peoples' homes.

4. Each extra 1% increase in the pay bill for teachers costs about £60 million. Finding this from other education spending would be equivalent to stopping all expenditure on text books.

You may like to glance at the attached copy of the Treasury's letter to me of 31 October, which indicates a number of reservations about going beyond these forms of words.

JOHN VEREKER

5 November, 1980

RESTRICTED

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Treasury Chambers
Parliament Street London SW1P 3AG

Telex 262405

Telephone Direct Line 01-233
Switchboard 01-233 3000

J Vereker Esq
10 Downing Street
LONDON SW1

Your reference

Our reference

Date 31 October 1980

Dear John

PAY TRADE-OFFS

Thank you for your letter of 21 October. I am sorry that other preoccupations here have prevented a reply before now.

Public services trade-offs

2. As you can see from the note attached, most of the figures that have been quoted for public service pay are correct as orders of magnitude, though we have revised and brought them up to date. On a specific point you will note that the education example no longer refers to X new schools. DES protested at the inappropriateness of that comparison when it was used in the July PPB: construction of new schools is apparently now of pretty low priority.

3. We have deliberately drafted the examples in rather negative terms. When both volume expenditure and pay are being reined back it would be misleading to imply a choice between increasing one or the other. In any event the material clearly needs to be used in a way which avoids as far as possible the risk of provoking the response that since services are being reduced, then higher pay increases presumably can be afforded.

4. There are a couple of other caveats which also suggest that the specific examples on the pay/services trade-offs are best restricted to use as debating points in defending the single figure pay factor for 1981-82 cash limits and explaining the need for low settlements:

(i) it would be dangerous to imply that simply in pitching the pay factor at a low level the government is ensuring that volumes will prove correspondingly higher in the out-turn. Clearly it is low pay settlements that will be important.

(ii) the figures given are generally based on the expenditure cost of particular items - not the PSBR effects, which will generally be smaller. Because different categories of spending can have very different economic effects under fixed money supply it is not strictly true, at least in the longer run, that £Xm saved on pay could result in exactly £Xm more capital spending.

Nationalised Industries

5. Richard Broadbent has confirmed that each 1% increase in earnings in the nationalised industries between 1980-81 and 1981-82 is worth about £125m in terms of the 1981-82 EFLs. But we think it would be inappropriate to try to equate this with particular items in the industries' capital programmes, for example. There are so many other elements in the EFL equation that it would be wrong to imply that the full weight of excessive pay increases would be felt on capital spending. But the general proposition - which it is quite right to state publicly - remains true: ie the higher pay settlements are the less the industries will have to spend on capital investment.

Pay costs and interest rates in the private sector

6. The Prime Minister's remarks about a 1% increase in private sector pay having three times the impact on profits of a 1% change in interest rates appears to be based on a CBI aggregate estimate quoted at NEDC on 6 October by Sir Raymond Pennock. (The attached copy of an internal minute of 17 October explains in more detail the basis of the figuring.) The estimate relates to the average for all industrial and commercial companies (ie excluding banks etc) and so any individual company may well differ very much from the average: for a capital intensive highly-geared firm the ratio could be very much less than 3:1. But as long as we express the figure as a broad brush overall estimate and stress its source, it is suitable for public use. (You may have seen that the Chancellor used it in the unemployment debate on 29 October (OR col 509).) The following formulation seems safe:

> "The CBI have estimated that for industrial and commercial companies as a whole 1% less in pay increases had three times as large an effect on profits as a 1% cut in interest rates."

7. Copies of this letter go to Mrs Gilmore, Aaronson, Broadbent, Burr, G Ingham and C K Williams here.

Yours

Mick

M T FOLGER

POL/80 160/26/14

PERSONAL AND
CONFIDENTIAL

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

84/11

SIR BRIAN CUBBON KCB
PERMANENT UNDER SECRETARY OF STATE

3 November 1980

Dear Bill

You may recall that I expressed some unease when I wrote to you on 1 September in reply to your letter of 14 August about the new group being set up to provide Ministers with regular information on developments in public sector pay. I doubted then whether the group would be able to refrain from considering policy issues.

We have seen extracts from the first report about the Home Office services. It seems from the comments included in the report, and the discussion of the main issues involved in each settlement, that the group is, indeed, getting into matters of policy. No doubt the Chancellor's letter of 23 October to the Home Secretary about firemen's pay is one of the results of the group's activities.

