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PART E

Chex
LAWSON

PART E

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PO -CH /NL/0204



PART E

CHANCELLOR'S PAPERS ON
GENERAL PAY ISSUES

PO -CH /NL/0204

PART E

Begin: 8/7/88

Ends: 12/12/88

DD: 25 years

8/9/95

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Part
See note, pt.
[Signature]

FROM: MR J de BERKER

DATE: 8 July 1988

MR GIEVE

- cc Mr C W Kelly
- Ms Seammen
- Mr Pickford
- Mr MacAuslan
- Mr Hibberd
- Mr Meyrick
- Mr Hudson
- Mr Wynn Owen
- Mr Tyrrie
- Mr Patterson

SPEAKING NOTES ON PAY

I showed the original Treasury draft ~~to~~ DE officials and they have amplified it. The revised version is attached. I would be grateful for any comments by close Friday 15 July.

See [unclear] [unclear] Mr de B
a note [unclear] [unclear] I have
at [unclear]

[Signature]
Jonathan de Berker

JONATHAN de BERKER

cc Mr Gieve
Mr Patterson
Mr Tyrrie
cc Mr de Berker

I'm afraid I can't find the notes I sent you on this subject. But leaving aside pride of authorship, I don't like much of the stuff which I think the DE have put in. The economic premises of it look dubious - Mr Patterson will be better placed than me to comment on this. And the tone in paras 8-9 is back to hectoring the private sector, which has never done any good in the past.

[Signature]
A.P. HUDSON
13.7

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SPEAKING NOTES ON PAY: SUMMARY OF KEY POINTS

Control of costs is vital

- ~~Pay is central~~ to the task of maintaining Britain's economic success, with continued growth of output and jobs.

Oversimplified? - Unjustified pay increases raise production costs; reduce the level of output that can be produced profitably; discourage employers from taking on more staff; and reduce international competitiveness.

- Not enough to match increases by greater productivity in some sectors. If all efficiency gains are transferred to existing workers in higher pay, nothing is left to provide for improving price competitiveness, increasing output and jobs. Output must rise faster than productivity if unemployment is to be permanently reduced.

- Prime Responsibility for pay must always rest with the parties directly concerned. Only they know what is right for their particular enterprise.

What does this mean? } - That means more flexible system of pay bargaining that takes account of both their own needs to recruit and keep staff and the pressure of market forces, including what can be afforded. Rewards should match performance and merit and be related to profits.

All at once?

✓ - Also means reducing the influence of the "going rate" and comparability, and questioning more critically the practices of national pay bargaining and the automatic annual pay round.

✓ - Government's role is to set a firm economic and financial framework; provide new freedoms by removing obstacles and unnecessary controls on businesses and individuals; and set an example as an employer.

✓ - That means no truck with incomes policy or pay "norms". Instead the emphasis is on relating pay to profitability - hence the Government's profit-related pay scheme which provides the incentive of tax reliefs.

- Macro-economic framework bears down on inflation and has provided room for tax reductions. So large pay rises to maintain living standards not needed.

- Competition in product and labour markets essential part of the approach. Allows market pressures to keep down costs and prices. That is why the European Single Market is so important. *and indeed improve*

- Examples include: privatisation; contracting out public services to competitive tendering; de-regulation; fostering new and small businesses.

- Labour market reforms include trade union law; repeal of statutory "going rate" provisions in Schedule 11 of the 1975 Employment Protection Act, and reform of Wages Councils.

- As an employer, Government has already negotiated performance-related pay deals with one third of all civil servants and is discussing similar agreements to cover the rest.

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DRAFT SPEAKING NOTES ON PAY

I Introduction

1. Britain's economic transformation is the result of

- a firm economic and financial framework
- the encouragement of economic freedom, *with*
- the revival of ^{the} enterprise culture;
- the abolition of a range of controls on businesses and individuals.

2. **Pay is central to any strategy for employment** because of link between pay and jobs. Unjustified pay increases

- raise production costs
- reduce level of output that can be profitably produced
- discourage employers from taking on more staff
- reduce international competitiveness.

3. **Prime responsibility for pay must always rest with the parties directly concerned.** Only they know what is right for their particular enterprise. That means

- need for more flexible system of pay bargaining that takes account of **both** internal needs of enterprise and market forces including affordability.

4. These factors mean **no truck with incomes policy.**

Not hard to see why since

- any modest success followed by damaging catching-up process later
- incomes policy wrong in principle through unjustified intervention in [concerns of economic agents] *market*
- inevitable politicisation of pay disputes

[Most people wouldn't know an economic agent if he punched them on the nose.]

Implication: No pay norm, formal or informal.

II Overall Framework

5. Government has responsibility for setting overall framework.

6. Macro-economic framework

- MTFFS provides structure for economic policy with continued downward pressure on inflation, laying foundation for sustained economic growth and rising employment.
- *Government* ~~MTFS makes clear that monetary and fiscal policy will not accommodate excessive increases in costs. In particular, no bailing out of employers from consequences of unjustified pay increases.~~
- Firm financial framework created by the MTFFS has *brought* ~~given~~ low inflation and allowed room for tax reductions. Thus no need for large pay rises to maintain living standards.

- x
- Tax cuts in 1988 Budget ^{mean} and pay rise of only [x] needed to maintain living standards [where [x] is the TPI at the time of speaking - currently 2.1 per cent.

7. Micro-economic framework.

(a) **Government sets micro-economic framework within which pay decisions made:** "Micro-economic policies have been used to tackle the rigidities in our economies which get in the way of healthy growth and more jobs I have no doubt that supply side reform, rather than macro-economic adjustments, must be the priority for all our countries". Chancellor talking at OECD Ministerial Meeting, 18 May 1988.

(b) **Government has taken many actions to increase competition in product markets.** These put pressure on employers to reduce costs and to stop passing on pay rises in higher prices. Pay costs represent A per cent of total costs in manufacturing and B per cent in services. Each percentage point extra on pay costs industry 4 times as much as percentage point on cost of borrowing even if that were sustained for a whole year. Actions taken:

- measures to reduce trade protection
- privatisation (gas, telecommunications, electricity) *No increase in competition, but an increase in regulation. Not yet*
- contracting out of public services to competitive tendering (Local Government Act 1988 requires a range of local services shall be subject to competitive tendering. Also NHS where savings of over £100m per year achieved by March 1988 but greater internal efficiency means 85% of new contracts were won by in-house bids). See also Section IV.

It's hard to see that this has much direct bearing on pay.

- Deregulation (See "Encouraging Enterprise" published 8 May 1987 for progress report)
- fostering new and small businesses
- commitment to introduction of Single European Market in 1992

(c) **Government has taken many actions to increase competition in labour markets.** Action on this front enables market pressures to have a moderating effect on wages growth.

Actions taken include

- legislation to reform trade unions
- repealing Schedule 11 of the 1975 Employment Protection Act which could be used to require employers to pay the same wages as others whose circumstances were quite different
- reforming Wages Councils by removing those aged under 21 from their scope and generally reducing the scope of Wages Councils to impose detailed terms.

Section III

Responsibilities of Pay Bargainers

8. **Primary responsibility rests with employers and their employees.** That means they have to be much more responsive to market signals and to productivity performance. They have to judge what can be afforded.

9. Employers and employees must recognise that size of pay increases is crucial for job prospects.

- Higher wages unless matched by increases in productivity, must mean fewer orders, a loss of international competitiveness, lower profits and hence fewer jobs.
- Higher wages bound to make it hard for employers to take on extra people even if productivity is growing. Evidence shows that if pay settlements were to slow to leave average real wages 1 per cent lower than otherwise, we could expect around [110,000] to [220,000] new jobs over time.
- UK record on manufacturing unit labour costs mixed over 1980s. Have increased faster than Japan or Germany in most years in spite of rapid increases in productivity. If wages had grown less fast, output and employment would have grown more rapidly.

*This is interesting.
What evidence?*



10. Each employer must judge what level of pay is needed to recruit and retain staff and what the enterprise can afford.

That means

- **no "going rate"**: A concept that does nothing but damage to labour market adaptability and the generation of new jobs
- **a general questioning of comparability**: Not necessary to pay all grades of worker the same percentage increase
- **a general questioning of national pay bargaining**: Not necessary to pay the same throughout the country
- **a general questioning of the automatic annual pay round**: Pay rises need to be earned. There can be no automatic right to an annual pay increase regardless of company performance.

11. **Pay must be more closely related to the local labour market.** If current levels of employment growth are to continue nationally and particularly in areas of higher unemployment, then pay cannot grow at the same rate irrespective of local conditions.

Changes are taking place

- 60% of the workforce was covered by national agreements in 1985 compared to 50% in 1978.

- ^{But} Variations within national bargains have been growing.
Recent examples include agreements in [oil distribution and banks, in computers and steel].

12. **Pay must be more closely related to the health of the business.**

- Pay must be related to profits. In the end all pay is profit related.
- Need to recognise that companies' profits go down as well as up. Higher profits can lead to higher pay settlements giving employees a share in the fortunes of the business in which they work. But this requires lower profits to bring lower pay settlements if jobs are not be lost from cost orders.
- Understand desire of firms to pay staff more when profits are good. But if all efficiency gains and profit increases are transferred to existing workers, then nothing left for improved price competitiveness, output and jobs - and unemployment will stop falling.

- Pay flexibility in line with growth in profitability allows employees to share in fortunes of business when profits are rising and better job security when profits stable or falling.
- Many companies showing greater interest in profit related pay and performance based pay systems, recent ACAS survey found that **over one-quarter** of those in sample had introduced such changes.

13. Government has acted to encourage relating changes in pay to changes in profitability through Profit Related Pay Scheme.

- PRP provides in built pay flexibility and gives employees a stake in the enterprise.
- Approved PRP schemes give tax incentive worth almost 4p in the Pound to employee on average male earnings. In first 8 months, 673 schemes have registered covering over 100,000 employers - with average earnings of L12,500 per year. Shows potential of PRP for all workers not just very rich.

lh
14. The labour market of the 1990s with far smaller numbers of young people entering the labour force and the spread of new working patterns ^{with} requires ^{still} more flexible attitudes to remuneration. This includes not just pay but other forms of profit sharing income which give employee a stake in the enterprise, particularly share ownership schemes.

- Government has taken action in 1978 and 1980 Finance Acts to encourage development of employee share ownership schemes. Currently [early 1988], over 1400 registered schemes covering well over 1.5 million employees.

[- Employee share ownership as part of privatisation HMT to provide estimates.]

15. Government has taken a whole range of measures to encourage flexible attitudes to pay bargaining.

- Now up to employers and employees to increase pay flexibility according to circumstances of their own enterprises.
- Continued success in (a) productivity and real income growth and (b) continued falls in unemployment depend on pay bargainers implementing necessary changes to old ways of doing things.

Section IV

Responsibility of Government as Employer

16. The Government as employer is well aware that the public services do not face the discipline of a profit and loss account. Government must therefore make strenuous efforts to increase pay flexibility:

About 126,000 (one third) of civil servants have already been taken out of traditional bargaining arrangements and gone over to new agreements linking pay to performance and the realities of the employment market.

About another 450,000 (two thirds) are at present discussing similar changes.

Well over half of all civil servants are now covered by elements of performance-related pay.

The Local Government Act 1988 requires local authorities to put out to tender a range of the services they provide. This will give an important push to setting realistic and flexible pay levels within local government.

Workers at British Nuclear Fuels have had links between their pay and civil service pay removed.

Bargaining arrangements for the three Post Office businesses (letters, counters and parcels) have been separated.

In the NHS, sweeping reforms of grading structures are taking place in many groups. Efficiency gains are the aims here.

The Civil Aviation Authority has also cut the previous linkage with civil service pay, and more is being done to take account of performance and efficiency in pay arrangements.

17. There are other areas in which Government can, and does, look to the responsiveness of pay to competition and efficiency. Government action to increase competition has included:

Privatisation (British Gas, British Telecom, British Airways, British Airport Authority), and plans for further privatisation (electricity, water, Girobank)

Contracting out of public services to competitive tendering

Deregulation in anticipation of the Single European Market in 1992

Enquiries into restrictive labour practices in broadcasting, efficiency audits at British Rail Network South East, Post Office Counters, British Coal.

18. The Ibbs report on the decentralisation of the Whitehall machine, and the proposed farming out of Government functions on an agency basis, provides the background to the next stage in creating more efficient, flexible and responsive Government.

The impact on pay will be considerable. The Government will no longer pay people an artificial "going rate", set nationally and annually regardless of regional differences, performance, efficiency and merit. Comparability is a dying concept in many areas of Government activity.

Civil servants, and those working in the public trading sector, will be paid for working hard, thinking constructively about what they do and providing an effective service to the public where that is their job, for rates of pay set with regard to performance, efficiency and the local labour market.

Pay and pay bargaining arrangements should reflect the different needs and circumstances of each arm of the public service, just as it should reflect the different needs and circumstances of private companies.

Government is therefore contributing positively to the new, more flexible and more responsive ways in which pay is linked to performance and the labour market.

Having successfully set the economic framework, Government is itself using that framework to tighten up its own systems and arrangements.

19. Government has achieved considerable progress on introducing more flexibility to its pay arrangements. These show what can be done. They show Government heeding own lessons and help set an example to other sectors of economy.

Section V

Conclusion

20. Pay is responsibility of management. Overmanning of the 1970s was a challenge born of failure. Current pay pressures are a challenge' born of success. Job is to keep success going, not least against unemployment.

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Think must be similar to Suspin Act health authority over-grading.

I think we must resist any further increase in cash limits. If necessary a firm

FROM: D P GRIFFITHS
DATE: 13 July 1988

- 1. MR SAUNDERS message should be given to DHSS to this effect.
- 2. CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr C W Kelly
Miss Peirson
Miss Seammen
Mr Call

*Dave A Mueller
Mr Turnbull*

Although we always knew that the figures were dodgy, we gave a lot of money, and a further concession would be very damaging.

NURSES' PAY AWARD: 1988-89 COST

RBS 13/7

1. You asked for a note on yesterday's Independent article on the costs of nurses' re-grading. The lead story in today's Guardian, quoting a leaked internal memorandum from North Western Regional Health Authority, also alleges that insufficient funding has been provided for the award.

2. At this stage it is still too early to say with any confidence what the actual costs of the re-grading exercise will be (as both COHSE and the RCN acknowledge). No Region is yet far enough into the re-grading process to produce accurate estimates: when DHSS met RHA Treasurers last week none were able to say what the outturn in their region would be (although there have been complaints from some Regional General Managers that not enough money has been provided). DHSS regard the North Western RHA's view that it is "at least £3.3 m short of the funding required" as speculative and are maintaining their line that adequate resources have been provided.

3. Regions may obviously have an interest in claiming that they have been underfunded. But it is the case that the Review Body's estimate of the cost of the new grading structure was only an approximate one. The Review Body relied on a survey of how 1300 nursing and midwifery posts in eight districts would be effected by the structure. This was not a random sample, nor an attempt to replicate the overall pattern of nursing throughout the country. We cannot therefore be confident that the Review Body's estimate was a completely accurate one.

4. A further complicating factor is the method DHSS have used to allocate the additional funding provided. The block of money allocated to Regions in total was calculated broadly in line with pay bill expenditure. But the distribution was then made on a pro-rata basis to each Region's share of the original 1988/89 cash allocation. It therefore did not precisely reflect the pattern of spend on nursing in each particular Region. Hence there could be some Regional anomalies in provision.

5. The situation is a messy one. However, there is room for flexibility in carrying out the re-grading process and health authorities will obviously have to have regard to cost in implementing the new arrangements. There is therefore no reason to change our position that authorities know their new cash limits and will have to keep within them.

D P Griffiths

D P GRIFFITHS

July 12, 1968

Cost of nurses' pay rise miscalculated

EARLY SIGNS that the Department of Health may have seriously miscalculated the cost of the nurses' pay award have started to emerge as health authorities begin putting all 450,000 nurses on the new grading structure, Nicholas Timmins writes.

The new deal was expected to add 15.3 per cent to the pay bill, and the Government has provided sufficient extra cash to cover the cost. However, with the final bill being decided by where in the new structure each nurse is placed, health authorities fear the total could be £150m higher than the £669m the Government has allowed, according to a report in the *Health Service Journal*.

Most health authorities will not know until September at the earliest what the final figure will be because of the huge task of regrading every nurse. But one regional manager said: "From where we are it looks like it will cost more than we have been allowed, although £150m sounds too high". Another, however, said the figure "may well be about right".

Both the Royal College of Nursing and the Confederation of Health Service Employees said there were "rumblings" from

members about the way the grading exercise was going.

Cohse said: "Because health authorities are being given cash limits, there are complaints from members that they are trying to tailor the jobs to the money available, rather than assess the post and then work out the bill. At the moment it is all anecdotes rather than substantive facts, but we are worried about the way it appears to be going."

The review body which recommends nurses' pay warned that the estimate of the final cost of the nurses' increase was "necessarily approximate" because it was based on the estimates by the Department of Health of how many nurses would be placed on each grade.

A spokesman said: "For these reasons the actual cost of our recommendations may well differ from our estimates."

A spokesman for the RCN said: "We are still at the very beginnings of this exercise, but there are rumblings from our members. If we do find health authorities are trying to downgrade jobs to stay within the funding we will be complaining in very strong terms."

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Peel.

Promise on nurses' pay is broken

David Brindle
Social Services Correspondent

THE Government was last night heading for a fresh crisis over the National Health Service after it emerged that it had not, as promised, funded fully the nurses' pay award.

A leaked internal memorandum revealed that the North-western regional health authority was "at least £3.3 million" short of the funding required for the average 15.3 per cent award and that other regions were in similar straits.

The North-western document says the options available to the authority include spending cuts, slowing down the regrading exercise by which the nurses will receive the bulk of their increases, and trying to manipulate the exercise to limit the costs.

The Royal College of Nursing warned last night: "We will fight that strongly. We will be making immediate representations to the Secretary of State."

The Government's underfunding of health workers' pay awards sparked last winter's NHS crisis. Health authorities were forced to close beds and wards to make ends meet.

When ministers announced the nurses' award in April this year, they put the cost at 14.5 per cent and said there would be £749 million available from the Government's contingency fund to ensure there would be

full funding and no repetition of the crisis.

Mrs Thatcher told the Commons: "The Government have decided that the cost in excess of the allocation already made for this year should be met from the reserve."

Regions have only recently received their allocation of the cash. But it is now clear not only that the kitty is inadequate, but that the method of distribution of the funds has failed to take into account the differing costs of each health authority.

Some authorities, such as North-western, spend relatively more on nurses or have more higher-qualified staff who are getting the biggest rises under the re-grading exercise.

The region's memorandum estimates the cost of the exercise at between 17 and 21 per cent. It says: "From discussions with other regions, their initial work indicates similar sizes of award." On the basis of returns by each constituent district, "we are clearly heading for a large financial problem".

The memorandum proposes slowing down the exercise and suggests that "resolution of inconsistencies in district returns could be used as an excuse". Other options, it says, are politically unattractive.

Worries over nurses' pay surfaced yesterday in the Commons. The Health Minister, Mr Tony Newton, said it was too soon to say if the £749 million would be insufficient and refused to promise that any

shortfall would be made good.

Ms Harriet Harman, the minister's Labour shadow, said later: "This is highly cynical. Health authority managers are going to feel they must choose between downgrading their nurses in order to meet the cash limits or else cutting services in order to meet the pay bill."

Ms Harman said it was now "absolutely clear it is not full funding".

The Commons social services committee, which has a Tory majority, warned last week that there could be fresh trouble in the NHS this autumn because of underfunding of the nurses' pay award and the rises due to other NHS workers.

The Government has allowed health authorities 4.5 per cent for these other groups. But they have all been offered at least 5.4 per cent, with more negotiations to come. Laboratory staff have been offered 7.6 per cent.

The committee, which called on the Government to review urgently the distribution of resources to health authorities, surveyed four sample authorities. It found that two were planning spending cuts anyway and the other two had no cash set aside for any extra pay costs.

The North-western document says that non-nurse employees account for 25 per cent of expenditure. Irrespective of the nurses' award, "consideration needs to be given to further action to cover the costs over and above the current provision".

Dewsbury's rebels win schools of their choice

Martin Wainwright
and David Gow

THE year-long wrangle over parental choice of schools in Dewsbury ended at the High Court in London yesterday when a legal point secured victory for the rebel parents and Kirklees council caved in.

The council offered an out-of-court settlement allowing 22 children, who have been taught in a classroom in a pub since September, to go to their original choice of schools. Seven

peals from parents over first choice schools.

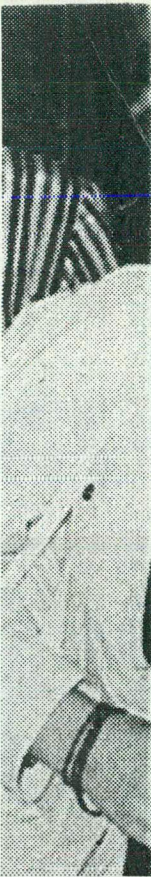
Some senior officials believe that the settlement could undermine local practices of achieving a numerical balance of pupils in schools to cope with falling rolls.

However, an out-of-court settlement is ambiguous and other senior officials argue that Kirklees was simply anticipating the education reform bill on admissions policies. They argued that no precedent has been set.

The offer followed a decision by Lord Justices Glidewell and

sions on the parents' original claim, that the council had manipulated intakes to get a better racial mix at local schools. This was prompted — and the dispute embittered — by the fact that the children were offered places at Headfield C of E school, 85 per cent of whose pupils are of Asian origin. Their first choices, Overthorpe C of E and Thornhill County, are overwhelmingly white.

Kirklees said the parents claim that places were allocated to achieve a racial balance was false and also rejected "vigorously" the parents' second orig-



Coming home

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THE Democ tial hope Michael night picked a Texan senator a mate, and raise a divisive party

CONFIDENTIAL



FROM: MISS M P WALLACE

DATE: 14 July 1988

M

MR GRIFFITHS

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Dame A Mueller
Mr Saunders
Mr C W Kelly
Mr Turnbull
Miss Peirson
Miss Seammen
Mr Call

NURSES' PAY AWARD: 1988-89 COST

The Chancellor was grateful for your minute of 13 July. He has commented that there must be considerable suspicion that health authorities are over-grading.

M.P.W.

MOIRA WALLACE

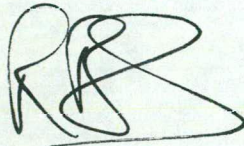
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4. But you may think that some of the material in paragraphs 3 and 4 is less helpful - for example the acknowledgement that we do not yet know how many posts will be assimilated to each of the new grades and what it will cost. This could be interpreted as an admission by the Government that it does not know whether the money made available in April is sufficient. There is also some apparent conflict between paragraph 2 ("vital to ensure fair and consistent implementation") and paragraph 4 ("complete uniformity of interpretation is neither possible nor intended"). Also there is no statement that no more money will be available.

5. There is a difficult judgement here. My own feeling, for what it is worth, is that, while we need to take steps to put a more positive message over, a letter of this sort may backfire. So it would be better to get some tough points over in off-the-record briefing only.

6. If, however, Mr Moore thinks he must go on the record, and that he cannot wait to hear what Mr Clay has to say before getting a considered draft agreed, we should seek the following amendments.

- Delete para 3 altogether (or, as a fall-back, the words "or of the detailed cost" in the fourth sentence).
- Insert "some unforeseen" before "problems of implementation" in the first sentence of para 4.
- Delete the third, fourth and sixth sentences of para 4.



R B SAUNDERS

DRAFT LETTER FROM SECRETARY OF STATE TO SIR DONALD WILSON

I was grateful for the opportunity on Wednesday to discuss with you and your fellow Regional Chairmen the implementation of the new clinical grading structure for nurses. I thought it would be helpful if I wrote to record the key points arising from our discussion. *I am sending a copy to all Regional Chairmen.*

2 Given the critical importance of the new structure for the future of nursing midwifery and health visiting in the NHS, and particularly the opportunities which it provides for career advancement within the clinical field, we all agreed that it is vital to ensure fair and consistent implementation within both the letter and the spirit of the agreement between the two sides of the Nursing and Midwifery Staffs Negotiating Council and the recommendations of the Review Body.

X | [3 The task of implementing the new structure is both large and complex, involving the individual re-grading of nearly half a million posts, in several hundred different locations. This is bound to take a considerable time. Indeed the agreed completion date is 31st October. No firm information will be available for some weeks yet about the likely outcome, in terms of the numbers of posts to be assimilated to each of the various new grades ~~(or of the detailed costs.)~~ *must of these be*] Meanwhile discussion of possible outcomes ~~would~~ be largely speculative. We agreed to resume our discussions when firmer information was available.]

*Cleminson
afraid---*

recognition

*reasonable way
that what have done*

probable

errors introduced

4 It is also inevitable that such an exercise will produce problems of implementation. The re-grading involves the application of new grading descriptions which were deliberately designed to be flexible. ~~[Complete uniformity of interpretation is therefore neither possible nor intended. Equally we must avoid the other extreme, of widely differing interpretations which go outside the expected range.]~~ Despite the considerable effort invested in training the staff who are undertaking the re-grading, it is no easy task to achieve the necessary degree of consistency ~~or~~ to ensure that everyone is interpreting the agreement and the grading descriptions appropriately. ~~[Preliminary reports suggest that there are indeed difficulties, of both excessively and insufficiently rigorous application.]~~ I was grateful for your assurance that your staff were working closely with Districts to overcome these problems, a process in which the Department's staff are also assisting.

Co-existing with 2?

will be inevitable

illustrate

avoiding examples

5 We recognised that nurses and midwives cannot expect to benefit equally from the new structure. As was made clear in the Prime Minister's announcement of the Government's decisions on the Review Body reports, the pay increases for the majority of nurses will range from 4.2 to 33.6%. It will be most important that implementation is handled with proper sensitivity, and that the position is fully explained to all staff and in particular to those who receive pay increases at the lower end of the range.

6 I and my ministerial colleagues will be keeping in close personal touch with the exercise. You told me that Regional Chairmen will be doing the same.

7 In view of the considerable publicity which is currently being given to this matter, I am making this letter available to the press. I am also arranging for copies to be sent to the Review Body and to the Staff Side.



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

Sir Donald Wilson
 Chairman
 Mersey Regional Health Authority
 Hamilton House
 Pall Mall
 Liverpool
 L3 5AL

CH/EXCHEQUER	
REC.	22 JUL 1988
ACTION	CST
COPIES TO	

22 July 1988

Ch/ HP reports that
 this as far as Mr M
 would go. A difficult
 negotiation.

mpw.

Thanks.
 HP has seen
 a letterhead &
 response.

I was grateful for the opportunity on Wednesday to discuss with you and your fellow Regional Chairmen the implementation of the new clinical grading structure for nurses. I thought it would be helpful if I wrote to record the key points arising from our discussion. I am sending a copy to all Regional Chairmen.

Given the critical importance of the new structure for the funding of nursing, midwifery and health visiting in the NHS, and particularly the opportunities which it provides for career advancement within the clinical field, we all agreed that it is vital to ensure fair and consistent implementation within both the letter and the spirit of the agreement between the two sides of the Nursing and Midwifery Staffs Negotiating Council and the recommendations of the Review Body.

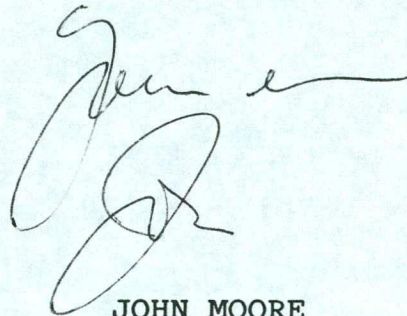
The task of implementing the new structure is both large and complex, involving the individual re-grading, to be completed by 31 October, of nearly half a million posts, in several hundred different locations. This is bound to take time. We therefore agreed to resume our discussions when the necessary firm information is available.

It is also probable that such an exercise will produce some unforeseen problems of implementation. The re-grading involves the application of new grading descriptions which were deliberately designed to be flexible. Despite the considerable effort invested in training the staff who are undertaking the re-grading, it will be a lengthy task to achieve the necessary degree of consistency and to ensure that everyone is interpreting the agreement and the grading descriptions appropriately. Preliminary reports illustrate this. I was grateful for your assurance that your staff were working close with Districts to overcome these problems, a process in which the Department's staff are also assisting.

We recognised that not all nurses and midwives can expect to benefit equally from the new structure. As was made clear in the Prime Minister's announcement of the Government's decisions on the Review Body reports, the pay increases for the majority of staff will range from 4.2 to 33.6 per cent. It is most important that implementation is handled with proper sensitivity, and that the position is fully explained to all staff and in particular to those who receive pay increases at the lower end of the range.

I and my Ministerial colleagues will be keeping close personal touch with the exercise. You told me that Regional Chairmen will be doing the same.

In view of the considerable publicity which is currently being given to this matter, I am making this letter available to the press. I am also arranging for copies to be sent to the Review Body and to the Staff Side.

A handwritten signature in black ink, appearing to read 'John Moore', with a long horizontal flourish extending to the right.