The Home Secretary has now replied to the Chancellor on this issue, but, on a wider front, I am concerned that it appears to have been thought desirable to exclude the Home Secretary from the circulation of the report. I have in mind not just his departmental interest in services such as the police and fire service, but also his more general responsibility for maintaining public order and particularly his responsibilities in connection with civil contingencies, which could involve him directly in coping with the effects of any major industrial dispute. He is the most senior Cabinet Minister after the Prime Minister. Do you not think that it would be in the best overall interests of the Government if he shared the information about public sector pay which is being made available to other Ministers?

Copy to Robert Armstrong.

Yours ever

Brian

PERSONAL AND
CONFIDENTIAL

W S Ryrie Esq CB.

This is an excellent report. It ought to be taken etc. & regularly to see whether action is required

MT

Prime Minister

Content with 3-weekly rather than fortnightly reports, at least for the moment?

TL 31/10

Yes MT.

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

31 October 1980

C.A. Whitmore, Esq.,
No.10, Downing Street,
S.W.1.

Dear Clive

PUBLIC SECTOR PAY : MONITORING REPORT

...... I attach the usual Note by Treasury Officials on pay negotiations in the public sector.

On the new items raised in the covering note, the Chancellor will be pressing sponsor Ministers inviting them to give further firm guidance to their Chairmen once EFL decisions have been taken. On university technicians, the Chancellor is, of course, anxious to secure an early announcement of the pay element in cash limits to influence the outcome here and is meantime in touch with the Secretary of State.

The Chancellor also considers that firemen's index-linking is now an urgent problem if anything is to be done. He has been hoping to achieve a change this year, but in the light of the Home Secretary's letter to him of 29 October, it is clear there are added difficulties because of understandable doubts about the capacity of the police and armed forces to cope with a firemen's strike if one were to occur, given the current prison emergency. He will be writing to the Home Secretary again shortly.

overtaken

The Prime Minister may have noticed that the timing of the monitoring report has slipped from the original proposal of "fortnightly" to being 3-weekly. The view of officials, with which the Chancellor concurs, is that the pace of events at the moment does not require

/more frequent

more frequent reporting, but he would be grateful for the Prime Minister's agreement. The timing would of course be kept under review, and reports made more frequent if circumstances require.

Content?

I am copying this letter to the usual recipients.

Yours ever,
Peter

P.S. JENKINS

CONFIDENTIAL 2. Prime Minister

[illegible]

Original on:—
Public Expenditure Pt 11
Econ Pol.

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

31 October 1980

We cannot return to Pay research as it is at present constituted. We think it objective and positively relevant for any comparisons which though relevant may be unfavourable to us.

Dear Chancellor,

At yesterday's Cabinet we discussed briefly the point made in paragraph 6 of C(80)65 in which you proposed that for cash limits purposes we should decide now on a provisional pay factor for the pay round starting in August 1981; and that this should be two percentage points below the figure we adopt for the pay round which has now begun.

I can well understand the reason for making this proposal. We all hope that the general level of pay settlements will decline and will continue to do so. But I am concerned at the additional strain which this course would place on our efforts in this pay round. It will not be possible for us to disguise the assumption that has been made about the next pay round and it will appear that we are deciding now on what amounts to a two year pay policy for the public services. This is certainly how it will be presented by the unions even if the figure for the 1981/82 pay round is described as only being "provisional". It is far from clear yet how the present pay round as a whole will turn out and it is important for us not to appear at this stage to close off options on the longer term treatment of public service pay. For example it is important we should not give the impression that we are deciding now that pay research cannot return for the non-industrial Civil Service in April 1982. This would belie our recent assurances to the unions that we are prepared to review that possibility in the light of progress in our discussions with them on improvements to present procedures.

It seems to me that there are two courses we could follow which would save us from boxing ourselves in and avoid giving the impression that we are launching an incomes policy, at least for the public services, and at least for two rounds.

a) to use the pay factor fixed for the present round in making provision for any settlements in the 1981/82 pay

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round which fall within the period of the 1981/82 cash limits. It would be made clear that the provision made for these settlements would be adjusted up or down once we were in a position to make a firm judgement on their appropriate level. I recognise that this would involve being prepared to contemplate "claw back" which would not be easy;

b) to assume a nil increase for those settlements which will fall in the 1981/82 pay round and then to adjust the cash limits upwards nearer the time. This would involve accepting in advance the need for upwards adjustment but would make it clear we were not making any assumptions about the 1981/82 round at this stage.

I would myself prefer either of these courses to the one you propose; it may well be that (b) is the less difficult of the two.

As this is somewhat technical, I thought I would put the problem to you and colleagues on paper before our discussion in Cabinet.

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

Yours sincerely,

Buckley
(Private Secretary)

for

SOAMES

PART 2 ends:-

RTA to PM (A03388) 29.10.80

PART 3 begins:-

Ld Pres. to Ch Ex 31.10.80