JOHN MOORE

ppp pl. ^B
FROM: MISS C EVANS

DATE: 22 July 1988

MR SAUNDERS

cc:
Chancellor
Sir Peter Middleton
Mr Anson
Dame Anne Mueller
Mr H Phillips
Mr Kelly
Miss Peirson
Mr Turnbull
Miss Seammen
Mr Griffiths
Mr Call

COST OF NURSES' PAY AWARD

The Chief Secretary discussed with you yesterday your minute of 21 July about Mr Moore's proposed letter to HA chairmen. In his view the need to counter the impression that all nurses would get a pay rise of 15 per cent or so was a powerful reason for issuing the letter to regional chairmen. He also thought it would be untenable for Mr Moore to have nothing to say in response to the likely barrage of publicity following the meeting with Mr Clay of the RCN tomorrow morning. He felt however that it would make more sense for Mr Moore to issue the letter after rather than before the meeting with Mr Clay to avoid the risk of claims that it was inconsistent with what transpired at the meeting. He noted that this problem had arisen before.

2 The Chief Secretary made the following amendments to the draft letter to Sir Donald Wilson, which you agreed to pass to DHSS.

Paragraph 3

Fourth sentence delete "or of the detailed costs".

Fifth sentence delete "would be," insert "must, of necessity, be"

Paragraph 4

first sentence: delete "inevitable" substitute "probable",

after "produce", insert "some unforeseen";

delete third sentence altogether;

fourth sentence: delete "is no easy", substitute "will be a lengthy"; after "consistency" delete "or", substitute "and";

fifth sentence delete everything after "reports", substitute "illustrate this".

3 In response to the Chancellor's concern Mr Phillips this morning negotiated a further amendment as follows:

Paragraph 3

insert new third sentence "We therefore agreed to resume our discussions when the necessary firm information was available."

delete the present fourth, fifth and sixth sentences so that the paragraph ends with '31st October.'

CE

MISS C EVANS

UNCLASSIFIED



FROM: J M G TAYLOR

DATE: 25 July 1988

PS/CHIEF SECRETARY

cc Mr H Phillips

A large, stylized handwritten signature in blue ink, likely belonging to Mr H Phillips.

IMPLEMENTING THE NEW CLINICAL GRADING STRUCTURE FOR NURSES

The Chancellor has seen Mr Moore's letter of 22 July to Sir Donald Wilson. He has commented that Mr Phillips has secured a worthwhile improvement on the earlier draft.

A smaller, stylized handwritten signature in blue ink, likely belonging to J M G Taylor.

J M G TAYLOR

CONFIDENTIAL

FROM: SIR T BURNS
DATE: 1 AUGUST 1988

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Anson
Dame A Mueller
Mr Scholar
Mr Monck
Mr C W Kelly
Mr Odling-Smee
Mr Sedgwick
Mr Hibberd
Mr S Price

PUBLICATION OF SETTLEMENTS FIGURES

You asked me to consider the case for publishing official government statistics on settlements. I attach a note by Mr Deane including a draft letter to Mr Fowler if you wish to pursue this.

2. My own view is that there is a strong case for publication despite the technical difficulties. The figures for earnings receive too much attention. Settlements figures are a better indicator of underlying wage pressures and a more appropriate comparator for employers and employees alike.



T BURNS

ENC

CONFIDENTIAL

FROM: R DEANE

DATE: 29 July 1988

- 1 MR HIBBERD *seen in
let 28/7*
- 2 SIR TERENCE BURNS

cc Mr Sedgwick
Mr Price

PUBLICATION OF SETTLEMENTS FIGURES

This note considers the feasibility of constructing and publishing official government statistics on settlements. In the light of the recent developments discussed below, the balance of the argument is now probably in favour of publication. A draft letter for the Chancellor to send to Mr Fowler is attached.

Background

2. An index of basic wage rates was published by DE until 1984. Conceptually, this was identical to a settlements index. Publication of the series was discontinued following the Rayner Review. The review "could find no Government users of these series and believed that it was no longer relevant to Government needs". The discontinuation of this series saved approximately £100,000 at 1979 prices. The publication of settlements figures will inevitably involve extra cost to DE although we can not currently quantify what these cost will be.

3. The rate of growth of average earnings has increased over the last year, partially as a result of high overtime and bonus payments. This increase has led to much public comment about possible wage pressures and overheating. The publication of official figures on pay settlements may take some of the heat out of this debate and provide a better indicator of underlying wage pressures.

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4. The increase in whole economy underlying average earnings was in the range $7\frac{1}{2}$ per cent to $7\frac{3}{4}$ per cent between January 1984 and September 1987. It had increased to $8\frac{1}{2}$ per cent by December, and has remained at this level since. However, earnings are likely to increase by $8\frac{3}{4}$ per cent in June (figures to be published on 19 August). The picture is similar in both private sector services and manufacturing. Pay settlements have also increased over the last year, but the increase has been less marked. The following table shows the recent path of earnings and settlements. The figures are for matched settlements, so as to give a fair indication of movements over time.

Settlements and Average Earnings

	Whole Economy			Manufacturing		
	Underlying Average Earnings	Settlements 12-month ¹ average	monthly ² level	Underlying Average Earnings	Settlements 12-month ¹ average	monthly ² level
1987						
May	$7\frac{3}{4}$	5.9	6.5	8	4.9	5.4
June	$7\frac{3}{4}$	5.8	5.0	$8\frac{1}{4}$	4.8	4.9
July	$7\frac{3}{4}$	5.7	5.5	$8\frac{1}{4}$	4.8	5.3
Aug.	$7\frac{3}{4}$	5.7	5.7	$8\frac{1}{2}$	4.9	5.5
Sept.	$7\frac{3}{4}$	5.7	6.1	$8\frac{1}{2}$	4.8	5.0
Oct.	8	5.7	5.6	$8\frac{1}{4}$	4.9	5.1
Nov.	$8\frac{1}{4}$	5.6	6.1	$8\frac{1}{4}$	4.9	6.3
Dec.	$8\frac{1}{2}$	6.0	8.8	$8\frac{1}{4}$	5.0	5.4
1988						
Jan.	$8\frac{1}{2}$	6.1	5.3	$8\frac{1}{2}$	5.1	5.2
Feb.	$8\frac{1}{2}$	6.1	6.6	$8\frac{1}{2}$	5.2	5.4
March	$8\frac{1}{2}$	6.1	4.9	$8\frac{1}{2}$	5.3	5.5
April	$8\frac{1}{2}$	6.1	6.1	$8\frac{3}{4}$	5.4	5.4
May	$8\frac{1}{2}$	6.0	5.7	$8\frac{3}{4}$	5.4	5.2

¹Average level in 12 months ending in month indicated; matched settlements weighted by number of employees covered

²Average level recorded in each month; matched settlements

data: DE confidential estimates

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5. Drift has increased from between $1\frac{3}{4}$ -2 per cent to about $2\frac{1}{2}$ per cent in the economy as a whole over the last year. In the manufacturing sector drift has been more stable at about $3\frac{1}{4}$ to $3\frac{1}{2}$ per cent.

6. Settlements are consistently lower than the growth in average earnings. In addition the recent earnings figures have been inflated by high overtime and bonus payments. These payments do not necessarily represent upward wage pressures. They are more a response to rapidly increasing output and profitability, and over the past few years have probably been financed by increased productivity. Drift also arises from compositional changes in the work force, grade drift, and various statistical factors such as the timing of settlements and the coverage of the data. The level of settlements is thus probably a better indicator of underlying wage pressures than increases in average earnings, although increased settlements may also reflect employers buying greater flexibility and efficiency.

8. The *second key* argument in favour of the publication of settlements figures is that the publication of average earnings figures on their own produces an unhelpful climate for wage negotiations. Employees may feel disgruntled because their settlements, which they confuse with earnings, are below what they assume others are getting. Employers also do not recognise the published earnings figures, and feel they give employees too high a target. The Chancellor wrote to Mr Fowler on 3 March along these lines suggesting that settlements figures should be given more public attention (copy attached).

9. There are no published official government figures on settlements. The Department of Employment collects data on settlements. However, these figures are treated as confidential and only used for internal purposes. In his letter to Mr Fowler, the Chancellor referred to the CBI settlements figures which are the main publicly available source. The CBI publish settlements data

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for the manufacturing and private sector service sectors only, they do not produce aggregate private sector, public sector or whole economy figures. The following table compares the CBI data for manufacturing with the DE data. This is the only sector for which the two sources of data are comparable.

1987	<u>Manufacturing Sector Settlements</u>		DE data (matched)	
	CBI data monthly levels	12 monthl average	monthly level	12month ¹ average
May	5.4	5.1	5.4	4.9
June	5.7	5.1	4.9	4.8
July	5.8	5.1	5.3	4.8
Aug	6.1	5.1	5.5	4.9
Sept	5.8	5.2	5.0	4.8
Oct	5.4	5.3	5.1	4.9
Nov	5.8	5.3	6.3	4.9
Dec	5.5	5.4	5.4	5.0
1988				
Jan	6.1	5.5	5.2	5.1
Feb	5.8	5.6	5.4	5.2
March	5.9	5.7	5.5	5.3
April	5.8	5.8	5.4	5.4
May	n/a	n/a	5.2	5.4

(1) average level in 12 months ending in month indicated.
CBI data from July CBI Pay Report.

10 The two sets of data differ considerably. This is for two reasons. The CBI and DE use different samples and different methods of constructing average figures. The CBI manufacturing figures are derived from a sample of settlements covering approximately 250 thousand employees, and are weighted by the number of settlements. All settlements have equal weight in these figures no

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WS. | matter how many employees are covered. The DE figures for manufacturing are drawn from a sample which covers over 1.25 million employees, and the average settlement figures are weighted by the number of employees covered. The DE figures are thus constructed using more appropriate weights and a larger sample. Both sets of data probably suffer from sample bias. The CBI data is drawn from a sub-set of its membership which may not be representative of the sector. The DE sample is drawn from firms with which DE has maintained contact since pay policy days. It is thus also not a rigorously structured sample and is out of date. The DE has almost no contact with the newer industries (particularly in the service sector).

11. The distribution of settlements over the year is very uneven. There are several months in which only a few settlements take place and others (eg April) when a large number are agreed. Inevitably, the average figures for those months with few settlements will be extremely volatile. Different industries also tend to agree settlements at different times of the year. The average composition of settlements will thus change as the pay round progresses, this may impart a noticeable seasonal variation. In order to overcome these problems, it is best to look at 12 month average figures. As can be seen from the above tables, these figures move much more smoothly than the one month figures. However, they may obscure short term movements.

12. There are also other sources of settlements data. Income Data Services collate settlements figures but do not produce any time series. The National Institute regularly estimates financial year averages for public sector earnings from their reading of the settlements situation.

13. Apart from the questions of sample bias discussed above, there are several technical problems with the construction of average settlements figures. These have been used by DE in the past to argue against publication of official figures. The most difficult

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problem being the question of measurement. Settlements are often much more complicated than a straight x percent on basic pay. DE includes a cost for changes in basic hours and holidays entitlements and other straight forward adjustments. However it is unclear how settlements which "buy" changes in working practices or productivity agreements should be costed. These agreements change the nature of the work to which the agreement refers, making comparisons difficult. Other problems concern the timing of settlements - the settlement date could be taken as the operative date, the date of agreement or the date of payment - the effects of staging, and problems of coverage. All these problems make the construction of average settlement figures rather imprecise and judgemental. This judgemental aspect to settlement figures goes against usual GSS practice. However, some other published figures - for example underlying average earnings - also have judgemental input. None of these problems should be impossible to overcome. However, they will mean considerable extra work for DE, particularly in the ^{construction} of a statistically balanced sample.

14. It has also been argued that the Government may not always want to publish settlements figures. For example, the public sector settlement figure so far in the 87/88 pay round is 8¼ per cent, well above the private sector average of 5¼ per cent. This is mainly due to the high local authorities manuals award, together with the teachers and review body awards. It might not be in the Government's interest to draw attention to high public sector settlements if it is urging restraint elsewhere. It is also possible that, as the economy slows down latter this year, overtime and bonus payments will fall. There is thus a risk that average earnings growth will begin to fall while the level of average settlements continues to rise. This will narrow the gap between earnings growth and settlements and may be interpreted by commentators as continuing upward wage pressure. Finally, our standard line on wage bargaining is that earnings are solely a matter for employers and employees to decide. Thus DE have argued that it might be inappropriate to publish official figures on settlements since the Government has distanced itself

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from involvement in the private sector labour market. These problems will have to be recognised if settlements figures are to be published.

Publication of figures

15. Once appropriate settlements figures have been produced the question of publication arises. Two alternative types of figures could be published:

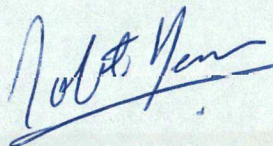
1. the average level of settlements in each month (or quarter);
2. the average level of settlements for the 12 month period ending at each observation;

16. Monthly averages would be volatile and possibly suffer from seasonal effects. The 12 month averages, on the other hand, have an interpretation directly analogous to the average earnings figures. The change in the 12 month average settlement level over a year is the same as the contribution of settlements to the growth in average earnings. These figures are thus the most appropriate for publication.

17. As the intention of publishing settlements figures is to provide a better indicator of underlying wage pressures than the average earnings figures and to provide more appropriate information for employers and employees, it makes sense to publish the figures on a regular monthly basis. It would presumably not be difficult to include a settlements series in the average earnings press release. This would emphasise the difference between the earnings and settlements figures in the most appropriate way.

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18. I attach a draft letter for the Chancellor to send to Mr Fowler suggesting publication of settlements figures in the form outlined above.

A handwritten signature in blue ink, appearing to read "Robert Deane", with a horizontal line drawn underneath the name.

R DEANE

Please type final.

DRAFT LETTER TO MR FOWLER

The increase in the rate of growth of average earnings over the last year has continued to cause much public comment about possible wage pressures and overheating in the economy. In my letter to you of 3 March, I stated my belief that it may be misleading to concentrate too much attention, in our public presentation, on these earnings figures. The earnings figures are inflated by high levels of overtime and bonus payments and create an unhelpful climate for wage negotiations. I argued that figures on pay settlements would provide a better indication of underlying wage pressures and take some of the heat out of the current public debate.

Currently the main publicly available source of data on pay settlements comes from the CBI. These figures are useful. However, they are not based upon a statistically well structured sample and are rather crudely calculated. I now feel that the time is right to reconsider publishing official figures on the level of average pay settlements.

I acknowledge that it will require some extra work from your department to construct figures which we can publish. In particular it will be necessary to construct a statistically balanced sample of firms which accurately reflect the composition of the economy. I do not think it would be appropriate to publish a monthly average settlement figure which would be volatile, and possibly suffer from marked seasonal effects. The most appropriate figures for

publication would seem to be 12 month average settlement levels. These would be directly analogous to the average earnings figures. The change in the 12 month average settlement level over a year is the same as the contribution of settlements to the annual growth in average earnings.

As the intention of publishing settlements figures is to provide a better indicator of underlying wage pressures than the average earnings figures and to provide more appropriate information for employers and employees, it makes sense to publish the figures at the same time as the average earnings figures. This would emphasise the difference between the earnings and settlements figures in the most appropriate way.

NIGEL LAWSON



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

3 March 1988

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NA

135 F/4/4

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Dame A Mueller
Mr C W Kelly
Mr Sedgwick
Mr R I G Allen
Mr Pickford
Mr Gilhooly
Mr Hibberd
Mr Patterson
Mr de Berker

Norman Fowler

The growth of whole economy underlying average earnings rose from 7½ per cent in September to 8½ per cent in December. These figures have excited increasing public interest, comment and concern. There is a danger that many groups will seek to achieve increases in pay that they regard as equivalent to or better than the recent published increase in earnings. With the economy going well and profits strong, some employers may feel that large increases are warranted.

I believe it may be misleading to concentrate too much attention, in our public presentation, on the earnings figures. They are inflated by overtime and bonus payments which are rewards for extra effort and performance, but may be of a temporary nature. Many employers simply do not recognise the figures. They feel they produce an unhelpful climate. Employees may feel disgruntled because their settlements (confused with earnings) are well below what they assume others in the economy are getting. The following figures for pay settlements are from the CBI Databank Pay Report.

144/3



**CBI Survey of Private Sector Settlements
Average Percentage Increase**

Date	Manufacturing	Services	Actual Underlying Private Sector Earnings
1986 Q4	4.8	5.1	8
1987 Q1	5.0	5.6	7½
Q2	5.4	6.4	8
Q3	5.8	6.9	8
Q4	5.5	6.7	8½

While there has been an increase in both sectors since the end of 1986, settlements have flattened off in the second half of 1987, and indeed have fallen in the last quarter. Even if settlements were to rise somewhat in the early part of 1988, possibly following the very bad precedent set at Fords, they would almost certainly be significantly below the recent increase in earnings.

There is no room for complacency here, but it would be very much less damaging, and probably more pertinent, if the figures for settlements were in future given more public attention.

A handwritten signature in black ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON



ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

Handwritten signature

PAY - IN CONFIDENCE

The Rt Hon John Major MP
Chief Secretary
Treasury Chambers
Parliament Street
London
SW1P 3AG

CH/EXCHEQUER	
REC.	04 AUG 1988
ACTION	CST
COPIES TO	

4/8 ✓

3 August 1988

Dear John,

SCOTTISH ELECTRICITY BOARDS: MEMBERS PAY

I am writing to seek your agreement to my proposals for salary levels for the members of the Scottish Electricity Boards as from 1 April 1988, and for an increase in the number of working days per week forming the basis of the North of Scotland Hydro-Electric Board Chairman's part-time pay.

In considering the awards, I have of course borne centrally in mind our agreement in E(NI) that pay awards should generally maintain the value of salaries in real terms. I have also considered the very strong representations made by the Boards about the salary levels of their executive members, which reflect their concern about differentials with senior Board employees and the resulting difficulties in recruitment and retention. Such difficulties have already arisen in SSEB, who spent some 18 months trying to recruit a Financial Director at a salary level below that of their Chairman. They were unsuccessful and have now been obliged to recruit at a salary of £60,000, more than £4,000 greater than the Chairman currently receives.

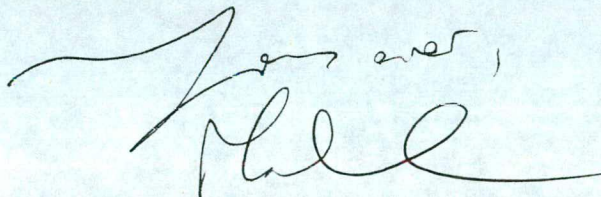
The proposals from the Boards called for very substantial increases and these could not be justified at present. I am instead proposing an across the board increase of 7% for all members except the SSEB Chairman, for whom I propose an increase of 10%. I believe these increases are fully justified in the light of the great pressures placed on the members by the privatisation proposals and the need to ensure their retention in this crucial period leading up to the sale of the industry. An award of less than that given to the industry employees would, I believe, be damaging to this objective. In the case of the SSEB Chairman, whose ability and standing are unquestioned, I consider that it is unacceptable for his salary to be less than that of one of his staff and, consequently, I have proposed an increase of 10%

to take his salary to £61,250. I have not, however, proposed an exceptional increase for the Deputy Chairman. The Board will find this a very difficult decision to accept but I am prepared to argue that it is not essential to maintain a positive differential between the Deputy Chairman and the senior officers.

I am also proposing an increase in the time basis of the Hydro-Board Chairman's salary, from $2\frac{1}{2}$ to $3\frac{1}{2}$ days per week. His workload has substantially increased over the past year because of privatisation and in particular because of the intense and complex negotiations in which my Department and the Boards, with their respective advisers, have been engaged in recent months. It is clear that $2\frac{1}{2}$ days per week is no longer a reasonable assessment of the NSHEB Chairman's commitment to Board duties. Indeed, I suspect that the $3\frac{1}{2}$ days per week recommended by the Board may well be a modest estimate. I propose therefore that this change be backdated to 1 April and his salary reassessed on a pro rata basis from that date. This will, of course, result in an increase to the total Board pay bill but this will be more than offset by the savings which have resulted from the Hydro Board not having had a Deputy Chairman in post since March this year.

I make no proposal at this stage about the salary of the Hydro Board's Deputy Chairmanship. The post is currently vacant and it has in the past been filled by the Board's Chief Executive. However its basis may change depending on advice I have still to receive from management consultants regarding the senior management structure of the Boards. The Hydro Board is also currently engaging in the recruitment of a new Chief Executive and it may well be essential to offer a substantial increase in salary in order to attract a senior figure of the right calibre. It would obviously be desirable to be able to appoint the Chief Executive to the Board as Deputy Chairman but if the salary level creates a problem, one option which I should consider would be to make the Board appointment one without payment, allowing the individual to continue to receive a salary as Chief Executive. I shall write to you again in the autumn when the position should be clarified.

My proposals are summarised in the attached table. In view of the commitment in E(NI) to agreeing pay levels at an earlier stage, I should be grateful to have your agreement to these proposals as soon as possible.



MALCOLM RIFKIND

PS I am copying this letter to the Prime Minister and other members of E(NI).

PAY - IN CONFIDENCE

SCOTTISH ELECTRICITY BOARD MEMBERS SALARIES 1988-89

<u>SSEB</u>	<u>Present Salary</u>	<u>Board's proposals</u>	<u>Proposed decision</u>
Chairman	£55,700	£85,000 + (53%)	£61,250 (10%)
Deputy Chairman	£46,750	£70,000 + (50%)	£50,000 (7%)
Non-Executive Members (5)	£4,150	None made	£4,450 (7%)
<u>NSHEB</u>			
*Chairman	£34,000	£39,500 (16%)	£36,400 (7%)
Deputy Chairman	£44,900	None made (Post vacant)	None at this stage
Non-Executive Members (5)	£4,150	£5,000 (20%)	£4,450 (7%)
Increase in Total Pay Bill	-	-	8%

*Salary levels for NSHEB Chairman assume a 3½ day working week. The present salary for 2½ days is £24,300.

FROM: C W KELLY
 DATE: 3 August 1988

CHANCELLOR

cc: Chief Secretary
 Sir Peter Middleton
 Mr Anson
 Dame Anne Mueller
 Sir T Burns
 Mr Scholar
 Mr Monck
 Mr Odling-Smee
 Mr Sedgwick
 Mr Hibberd
 Mr S Price
 Ms Seammen
 Mr De Berker

Chy
 Agree to write
 as proposed (if so)
 I will t+t on your behalf.

PUBLICATION OF SETTLEMENTS FIGURES

behind
 Sir T Burns' minute of 1 August attached a draft letter to Mr Fowler about the publication of official government statistics on settlements.

2. If you wish to pursue this, such a letter would be timely. Mr Fowler will before long be considering a draft E(PSP) paper on the subject in response to the remit you gave him on 9 June. His officials will be recommending him strongly to argue against. They are not entirely sure whether he will agree to do so.

3. Their argument is the one which will be familiar to you from previous discussions-that such an index could be counterproductive because it would risk creating a norm which would provide a target, or floor, for union negotiators to aim at. They accept that the existing index of earnings can do the same, but with a higher figure, but argue that an index of settlements would be much worse because the message it would give would be more clear-cut.

4. I do not share this view myself. The greater risk in my judgement is that the present arrangements give us the worse of both worlds, a target for people to aim at, at too high a level; and, of course, in the long run it will help to discredit the Edmund-Davies formula for the police.

5. But my understanding is that the Department of Employment view was one of the factors which at least implicitly underlay the decision to abandon the index of basic wage rates in 1984, and it used to have its supporters within Pay Group here.

CW

C W KELLY

CONFIDENTIAL

BF 26/8 9/9



CH/EXCHEQUER	
REC.	19 AUG 1988 ✓ 19/8
ACTION	CST
COPIES TO	

QUEEN ANNE'S GATE LONDON SW1H 9AT

19 August 1988

Dear Chancellor of the Exchequer

PAY OF CHIEF POLICE OFFICERS

The Police Negotiating Board will be meeting on 8 September to negotiate this year's pay settlement for chief police officers.

Edmund-Davies recommended that the pay of chief police officers should be updated annually by reference to:

- a. increases in the average earnings index during the previous 12 months and
- b. changes elsewhere in the community.

The pay settlement for other ranks of the police service and the pay awards for the TSRB grades and the chief executives of local authorities are normally taken as the basis for the annual negotiations on chief police officers' pay. This year, however, as part of the police pay review, the PNB has also carried out a job evaluation review of the pay of chief police officers, under the guidance of a firm of management consultants, Hay MSL.

A comparison with the pay movements of their normal comparators over the period 1984-88 points clearly to an 8.5% pay settlement this year for chief police officers. Apart from Assistant Commissioners and Deputy Assistant Commissioners in the Metropolitan Police, whose responsibilities have increased as a result of the reorganisation of the force, and the Chief Constable of the RUC, whose responsibilities are unique, the job evaluation shows that there has been little change in the job weight of chief police officer posts since the last job evaluation in 1984. The external pay comparisons provided by Hay MSL show, however, that increases in the pay of chief police officers since 1984 have fallen behind increases in the pay for jobs of similar weight in the economy as a whole. This trend is accentuated if the total remuneration packages are compared because the fringe benefits paid in the private sector have increased substantially during the past 4 years.

/In the light

The Rt Hon Nigel Lawson, MP

CONFIDENTIAL

2.

In the light of the Hay MSL figures, the Staff Side will be looking for a settlement well above 8.5%. It is clear that some improvement will have to be offered for Assistant Commissioners and DACs in the Metropolitan Police and (although this is a matter for Tom King) the Chief Constable of the RUC. It is equally clear that the Official Side should stand firm on an 8.5% offer for assistant chief constables. For the other chief constables and deputy chief constables, the position is less clear, because different conclusions can be derived from the mass of information produced by Hay MSL. The Official Side Secretary believes, however, that something will have to be offered on top of 8.5% in order to get a negotiated settlement. She thinks that a tapered offer, ranging from 1% at the bottom of the two scales to 2.5% at the top (on top of the basic 8.5%) might have the effect of securing agreement.

Because there are so few chief police officers, the costs of any settlement are relatively small. A pay settlement of 8.5% would add some £0.4m to the police pay bill in the present financial year and some £0.68m in a full year. The additional costs of the improved offer which the Official Side Secretary has in mind would be some £35,000 in the present financial year and some £60,000 in a full year.

The attitude of the local authority representatives on the Official Side cannot be predicted on this issue. Since the negotiations on rent and other allowances start some 3 weeks later, they may want to get the pay settlement for chief police officers out of the way, so avoiding a further reference to arbitration. Alternatively, they may feel that an 8.5% offer would be sufficiently generous and decide to stand firm.

If they do decide to stand firm, the Home Departments' representatives should clearly support them and we should make this clear now. If ~~they~~ despite this stiffening and they decide to make a modest concession in order to secure a quick negotiated settlement, however, I do not think that our officials should in the last resort stand in their way. In view of the very small additional costs involved, this is not an issue over which it would be sensible to exercise the power to veto a PNB agreement. It would not, therefore, serve any useful purpose for the Secretary of State's position to be reserved during the course of the negotiations. Unless you see serious objections, my representatives on the Official Side will be guided accordingly.

Copies of this letter go to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and Sir Robin Butler.

Yours sincerely
N. J. Sanderson

(Approved by the Home Secretary and signed in his absence)



Prof

C.

1. Simply to note that Mr Fowler has now circulated these speaking notes - no need to raise ~~it~~ anything with him.
2. On a quick read, the only changes from the version you agreed on 29 July (below) are to tidy up a few figures.

AH



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5803

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P. M.

CH/EXCHEQUER	
REC.	31 AUG 1988
ACTION	MR DE BERKER
COPIES TO	CST, PMG,
	SIR P MIDDLTON
	DAME A MUELLER
	SIR T BURNS, MR ANSON, MR KELLY, MR MONCK
	MS SEAMEN
	MR TYRRE

31/8

*de Berker to ChEx
APH to de B, late July*

The Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

→ APH

August 28

Dear Nigel

PAY-SPEAKING NOTES

As agreed between us, our officials have together been working up some speaking notes on pay which we and other colleagues could draw on in the period ahead. The trend of high earnings growth remains a matter of continuing concern and we need to go on arguing the case for moderation and for greater flexibility in pay bargaining arrangements to sustain our success in the economy and in employment.

... The agreed notes, which I now enclose, should provide a useful quarry for that purpose. They emphasise the responsibilities of pay bargainers while also covering the Government's role in setting the framework and as an employer. They should prove useful background to the handling of issues in the next pay round on which you will no doubt be circulating your customary letter in the autumn. Meanwhile, colleagues will, I hope, find the notes helpful as and when they speak on the subject of pay.

I am copying this letter, and the speaking notes, to other members of the Cabinet, and to Sir Robin Butler.

Yours truly

NORMAN FOWLER

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SPEAKING NOTES ON PAY: SUMMARY OF KEY POINTS

- Control of costs is vital in maintaining Britain's economic success, with continued growth of output and jobs.
- Unjustified pay increases raise production costs, reduce international competitiveness, reduce profitability, and encourage employers to substitute machines for men.
- Not enough to match pay increases by greater productivity in some sectors. If all efficiency gains are transferred to existing workers in higher pay, nothing is left to provide for improving price competitiveness, increasing output and jobs. Output must rise faster than productivity if unemployment is to be permanently reduced.
- Responsibility for pay must always rest with the parties directly concerned. Only they know what is right for their particular enterprise.
- Pay bargaining should take account of what is needed to recruit and keep staff within what can be afforded. Rewards should match performance and merit and be related to profits.
- Also means reducing the influence of the "going rate" and comparability, and questioning more critically the practices of national pay bargaining and the automatic annual pay round.
- Government's role is to set a firm economic and financial framework; provide new freedoms by removing obstacles and unnecessary controls on businesses and individuals; and set an example as an employer.
- That means no truck with incomes policy or pay "norms". Instead the emphasis is on relating pay to profitability - hence the Government's profit-related pay scheme which provides the incentive of tax relief.
- Macro-economic framework bears down on inflation and has provided room for tax reductions. So large pay rises not needed to maintain, or indeed improve, living standards.
- Competition in product and labour markets essential part of the approach. Allows market pressures to keep down costs and prices. That is why the European Single Market is so important.
- Examples include: privatisation; contracting out public services to competitive tendering; de-regulation; fostering new and small businesses.
- Labour market reforms include trade union law; repeal of statutory "going rate" provisions in Schedule 11 of the 1975 Employment Protection Act, and reform of Wages Councils.
- As an employer, Government has already negotiated performance-related pay deals with one third of all civil servants and is discussing similar agreements to cover the rest.

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SPEAKING NOTES ON PAY

I Introduction

1. Britain's economic transformation is the result of
 - a firm economic and financial framework and
 - the encouragement of economic freedom, with revival of an enterprise culture and the abolition of a range of controls on businesses and individuals.

2. Pay is central to any strategy for employment because of link between pay and jobs. Unjustified pay increases likely to reduce output and employment. They
 - raise production costs, worsen international competitiveness, and reduce profitability; and
 - encourage employers to substitute machines for men.

3. Prime responsibility for pay must always rest with the parties directly concerned. Only they know what is right for their particular enterprise. That means
 - need for more flexible system of pay bargaining that takes account of both internal needs of enterprise and market forces including affordability.

4. These factors mean no truck with incomes policy.

Not hard to see why since

- any modest success followed by damaging catching-up process later
- incomes policy wrong in principle, unjustified intervention in the affairs of firms and their employees
- inevitably makes pay disputes political.

Implication: No pay norm, formal or informal.

II Overall Framework

5. Government has responsibility for setting overall framework.

6. Macro-economic framework

- MTFS provides structure for economic policy which maintains continued downward pressure on inflation, laying foundation for sustained economic growth and rising employment.
- The Government will **not accommodate** domestic cost increases either through exchange rate depreciation or monetary expansion. Employers will not be bailed out from consequences of unjustified pay increases.
- Firm financial framework created by the MTFS has brought **low inflation** and allowed room for **tax reductions**. Thus no need for large pay rises to maintain living standards.
- Tax cuts in 1988 Budget mean pay rises of only [x] needed to maintain living standards [where [x] is the TPI at the time of speaking - currently 2.5 per cent (June 1988)].

7. Micro-economic framework.

(a) **Government sets micro-economic framework within which pay decisions made:** "Micro-economic policies have been used to tackle the rigidities in our economies which get in the way of healthy growth and more jobs I have no doubt that supply side reform, rather than macro-economic adjustments, must be the priority for all our countries". Chancellor talking at OECD Ministerial Meeting, 18 May 1988.

(b) **Government has taken many actions to increase competition in product markets.** These put pressure on employers to reduce costs and to stop passing on pay rises in higher prices. Each percentage point extra on pay costs industry 3 times as much as percentage point on cost of borrowing even if that were sustained for a whole year. Actions taken:

- measures to reduce trade protection
- privatisation: (increases responsiveness to market forces)
- contracting out of public services to competitive tendering (Local Government Act 1988 requires a range of local services shall be subject to competitive tendering. Also NHS where savings of over £100m per year achieved by March 1988 but greater internal efficiency means 85% of new contracts were won by in-house bids). See also Section IV.
- Deregulation (See "Encouraging Enterprise" published 8 May 1987 for progress report.)
- fostering new and small businesses

- commitment to introduction of Single European Market in 1992

(c) Government has taken many actions to increase competition in labour markets. Action on this front enables market pressures to have a moderating effect on wages growth.

Actions taken include

- legislation to reform trade unions
- repealing Schedule 11 of the 1975 Employment Protection Act which could be used to require employers to pay the same wages as others whose circumstances were quite different
- reforming Wages Councils by removing those aged under 21 from their scope and generally reducing the scope of Wages Councils to impose detailed terms.

Section III

Responsibilities of Pay Bargainers

8. Primary responsibility rests with employers and their employees. That means they should be responsive to market signals, to productivity performance, and judge what can be afforded.

9. Employers and employees should recognise that size of pay increases is crucial for job prospects - especially in the longer term.

- Higher wages unless matched by increases in productivity, must mean fewer orders, a loss of international competitiveness, lower profits and hence fewer jobs.
- Higher wages bound to make it hard for employers to take on extra people even if productivity is growing. As a rough guide if pay settlements were to slow down so as to leave average real wages 1 per cent lower than otherwise, we could expect around 110,000 to 220,000 new jobs over time.
- UK record on manufacturing unit labour costs mixed over 1980s. Have increased faster than Japan or Germany in most years in spite of rapid increases in productivity. If wages had grown less fast, output and employment would have grown more rapidly.

10. Each employer should judge what level of pay is needed to recruit and retain staff within what the enterprise can afford.

That means

- no "going rate": A concept that does nothing but damage to

labour market adaptability and the generation of new jobs

- **a general questioning of comparability:** Not necessary to pay all grades of worker the same percentage increase
- **a general questioning of national pay bargaining:** Not necessary to pay the same throughout the country
- **a general questioning of the automatic annual pay round:** Pay rises need to be earned. There should be no automatic presumption of an annual pay increase regardless of company performance.

11. **Pay must be more closely related to the local labour market.** If current levels of employment growth are to continue nationally and particularly in areas of higher unemployment, then pay cannot grow at the same rate irrespective of local conditions.

Changes are taking place

- 60% of the workforce was covered by national agreements in 1978 compared to 50% in 1985.
- Variations within national bargains have been growing. Recent examples include agreements in oil distribution and banks, in computers and steel.

12. **Pay should take into account the company's profitability.**

- In the end all pay is profit related.
- Need to recognise that companies' profits go down as well as up. Higher profits can lead to higher pay settlements giving employees a share in the fortunes of the business in which they work. But this requires lower profits to bring

lower pay settlements if jobs are not to be lost from lost orders.

- Understand desire of firms to pay staff more when profits are good. But if all efficiency gains and profit increases are transferred to existing workers, then nothing left for improved price competitiveness, output and jobs - and unemployment will stop falling.
- Pay flexibility in line with growth in profitability allows employees to share in fortunes of business when profits are rising and better job security when profits stable or falling.
- Many companies showing greater interest in profit related pay and performance based pay systems. Recent ACAS survey found that **over one-quarter** of those in sample had introduced such changes.

13. Government has acted to encourage relating changes in pay to changes in profitability through Profit Related Pay Scheme.

- PRP provides in-built pay flexibility and gives employees a stake in the enterprise.
- Approved PRP schemes give tax incentive worth almost 4p in the Pound to employee on average male earnings. In first 8 months, 729 schemes have registered covering nearly 104,000 employers - with average earnings of £12,500 per year. Shows potential of PRP for all workers not just very rich.

14. The labour market of the 1990s - with far smaller numbers of young people entering the labour force and the spread of new working patterns - requires more flexible attitudes to remuneration. This includes not just pay but other forms of profit sharing income which give employee a stake in the

enterprise, particularly share ownership schemes.

- Government has taken action in 1978 and 1980 Finance Acts to encourage development of employee share ownership schemes. Currently [early 1988], over 1400 registered schemes covering well over 1.5 million employees.

15. Government has taken a whole range of measures to encourage flexible attitudes to pay bargaining.

- Now up to employers and employees to increase pay flexibility according to circumstances of their own enterprises.
- Continued success in (a) productivity and real income growth and (b) continued falls in unemployment, depend on pay bargainers implementing necessary changes to old ways of doing things.

Section IV

Responsibility of Government as Employer

16. The Government as employer is well aware that the public services do not face the discipline of a profit and loss account. Government is therefore introducing further pay flexibility:

About 145,000 (nearly 30%) of non-industrial civil servants have already been taken out of traditional bargaining arrangements and gone over to new longer-term agreements linking pay more to performance and the realities of the employment market.

About 365,000 (just over 70%) are at present discussing similar new long-term pay deals.

The Local Government Act 1988 requires local authorities to put out to tender a range of the services they provide. This will give an important push to setting realistic and flexible pay levels within local government.

Bargaining arrangements for the three Post Office businesses (letters, counters and parcels) have been separated.

In the NHS, sweeping reforms of grading structures are taking place in many groups. Efficiency gains are the aims here.

17. There are other areas in which Government can, and does, look to the responsiveness of pay to competition and efficiency. Government action to increase competition has included:

Privatisation (British Gas, British Telecom, British Airways, British Airports Authority), and plans for further privatisation (electricity, water, Girobank)

Contracting out of public services to competitive tendering

Deregulation in anticipation of the Single European Market in 1992

Enquiries into restrictive labour practices in broadcasting, efficiency audits at British Rail Network South East, Post Office Counters, British Coal.

18. The Ibbs report on the decentralisation of the Whitehall machine, and the proposed putting out of Government functions onto an agency basis, provides the background to the next stage in creating more efficient, flexible and responsive Government.

19. Comparability is a dead concept in most areas of Government activity. The impact on pay is considerable. The Government will no longer pay people an artificial "going rate", set nationally and annually regardless of regional differences, performance, efficiency and merit.

Civil servants, and those working in the public trading sector, will be paid for working hard, thinking constructively about what they do and providing an effective service for rates of pay set with regard to performance, efficiency and the local labour market.

Pay and pay bargaining arrangements should reflect the different needs and circumstances of each arm of the public service, just as it should reflect the different needs and circumstances of private companies.

Government is therefore contributing positively to the new, more flexible and more responsive ways in which pay is linked to performance and the labour market.

Having successfully set the economic framework, Government is itself using that framework to tighten up its own systems and arrangements.

20. Government has achieved considerable progress on introducing more flexibility to its pay arrangements. These show what can be done. They show Government heeding own lessons and help set an example to other sectors of economy.

Section V

Conclusion

21. Pay is responsibility of management. Overmanning of the 1970s was a challenge born of failure. Current pay pressures are a challenge born of success. The task is to keep success going, not least against unemployment.

Bf to M
31/8

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REC.	30 AUG 1988
ACTION	CST
COPIES TO	

*30/8***Department of Trade and Industry**1-19 Victoria Street
London SW1H 0ETSwitchboard
01-215 7877Telex 8811074/5 DTHQ G
Fax 01-222 2629*MP*

Direct line 215 5147
Our ref
Your ref
Date 30 August 1988

Dear Chief Secretary,

POST OFFICE PAY: INDUSTRIAL ACTION

You will be aware that the Union of Communication Workers (UCW) is planning industrial action in protest against payment by the Post Office of supplements to new recruits in areas of difficult recruitment, principally in London and the South East. The payments are known as Difficult Recruitment Area Supplements (DRAS).

The Post Office management made it clear to the union last week that it was prepared to abolish DRAS from 30 September if the Unions were prepared to discuss an alternative system to act as an incentive to recruits in difficult areas to operate from 1 October. It was also prepared to broaden discussions to encompass problems of retention other than of new recruits and certain non-pay issues, eg improved local working arrangements and training. Staff shortages, due to recruitment difficulties and a staff turnover rate of over 50% in some areas, are making it increasingly difficult for the Post Office to provide an acceptable level of service in London and the South East. The UCW's position, however, hardened over the 1 October deadline

and it has now said it is not prepared to negotiate on what it sees as an issue of principle relating to regional pay. Its position is that DRAS payments should be made to all new recruits or to none. The Post Office management thinks that an all out one-day strike on 31 August in the Letters business is now unavoidable and that support is likely to be substantial if not universal.

I have met Sir Bryan Nicholson to discuss the industrial relations position. He is planning to take a robust line with the unions on DRAS and the issue of regional pay more generally. I have made it clear to Sir Bryan that I welcome and encourage Post Office moves towards regional pay. One specific measure that he has in mind is to use private contractors to move mail from railway stations. This would be unprecedented and would be intended to help underline the management's determination to keep the service running as far as possible. It could of course also be seen as confrontational by the unions and may provoke further action. For this reason, I understand Sir Bryan has yet to take a final decision. In any event, however, Post Office management will resort to its usual practice of employing casuals to move mail more generally.

The Chairman has been pleased with the response of the Press which he thinks has been generally favourable to management. He considers it difficult for the union's leadership to present its case attractively when one alternative they have advocated is that supplements should be withdrawn from new recruits already receiving them.

It is not yet clear what further action might follow tomorrow's 24 hour national strike. I understand that if the UCW seeks to negotiate following that strike, management will only do so provided the union undertake not to commence any further industrial action during the period of the negotiations. There are no signs of a very early resolution to the dispute. I am keeping developments - including the desirability of suspending the letter monopoly - closely under review. I shall keep you and other colleagues informed as appropriate.

I am copying this letter to the Prime Minister and other Cabinet members and to Sir Robin Butler.

Yours sincerely,

Peter Smith

PP TONY NEWTON

(Approved by the Chancellor and signed in his absence)



CC Mr REVOLTA, Mr De Borker
Mr Brooks, CX, ANG
Mr SEATHAN (SUPERMODERATOR)
Mr LEVISTON
Mr ANDERSON, Dame A MOLLER
Mr H PHILLIPS, Mrs CASE
Mr CANTRELL, Mr THOMPSON
Mr AM WHITE, Mr BOTTOR
Mr GACE

Treasury Chambers, Parliament Street, SW1P 3AG
The Rt Hon Douglas Hurd CBE MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

5th September 1988

Dear Douglas,

MP

PAY OF CHIEF POLICE OFFICERS

Thank you for your letter of 19 August setting out your proposed negotiating tactics on the pay settlement for Chief Police Officers (CPOs).

Whilst I agree that the cost implication of your proposals are relatively small, it is nevertheless important that all settlements are critically analysed, not least because of the capacity which an unduly generous settlement has adversely to influence expectations elsewhere.

I cannot agree with your contention that a comparison with the pay movement of their normal comparators over the period 1984-88 would support an 8.5 per cent pay settlement this year for CPOs. My understanding is that while an 8.5 per cent settlement would put CPOs marginally ahead of Top Salary Review Body Groups (0.6 per cent ahead) it would give them a significant lead on Local Authority Chief Executives (9.9 per cent ahead) over the period.

Nor, in my view, does the Hay MSL report provide any compelling argument for increases over and above the 8.5 per cent already agreed for other ranks. I note your comment that apart from Assistant Commissioners and DACs in the Metropolitan Police (and the Chief Constable of the RUC) the job evaluation shows there has been little change in the job weight of CPO posts since the last job evaluation in 1984. Thus internal and external comparisons together suggest that an across-the-board 8.5 per cent salary movement would be generous. Certainly I see no case for anything more.

I appreciate that on Hay MSL's total remuneration comparison most CPO positions would fall outside the interquartile range for their equivalents in the private Industrial and Service sector. However, I do not believe we are in the game of matching private sector fringe benefits and, in any case, as you have already noted, a number of different conclusions can be derived from the data. Indeed Hay MSL state that their figures for comparisons of total remuneration are less objective than those for comparisons of total cash.

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If we look at total cash comparisons, Table 8 of the Hay MSL report, provides a compelling argument for limiting the level of increase. CPO salaries approximate, and in some cases significantly exceed, upper quartile salaries for "other Public Sector Organisations". Further, an 8.5 per cent adjustment would place all positions except Chief Constable 1 and Chief Constable RUC within the interquartile range for "All Organisations" (Table 2) and for "Industrial and Service Organisations" (Table 4). At the bottom end of the CPO scale, salaries approximate the upper quartile level .

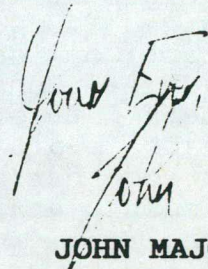
You have also suggested that an improvement is required for Assistant Commissioners and DACs in the Metropolitan Police. Table 17, however shows that, in total cash terms, DAC salaries (adjusted by 8.5 per cent) approximate the median salary for "Industrial and Service Private Sector Organisations - London". I recognise that the Assistant Commissioner salary falls below the lower quartile. In the case of such very senior positions, however, it is important to remember that whilst the Hay MSL job assessment system determines a job size, and hence market salary, on the basis of knowledge, problem solving and accountability, no account is taken of such factors as the value of job security, for which some element of discounting is justified in the public sector.

The broad conclusion I draw from the Hay MSL report is that for all but the most senior positions an 8.5 per cent adjustment would leave CPO salaries broadly in line with the market and, at the lower levels, very well placed.

We need moreover, to take account of repercussions elsewhere. Pay increases for senior police at even higher levels than junior ranks have settled for will hardly provide encouragement to the more junior ranks to negotiate sensibly on rent allowances etc and will make it even more difficult to tackle police pay next year. Thus it is not the direct cost but the signal that an 11 per cent pay rise would give that would be most damaging.

For these reasons, I cannot support any adjustment beyond the 8.5 per cent necessary to restore the pre-existing relationship between CPOs and other police ranks and would ask you, therefore, to reserve your position during the course of negotiations, thus preserving the possibility of veto.

I am copying this letter to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and Sir Robin Butler.



JOHN MAJOR



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	08 SEP 1988
ACTION	CST
COPIES TO	

✓ 8/9

7 September 1988

✓ ✓ *[Handwritten signature]*

Dear Madam,

PAY OF CHIEF POLICE OFFICERS

The Prime Minister has seen the Home Secretary's letter to the Chancellor of 19 August and the Chief Secretary's response of 5 September.

The Prime Minister agrees with the Chief Secretary about the dangers of conceding a pay increase for Chief Police Officers higher than the 8.5 per cent awarded to other ranks. She has noted that this could present particular difficulties at a time when efforts are being made to secure less generous allowances for all ranks.

I am copying this letter to the Private Secretaries to the members of E(PSP), David Crawley (Scottish Office), Martin Donnelly (Northern Ireland Office) and to Trevor Woolley (Cabinet Office).

*Yours,
Pa*

Paul Gray

Nick Sanderson, Esq.,
Home Office.



CH/EXCHEQUER	
REC.	16 SEP 1988
ACTION	CST
COPIES TO	

v1619

MP

QUEEN ANNE'S GATE LONDON SW1H 9AT

15 September 1988

Dear Chancellor,

✓

POLICE PAY REVIEW: ALLOWANCES

You will recall that, in my letter of 29 July, I reported that the Staff Side had abandoned its delaying tactics and offered to take part with the Official Side in a joint working party on allowances. This would be required to report back to the full Committee by 29 September.

The working party has now met twice and is due to conclude its proceedings on 15 September. It will meet its deadline of 29 September for reporting back to the full Committee.

On rent allowance there has been complete deadlock. Subject to clarifying a few details, the working party will register disagreement and recommend that the issue be taken to arbitration. The relevant Committee of the PNB is accordingly likely to refer the matter to arbitration at its meeting on 29 September. Normally, arbitration is preceded by a conciliation stage during which the independent Chairman attempts to reach a compromise between the two Sides. On this occasion, however, the independent Chairman, who has been chairing the working party, has agreed that the working party shall be deemed to have represented the conciliation stage. This should greatly help in procuring a decision in time for new arrangements to be in place by 1 April 1989.

The way ahead on London allowance is less clear at this stage, but the two Sides are so far apart that it seems very likely that this, too, will have to go to arbitration.

The Official Side are also determined to cease reimbursing NHS charges and this may well have to go to the Arbitration Tribunal as well.

.....

These developments make it much more likely that we shall have a decision out of the PNB and arbitration machinery in time for any new arrangements to be in place by 1 April 1989, when the community charge is due to be introduced in Scotland. Officials have nevertheless been considering the options should a solution fail to emerge in time. I enclose a paper which concludes that the balance of advantage lies in allowing the PNB and arbitration machinery to take its course, even if it does not deliver a solution by 1 April. The reason for this is that, if nothing is done, police officers in Scotland will automatically receive an allowance which no longer includes any element for reimbursement of rates. This should put the Staff Side under maximum pressure to co-operate with the Official Side in an effort to reach the earliest possible solution.

As the paper points out, if Malcolm Rifkind does intervene by making new regulations before a PNB recommendation is received, he will run a risk of judicial review unless the interim arrangements which he provides are, from our point of view, extremely generous.

I think, therefore, that the considerations set out in the paper point clearly to letting the statutory negotiating and arbitration machinery run its course. We should make it clear if need be that that is our view.

I am sending copies of this letter to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tim King and Sir Robin Butler.

Yours sincerely,

Howe

Approved by the Home Secretary and
signed in his absence.

POLICE PAY REVIEW : RENT ALLOWANCE

Background

1. The Home Secretary's letter of 31 March to the Chief Secretary drew attention to the risk that the Police Negotiating Board machinery would not produce changes in the rent allowance arrangements in time for them to come into operation on 1 April 1989, when the community charge will be introduced in Scotland. This paper considers the options for Government intervention in such an event. It concludes that the best course is to allow the PNB machinery to run its course.
2. The Official Side's proposals for new rent allowance arrangements are summarised in Annex A. Apart from the commencement date, on which the position of the Secretaries of State for the Home Departments has been reserved, they represent an outcome which Ministers could probably accept. But there is little prospect of achieving agreement by negotiation and the issue will almost certainly go to arbitration.

Limitations on power to impose interim solution

3. If the negotiation and arbitration process looks like taking too long, there is obvious attraction in imposing an interim solution. But there are statutory constraints. Section 2(1) of the Police Negotiating Board Act 1980 requires the Secretary of State, before making regulations under Section 33 of the Police Act 1964, to take into consideration any recommendation made by the PNB and to furnish the PNB with a draft of the regulations. If no recommendation seems likely to be made by the PNB, the Secretaries of State can take the initiative in making regulations, but they must in that case provide the PNB with a draft of those regulations.

4. In this case, we know that the PNB is likely to make a recommendation in due course because the matter is under consideration by the PNB. Moreover, Section 2(2) of the 1980 Act provides for arrangements to be made for arriving at a recommendation by arbitration in certain circumstances. There is accordingly a legitimate expectation that, where a particular issue is under consideration by the PNB, the machinery provided under the 1980 Act - including arbitration - will be fully used before regulations are made.

5. It is, therefore, one thing for the Secretaries of State to act in the absence of any known intention on the part of the PNB to submit a recommendation, but quite another to act in the knowledge that the machinery provided under the 1980 Act has been set in motion but not concluded. At worst, regulations which imposed a solution before the negotiating and arbitration procedures of the PNB had been concluded might be held to be ultra vires; at best, they would be vulnerable to judicial review.

6. In using their powers to make regulations after consultation with, but without a recommendation from, the PNB, the Secretaries of State would therefore need to be satisfied that their action was justified as an unavoidable interim measure, designed solely to enable workable rent allowance arrangements to operate pending the outcome of arbitration. They could not impose a solution which had the effect of bypassing the PNB altogether or of pre-empting an eventual decision by the Police Arbitration Tribunal.

R.

Case for intervention in England and Wales and Northern Ireland

7. In England and Wales, where rates will not be abolished until 1 April 1990, and in Northern Ireland, where there are no present proposals to abolish rates, it does not seem possible to sustain an argument that intervention is needed before the outcome of arbitration is known.

Case for intervention in Scotland

8. If intervention were contemplated, therefore, it would have to be restricted to interim arrangements in Scotland. These would stay in place only for so long as it took the PNB to make its own recommendations or the arbitrators to reach a conclusion. And, if they were not to be held to be bypassing the PNB and PAT, they would have in effect to be arrangements which maintained the status quo as far as the impact on individual officers was concerned. That would mean providing for rent allowances in Scotland, probably even including the amount reimbursed for rates, to continue at their 31 March 1989 levels, subject to any increases produced by the biennial reviews of rent allowance (see paragraph 14 below).

9. It might be possible to argue that the rates element should be deducted in order to put the officer who receives rent allowance in the same position as the officer living in provided accommodation (who would be paying the community charge from 1 April 1989). But both Scottish Office and Home Office legal advice is that this would leave protection against judicial review very uncertain. The Secretary of State for Scotland in any case favours the first alternative if intervention does prove necessary.

R.

10. The PNB and the police service ought to accept that intervention on the basis described in paragraph 8 is reasonable, but some friction is likely and the matter would need very careful handling. The disadvantage of intervening from the Government's point of view is that, because intervention would have to be confined to preserving the effect of the status quo, the Staff Side would have every incentive to delay matters for as long as they possibly could. And a dangerous precedent for continuing rates reimbursement in some form, even after the introduction of the community charge, would have been set.

Case for non-intervention

11. There is, however, a strong case for doing nothing. Regulation 42 of the Police (Scotland) Regulations 1976, which delineates the basis on which maximum limit rent allowance is calculated, provides that it will be the aggregate of the amount paid in rates together with the rent assessed or paid as provided for in the Regulation. The Regulation goes on to specify a flat rate of allowance as equal to half the amount fixed as the maximum limit allowance.

12. With the implementation of Section 1 of the Abolition of Domestic Rates etc (Scotland) Act 1987, domestic rates will be abolished and the reference to "rates" in Regulation 42 will fall to be treated as if they were no longer there. On one view, in that event, Regulation 42 would be legally and practically inoperable, in that an essential ingredient (namely rates forming one part of an allowance which is to comprise an aggregate of rent and rates) is missing. But legal advice taken by the Scottish Home and Health Department suggests that the better view is that the rates element is clearly separable from the rent and that Regulation 42 must simply be read as if the references

to rates were not there. Thus, if nothing is done and the Regulations are left unamended, the police authorities will calculate the rent allowance on the basis of the unamended Regulations, ignoring the rates ingredient.

13. On the basis of the legal advice received, the choice between intervention and non-intervention seems to fall decisively on the side of the latter, since not intervening gives the Staff Side an incentive to work for the quickest possible arbitration. But it has to be said that, if no result is delivered by 1 April 1989, Scottish police officers would from that date be worse off by default than their counterparts elsewhere in the United Kingdom. If, however, the Official Side prevails at arbitration, the position of the Secretaries of State for the Home Departments is reserved on the question of the starting date, with the clear implication that it would be the same throughout the United Kingdom. It might be possible at that stage to ensure that any disadvantage at which Scottish officers had been placed in the interim was redressed. If, on the other hand, the Official Side lost at arbitration, the Arbitration Tribunal would probably ensure that the position of Scottish officers was retrospectively improved.

Biennial reviews of rent allowance

14. A number of forces (including the Metropolitan Police and four of the eight forces in Scotland) are due for the biennial rent allowance review on, or shortly after, 1 April 1989. This is likely to produce substantial increases in rent allowance in the forces concerned. The Secretaries of State would, however, be vulnerable to judicial review if they sought to freeze rent allowances at 31 March 1989 levels

(ie prevent any of the biennial reviews going ahead either in Scotland alone or throughout the United Kingdom) in the absence of a PNB recommendation or arbitration award.

Mechanics

15. Whether or not the Secretary of State for Scotland makes interim regulations, the machinery for paying rent allowance once the community charge has replaced rates needs careful consideration. There are two kinds of rent allowance: maximum limit rent allowance and flat rate rent allowance. Broadly speaking, the maximum limit allowance is paid to married officers and to single officers over the age of 30 who have at least 5 years' service: the rest get the flat rate allowance. The methods of calculating the allowance are as follows:

a. An officer entitled to a maximum limit allowance receives the actual rates which he pays plus the actual rent (if he lives in rented accommodation) or the notional rental value of his property (if he owns his house), within the ceiling set by the force maximum limit. The notional rental value is fixed by applying the "force multiplier" (which is derived by dividing the notional rental value of the force "selected house" by the notional rateable value) to the rateable value of the officer's property.

b. An officer on flat rate allowance receives half the force maximum limit.

16. The existing rent allowance arrangements in England and Wales and in Northern Ireland would continue after 31 March 1989 until the outcome of arbitration was known. (It seems safe to assume that we should have an arbitration award by 1 April 1990.) In Scotland, provision would have to be made for rent allowances to continue at 31 March 1989 levels for officers who were receiving rent allowance on that date, subject to any increases arising from the biennial reviews of rent allowance. Suitable provision would then need to be made for officers in Scotland who became entitled to a flat rate or a maximum limit rent allowance for the first time after that date. Paragraphs 18 and 19 below describe how this might be done.

17. Any attempt to stop the biennial review of rent allowance, either in Scotland or in the United Kingdom as a whole, would expose the Secretaries of State concerned to the almost certain risk of successful legal challenge. Biennial reviews should therefore continue throughout the United Kingdom, though in Scotland the rent allowances for individual officers would have to be calculated on the basis of extinct rateable values, with a formula for new houses which will have never had such value. This should be practicable.

18. Most officers recruited after 31 March 1989 in Scotland, and some officers moving from provided accommodation into their own accommodation after that date, would get the flat rate allowance. Married recruits, most officers moving from provided accommodation into homes of their own, officers who marry, and officers who become qualified by age and length of service, would receive the maximum limit allowance.

19. The flat rate allowance would present no problems: as now, it would be half the force maximum limit. But individual maximum limit allowances can be anywhere between flat rate and the force maximum limit, depending on the actual or notional rental of the officers' accommodation. Some rule of thumb method would be needed to overcome the problem that there will no longer be rateable values in Scotland. One solution might be to fix all new individual maximum limit allowances at a set proportion - say 75% - of the force maximum limit. Another - which would probably be more acceptable to the Staff Side - would be to calculate all maximum limit allowances on the present basis (using the extinct rateable values), except for new houses, where some acceptable formula would have to be applied.

20. Although the framework for the rent allowance arrangements is provided by Police Regulations, much of the detail is contained in PNB agreements. If the Secretary of State for Scotland intervened, suitable provision would have to be made in the regulations to set aside the provisions of the local PNB agreements. This would, however, be vulnerable to judicial review if there were no recommendation and inadequate consultation. If the Secretary of State did not intervene, police authorities and local branches of the Federation would in theory be able to reach substitute agreements on how rent allowance, now minus the rates element, would be paid, having regard to the considerations set out in paragraphs 15-19 above.

Conclusion

21. The imposition of the full package proposed by the Official Side is ruled out. The Secretaries of State could not impose arrangements which had the effect of bypassing the PNB. The most that could be

OR.

done would be to impose an interim solution designed to ensure the continuance of workable rent allowance arrangements pending the outcome of arbitration. In order to justify this, it would be important in the event of legal challenge to be able to demonstrate that the Secretary of State had acted reasonably throughout. The most certain means of imposing an interim settlement which did not expose the Secretaries of State for the Home Departments to unacceptable vulnerability to judicial review would be to provide for rent allowance in Scotland to continue at 31 March 1989 levels, including the rates element, subject to any increases produced by the biennial reviews of rent allowance. Biennial reviews would also have to continue throughout the United Kingdom.

22. The best course however would be to allow the PNB machinery and arbitration arrangements to run their course. This would mean that, if no decision had been reached by 1 April 1989, reimbursement of rates would simply cease in Scotland from that date. This prospect should provide the Staff Side with a powerful incentive to co-operate with the Official Side in efforts to ensure that a solution is produced by the PNB and arbitration machinery in time for 1 April 1989.

Home Office Police Department
14 September 1988

RENT ALLOWANCE: OFFICIAL SIDE PROPOSALS

The Official Side's proposals for changes in the present rent allowance arrangements are as follows:

- a. rent allowance in its present form should be abolished and replaced by a supplementary allowance
- b. the supplementary allowance would not include any element for reimbursement of the community charge;
- c. compensatory grant should not be paid on the new allowance
- d. the new allowance should not count for overtime or pensions purposes;
- e. it should be updated annually in line with movements in the general RPI;
- f. personal protection should be provided for officers whose rent allowance (less the rates

element) plus compensatory grant on the rent element was higher than the new allowance;

g. personal protection should be on a mark time basis and should cease once the new allowance overtook the former amounts paid in rent allowance plus compensatory grant;

h. the new arrangements should come into operation on 1 April 1989 in Scotland and 1 April 1990 in England and Wales. (No commencement date is specified for Northern Ireland.)



CH/EXCHEQUER	
REC.	19SEP1988
ACTION	CST
COPIES TO	

BF 20/9

QUEEN ANNE'S GATE LONDON SW1H 9AT

19 September 1988

Dear Tom,

✓✓

MP

PAY OF CHIEF POLICE OFFICERS

At the Police Negotiating Board meeting on 8 September, no progress was made with the negotiation of this year's pay settlement for chief police officers. The opening positions of the two sides were so far apart that there was clearly no scope for negotiating an agreement without a pause for reflection. A further meeting has now been arranged for 27 September.

The main bone of contention between the two sides is the way in which the mass of data produced by Hay MSL as a result of their job evaluation review should be interpreted and the weight which should be attached to it. The Staff Side take the view that the data should be the focal point of the negotiations and that it points to a settlement considerably in excess of 8.5%. In the light of your letter of 5 September, my officials succeeded on 8 September in persuading the Official Side (against the advice of the Chairman and the Secretariat) that nothing should be offered beyond an increase of 8.5%.

The Staff Side did not table a specific claim and no formal offer was made. The opening positions of the two Sides were, however, set out in formal position statements and the Official Side's statement said that they were not persuaded that anything above 8.5% would be justified. The Staff Side replied at length to the effect that, if such an offer were made, it would be totally unacceptable.

The Official Side met on its own on 14 September to decide what its line should be when the full meeting reconvenes on 27 September. Unfortunately, despite the strenuous urgings to the contrary of officials from the Home Departments, it took the view that it could not sustain the line that all that could be conceded was 8.5% and no more. The Official Side's opening stance on 27 September will therefore be that it is prepared to consider an uplift, to reflect the increased job weights identified by the Hay MSL study, in the salaries of the Deputy Commissioner, Assistant Commissioners and Deputy Assistant Commissioners in the Metropolitan Police, with consequential increases for the Chief Constable and Deputy Chief Constable of the Royal Ulster Constabulary.

The effect of this in total pay bill terms for chief officer ranks would be minute at about 0.35%, while the individuals concerned would be getting increases of around 3%-4% over and above the 8.5%. But it may not end there. The purpose of the concession is to get discussion moving in an attempt to discover what the Staff Side would be prepared to settle at.

The local authority representatives on the Official Side were not unsympathetic to the arguments put forward by the Home Departments' officials, but they are very anxious to avoid going to arbitration on this issue and are quite sure that they would lose at arbitration if they showed absolutely no flexibility. It seems quite possible, however, that when the Staff Side do reveal what they would be prepared to settle for, it will open up such a gap between the two Sides that arbitration becomes impossible to avoid.

The position of the Secretaries of State for the Home Departments remains reserved. I shall write to you again after 27 September.

Copies of this letter go to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and Sir Robin Butler.

Yours,
Douglas.

CONFIDENTIAL

FROM: J DE BERKER
DATE: 22 September 1988

1. ~~MS SEAMMEN~~
2. ~~CHIEF SECRETARY~~

cc Chancellor
Paymaster General
Sir Peter Middleton
Dame Anne Mueller
Mr Anson
Mr Phillips
~~Mr Kelly~~
Mrs Case
Mr Turnbull
Mr Revolta
Mr White
Mr Potter
Mr Brook
Mr Westwater
Mr Call

POLICE PAY REVIEW: ALLOWANCES: PAY OF CHIEF POLICE OFFICERS

Mr Hurd wrote to the Chancellor on 15 September about police allowances reporting that the outcome of the next meeting of the Police Negotiating Board (PNB) on 29 September may be three separate arbitration references: on rent allowance, London allowance, and the reimbursement of NHS charges. He also attached a paper recommending that Ministers should not impose an interim rent allowance arrangement in Scotland if the arbitration process was not completed before the introduction of Community charge on 1 April 1989. The rates element of rent allowance will automatically cease to be payable, and any interim solution would be open to judicial review unless it was very generous.

2. In his letter to you of 19 September on the pay of Chief Police Officers Mr Hurd reported the outcome of the meeting between the Official and Staff sides on 8 September, and that when they meet next Tuesday 27 September, the Official Side are planning to offer Chief Officers in the Police and the RUC more than 8½ per cent - possibly as much as 12½ per cent. This may not be enough to secure agreement, and there could be a further arbitration reference.

3. In your reply, we advise you to ask Mr Hurd to ensure that the arbitration reference on rent allowance gets to the Police Arbitration Tribunal (PAT) first, so that the results are available as soon as possible, and preferably in sufficient time to avoid the need for interim arrangements in Scotland. On Chief Police Officers' pay you will want to reiterate the importance of not going beyond 8½ per cent, both on grounds of public sector pay policy, and because it will make attempts to curtail police allowances even harder.

Background

(i) Police Pay Review Allowances

4. The meeting of the PNB on police allowances on 29 September will probably produce 3 arbitration references; the important one being that on rent allowances. The package the Official Side are seeking on rent allowance is in line with what was agreed at E(PSP) except that they are seeking to link its statement to the community charge timetable. Home department representatives have reserved the position of their Secretaries of State on implementation dates.

5. The conciliation stage of the arbitration procedure is being by-passed so rents allowance will probably get to the PAT before the references on London allowance, the reimbursements of NHS charges, or Chief Police Officers pay. But it is important that rent allowance is at the head of the queue as there is only one set of arbitrators.

6. Provided rent allowance goes to arbitration in October there is a reasonable chance that we shall have a result before the introduction of community charge in Scotland. This would allow permanent arrangements to be introduced there on 1 April 1989, avoiding the need for any interim arrangements, and preventing the biennial reviews of rent allowance which are due for four forces in Scotland from going ahead. On past form these would increase

rent allowance substantially, and consequently the amount which would be recycled into the replacement for rent allowance. If the new arrangements are simultaneously imposed throughout the country this would forestall rent allowance reviews elsewhere (eg the Metropolitan Police).

7. The paper attached to Mr Hurd's letter examines the options for interim arrangements if the PAT does not report in time for April 1989. Imposing a final solution before the PNB and arbitration machinery has run its course would be open to judicial review. The paper concludes that if the PAT results are not available in time, the best option is to do nothing. In Scotland the rates element of rent allowance will automatically cease to be payable. An interim solution would be open to judicial review unless it was unduly generous and continued to pay the rates elements of rent allowance in full.

8. In the interim, the rent element of rent allowance would continue to be payable, and the paper suggests that the existing system - based on rateable values - be retained. This is fine provided it is not a feature of the permanent system. We understand from Home Office officials that the paper is intended to deal only with interim arrangements, but the paper itself is ambiguous in this point.

(ii) Pay of Chief Police Officers

9. At the meeting of the PNB on 8 September there was no offer, but the Staff Side made it clear to the Official Side that they would reject 8½ per cent. The Official Side have now decided that when they meet the Staff Side on 27 September they will offer increases, possibly up to 12½ per cent, for Chief Officers in the Metropolitan Police and the RUC. The intention is to get the talks moving. Home Office officials speculate that this might lead to a settlement for all Chief Officers in the range 9½ to 10½ per cent, but equally there could be an arbitration reference. If the PNB do reach an agreement the position of the Secretaries of

State for the Home Departments will continue to be reserved. This puts up a marker that they may have difficulty in accepting the settlement and that an imposed settlement is a possibility

Assessments and line to take

10. You will want to ask Mr Hurd to ensure that the arbitration reference on rent allowance gets to the PAT as soon as possible, and in any event before any other possible references on police allowances and Chief Officers' Pay. Hopefully this will ensure that the results will be available before April 1989, and that there will be no need for interim arrangements in Scotland. The way will then be open for the Government to impose new rent allowance arrangements for the whole of the UK on a permanent basis when community charge is introduced in Scotland.

11. If the arbitration results are not available in sufficient time you will want to agree with Mr Hurd that the best option is to do nothing, and let payment of the rates element of rent allowance lapse. As to basing the rent element of rent allowance on rateable values, this is acceptable as a temporary expedient, but it should not be a feature of a permanent solution.

12. The pay of Chief Police Officers must not be increased by more than 8½ per cent, and if necessary this must be imposed. To give them more would have undesirable repercussions for public sector pay policy. It would also make it harder to curtail police allowances if the Chief Officers were to get a bigger pay increase than their men. We understand that No 10 Policy Unit are alive to this point and may advise the Prime Minister to write again once she has seen your letter to Mr Hurd.

Timing

13. A draft letter to Mr Hurd is attached. The PNB is meeting to negotiate on Chief Police Officers' pay on Tuesday 27 April so it would be helpful if the letter could go on Friday. In any event,

you may wish to ask your Private Office to inform Mr Hurd's
Private Office of the contents before it is sent.

14. HE are content.

J DE BERKER

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DRAFT LETTER FROM: CHIEF SECRETARY

TO: DOUGLAS HURD

COPIES: Prime Minister, other members of E(PSP),
Malcolm Rifkind, Tom King and to Sir Robin Butler

POLICE ALLOWANCES AND THE PAY OF CHIEF POLICE OFFICERS

1. Thank you for your letters of 15 September on police allowances to Nigel, and 19 September to myself on the pay of Chief Police Officers. I am replying to both.
2. It is pleasing that we have legal advice that if we do nothing, the rates element of rent allowance will automatically lapse in Scotland on the introduction of community charge in April 1989. In those circumstances, it would clearly be wrong to attempt to impose any interim solution, and we can let negotiations and, if necessary, arbitration proceed secure in the knowledge that the pressure will be on the Staff Side to cooperate in reaching a solution.
3. If the Police Arbitration Tribunal (PAT) reports in sufficient time we will be able to avoid the need for any interim arrangements for rent allowance in Scotland following the introduction of Community Charge there, and the way would be open for us to impose permanent

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arrangements for the whole of the UK. But I note there could be as many as four arbitration references in the pipeline, three on allowances and one on Chief Officers' pay. Clearly, we need to ensure that the PAT gets the reference on rent allowance first and that consideration of this is not delayed by other references.

4. Your letter on Chief Officers is much less welcome. I must reiterate the importance of not increasing their pay by more than 8½ per cent. By any standard this is generous and if necessary it must be imposed. To give them more would have most undesirable repercussions for public sector pay policy and it would make it harder to curtail police allowances if the officers were to get a larger increase than their men.

5. I am copying this to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King, and to Sir Robin Butler.

CONFIDENTIAL



cc.
 Chancellor
 PMG
 Sir Peter Middleto.
 Dame Anne Mueller
 Mr Anson
 Mr Phillips
 Mr Kelly
 Mrs Case
 Mr Turnbull
 Mr Revolta
 Mr White
 Mr Potter
 Ms Seammen
 Mr de Berker
 Mr Brook
 Mr Westwater
 Mr Call

Treasury Chambers, Parliament Street, SW1P

The Rt Hon Douglas Hurd CBE MP
 Home Secretary
 Home Office
 50 Queen Anne's Gate
 London
 SW1H 9AT

23 September 1988

Dear Home Secretary,

POLICE ALLOWANCES AND THE PAY OF CHIEF POLICE OFFICERS

Thank you for your letters of 15 September on police allowances to Nigel, and 19 September to myself on the pay of Chief Police Officers. I am replying to both.

It is pleasing that we have legal advice that if we do nothing, the rates element of rent allowance will automatically lapse in Scotland on the introduction of community charge in April 1989. In those circumstances, it would clearly be wrong to attempt to impose any interim solution, and we can let negotiations and, if necessary, arbitration proceed secure in the knowledge that the pressure will be on the Staff Side to cooperate in reaching a solution.

If the Police Arbitration Tribunal (PAT) reports in sufficient time we will be able to avoid the need for any interim arrangements for rent allowance in Scotland following the introduction of Community Charge there, and the way would be open for us to impose permanent arrangements for the whole of the UK. But I note there could be as many as four arbitration references in the pipeline, three on allowances and one on Chief Officers' pay. Clearly, we need to ensure that the PAT gets the reference on rent allowance first and that consideration of this is not delayed by other references.

Your letter on Chief Officers is much less welcome. I must reiterate the importance of not increasing their pay by more than 8½ per cent. By any standard this is generous, and if necessary it must be imposed. To give Chief Officers more would have

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extremely undesirable repercussions for public sector pay policy, and it would make it harder to curtail police allowances if the officers were to get a larger increase than their men.

I am copying this letter to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King, and to Sir Robin Butler.

Yours sincerely,
P. Wainwright

PP JOHN MAJOR

[Approved by the Chief Secretary
and signed in his absence.]



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CH/EXCHEQUER	
REC.	26 SEP 1988
ACTION	SIR T BURUS ✓26/09
COPIES TO	CST. SIR P MIDDLETON MR ANDERSON, DAME A MUELLER, MR SCHOLAR, MR MONCK, MR KELLY, MR COLIANG-SHEE, MR SEDGEWICK, MR HIGGERS, MR S PRICE, MS SEAMEN, MR DE BERKER

Ms Moira Wallace
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Dear Moira

26 September 1988

... My Secretary of State has asked me to include with the enclosed letter from him to the Chancellor, this explanatory note on the CBI pay data bank.

*Sincerely,
Beverley*

BEVERLEY EVANS
Private Secretary

CBI PAY DATA BANK

One way of reducing any harmful effect on negotiations caused by the publication of the monthly earnings index would be for the Secretary of State's accompanying statement to quote more figures qualifying the underlying average earnings increase.

These could include material from the CBI pay data bank - which they are continuing to develop. This should enable us to quote both an average level of settlements and the range of settlements. For example when we published the figures this month at 9.0% we could have pointed out that over 95% of settlements in manufacturing were below that level, that such settlements averaged 5.9% with 47% at or below 5.5%. Another approach with the same data would be to say that manufacturing settlements averaged 5.9%, and services 6.8%. No doubt that in consultation with the CBI we could obtain more information allowing us to show the lower and upper quantile of all settlements they receive.



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CH/EXCHEQUER	
REC.	26 SEP 1988
ACTION	SIR T BURNS ✓26/9
COPIES TO	CST, SIR P MIDDLETON, MR ANSON, DAME AMUELLER MR SCHWARZ, MR MOUNCH, MR KELLY, MR ODING-SMEE, MR SEDGWICK, MR HIBBERD MR S PRICE, MS SEAMEN, MR DE BERGER.

The Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

*1 avail ahead
above, the 1st of
the 2 strikes
understand
September 23.*

Nigel

Thank you for your letter of 9 August. As you know I fully share your concern about wage pressures. I am also very conscious of the need to warn unions and employees not to use the average earnings index as a going rate in pay negotiations.

I well understand the case for publishing an authoritative index of settlements on the lines you propose. In addition to detracting from the potential significance of the earnings index it would put into context 'rogue' settlements such as last year's for local authority manuals and the impending one at Fords (RPI + 2½%).

There are though a number of counterbalancing factors which I wonder if you have taken into account. Is there not a danger that producing and publishing such an index would give signals to employers and unions entirely at odds with the way we wish to see pay negotiations go? Would this be appropriate information to provide to negotiators at a time when we are arguing that pay should be settled in the light of the circumstances of individual firms and their employees rather than related to some 'going rate'?

A settlements index would also focus attention on collectively determined terms and conditions at a time when we are advocating a much more individualistic approach to such matters with pay being determined more and more by performance rather than the outcome of negotiations.

Moreover I know that those responsible for major public and private sector pay negotiations feel that an authoritative Government index of settlements would make it more difficult

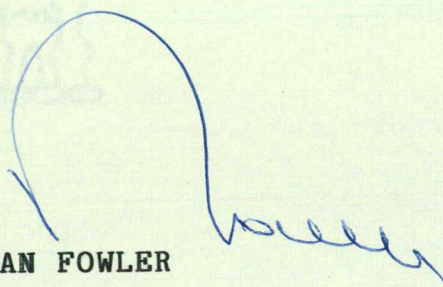


for them to reach agreements below the prevailing rate of settlements. In negotiations employers can dismiss the earnings figures as including the effects of overtime, production bonuses etc. They can, if they wish, quote the CBI settlements information or, if the unions quote it in their argument, the employers can dismiss it as unrepresentative. It would not be so easy to dismiss information from an authoritative Government index. The prevailing level of the index could rapidly become the minimum level at which any union would settle.

In short the collection and publication by Government of a settlements index could underpin just those aspects of pay negotiations we are trying to erode, and might well result in a higher level of settlements than would occur without it. It would also entail collecting a considerable amount of information from employers for an index they almost certainly do not want.

Against that background have you considered that a better way to proceed might be by seeking alternative ways - perhaps involving more use by us of the CBI's pay data bank - of reducing any harmful effect on negotiations of the publication of the monthly average earnings index?

ours ev.



NORMAN FOWLER

BF 2819



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

MP

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3HE

CH/EXCHEQUER	
REC.	27 SEP 1988
ACTION	CST
COPIES TO	

/ 2719

27 September 1988

Dear Chancellor,

POLICE PAY REVIEW: ALLOWANCES

In broad terms I agree with the analysis in Douglas Hurd's letter to you of 15 September. If the issue of rent allowances is referred to arbitration at the PNB committee meeting on 29 September, there should be time for a decision to be taken and for the new arrangements to be introduced with effect from 1 April 1989. As the paper enclosed with Douglas' letter explains, the position of the Secretary of State for the Home Departments is already reserved on the question of the starting date. I attach great importance to a common starting date throughout the United Kingdom, and it would certainly avoid complications from my point of view if that starting date were 1 April 1989.

I hope therefore that it will not be necessary to contemplate any form of interim settlement in Scotland. It is not my current intention to put any such proposals to colleagues. But it is impossible to see how the situation may unfold and I cannot entirely exclude the possibility that an interim settlement in Scotland may seem desirable, on a transitional basis.

I would however have no objection to officials making it known that we are not planning for any interim arrangements in Scotland.

I am sending copies of this letter to the Prime Minister, other members of E(PSP), Douglas Hurd, Tom King and Sir Robin Butler.

Lynn Shankland
MALCOLM RIFKIND

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

FROM: P N SEDGWICK
DATE: 28 SEPTEMBER 1988

CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary
Sir Peter Middleton
Sir Terence Burns
Dame A Mueller
Mr Anson
Mr Scholar
Mr Monck
Mr Kelly
Mr Odling-Smee
Mr Hibberd o/r
Ms Seammen
Mr S Price o/r
Mr de Berker

Handwritten notes in red ink:
 Think...
 on RPI ex MIPS...
 take on that...
 Jones...
 answer a letter...

WAGE SETTLEMENTS INDEX

Mr Fowler has responded to your letter of 9 August in which you proposed that Department of Employment should publish a wage settlements index.

2. As with your proposal to publish the RPI excluding MIPS (Mr Fowler's letter of 21 September and Mr Hibberd's submission of 28 September), Mr Fowler has poured cold water on the idea. He acknowledges and shares your concern about average earnings giving potentially misleading signals to both employers and unions. He also sees some merit in an authoritative settlements index of the sort you propose.

3. However, he sees the following main difficulties:

- (i) A settlements index could help to perpetuate the notion of a "going rate"?
- (ii) A settlements index would primarily include information on collectively determined agreements at a time when the government is urging that pay should be determined by the circumstances in which individual firms and employees find themselves.

4. We do not have much to add to the arguments in the note submitted to you by Sir Terence Burns on August (copy attached for you only). There is some force in Mr Fowler's second objection. It is also true that we could continue to use the CBI databank (for all its shortcomings) to show what is happening to settlements, though given the plethora of labour market statistics that DE publish it is odd that we have to turn to the CBI for numbers on settlements.

CONFIDENTIAL

5. Though he does not explicitly say so in his letter it may be that on pay settlements Mr Fowler has in mind the approach he has suggested on the RPI less mortgage interest payments. He has suggested that DE should not publish the figures according to a known and regular timetable, but that when he wants to he should provide the figures for the previous month in his monthly press statement or in his oral press briefing on labour market developments. This seems to me just about the worst way to release economic statistics. Not everyone attends Mr Fowler's monthly briefings so the information on settlements will not reach all those whom the figures would help. In addition there will still be no published source from which to obtain the latest and earlier figures. If there were a choice between the two methods of publication - which there need not be - it would be better not to give numbers at the press briefings, but to provide the numbers regularly in DE's press note and subsequently the Employment Gazette.

6. Nevertheless on balance we are inclined not to return to Mr Fowler on a settlements given the other statistical issues on which we are now at odds with him. In the immediate future the RPI excluding MIPS question is probably more important.

7. Are you content to leave the settlements question for the moment? If you are not, we can draft another letter for you to send to Mr Fowler.

P.N.J

P N SEDGWICK

FROM: R DEANE
DATE: 28 SEPTEMBER 1988

1. MR SEDGWICK
2. CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Anson
Dame A Mueller
Mr Kelly
Mr Odling-Smee
Mr Hibberd o/r
Mr Gieve
Mr Pickford
Ms Seammen
Mr Bush
Mr de Berker

AVERAGE EARNINGS: NEW EARNINGS SURVEY

I believe that you may be aware that Mr Fowler is about to publish some results from the New Earnings Survey (NES). Fuller details of the NES were due to be published tomorrow, but have been delayed until mid-October for reasons which have not been fully explained to us. Mr Fowler will nevertheless issue a Press Notice in the next two days (probably tomorrow) summarising the main results.

2. The feature of the NES data that is worrying is an estimate of average earnings growth in the year to April of 9.7 per cent. This compares to a previously published figure for the growth of the DE measure of whole economy average earnings in April of 9.0 per cent. The NES figure does not alter this figure or the associated published estimates for underlying average earnings. The underlying figure is unaltered at 8½ per cent for the year to April.

3. Publication of the new data at a time when there are fears of rising inflation is an unwelcome development. But it should be possible to explain this higher than expected figure. The NES provides an annual snap shot of earnings at April of each year. The main monthly series for actual and underlying average earnings will be totally unaffected, even for April 1988.

4. There are reasons why the two earnings series differ. The DE monthly earnings data refers to all employees. The NES survey, on the other hand, refers only to full time adults whose pay is unaffected by absence from work and is derived from a 1 per cent sample based upon Inland Revenue PAYE returns. The NES figures thus exclude part-time employees and those who do not pay tax. If the distribution of earned income has continued to widen, it is not surprising that the NES figure is higher than the growth in the DE average earnings index. The figures in the following table show the figures for April 1987 and April 1988. The difference between the two figures is smaller this year than it was last year.

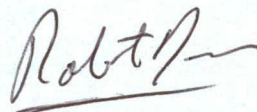
Whole Economy Average Earnings
percentage change on year earlier

	<u>April 1987</u>	<u>April 1988</u>
DE figures:*		
Underlying Increase	7¾	8½
Actual Increase	6.4	9.0
NES figure	7.7	9.7

* The difference between the actual and underlying figures is due to timing and other adjustments.

Line to take

- (i) The new figures from the New Earnings Survey do not alter our picture of earnings growth in the economy. The difference between the NES figure and the previously published increase in the DE average earnings index arise from the different coverage of the two figures. The difference is smaller this year than it was last year.
- (ii) The best indicator of growth in whole economy average earnings is the underlying increase in the DE average earnings figures. These figures are not affected by the NES results.
- (iii) CBI data shows that pay settlements have been rising less quickly than earnings. Average earnings are bound to increase by somewhat more than settlements while growth is above trend.



R DEANE



Caxton House Tothill Street London SW1H 9NF
5803

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CH/EXCHEQUER	
REC.	28 SEP 1988
ACTION	MR KELLY
COPIES TO	CST, PMG, SIR P MEDDLETON,
	SER T BURNIS, DAME A MUELLER
	MR ANSON, MR ASC EDWARDS, MS SEAMEN,
	MR DE BERKER, MR CROPPER

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3HE

[Handwritten red notes and signatures]

[Handwritten initials 'MP']

[Handwritten 'September 28']

[Handwritten signature 'Dear Nigel']

PUBLIC SECTOR PAY

Some figures in the recent pay monitoring report (E(PSP)88(12)) struck me quite forcibly.

In the year from August 1987 settlements in the public services averaged 8½%. In the private sector and the public trading sector, where market forces dominate, settlements averaged nearer 5½%, or 3 points lower. The public services include some exceptional cases like nurses and local authority manuals but it does not seem to me that outturns in the sectors where we can exercise influence, if not control, suggest we have been setting good examples of pay moderation.

The latest settlement for local authority manuals (5.6%) is encouraging in that it is much lower than last year. But there are many services where increases at this level could not be justified in present circumstances.

I know you traditionally write to colleagues at this time of year urging pay moderation. These figures underline the importance of that message being acted on in the coming year.

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

[Handwritten signature 'Norman Fowler']

NORMAN FOWLER

[Handwritten red notes: 'by the way', 'for the', 'particular']

chex.nh/mw/65

UNCLASSIFIED



MP
FROM: MISS M P WALLACE

DATE: 30 September 1988

MR DEANE

cc Mr Sedgwick

AVERAGE EARNINGS: NEW EARNINGS SURVEY

The Chancellor was most grateful for your minute of 28 September.

A handwritten signature in cursive script, appearing to read "Moira Wallace".

MOIRA WALLACE

CONFIDENTIAL

mp



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

CH/EXCHEQUER	
REC.	3 OCT 1988
ACTION	CST
COPIES TO	

3/16
✓ 344

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

30 September 1988

Dear John,

UDM PAY

I understand from British Coal that they will be meeting the UDM on Wednesday 5 October for the first time this year to discuss pay. The UDM are keeping this year's pay claim close to their chest and will not release any details before the meeting. It is however believed that they will be seeking a two year deal on pay as well as a range of other improvements.

British Coal consider the meeting to be a range finding affair for both sides. There is however a remote chance that British Coal's negotiators will see advantage in reaching an early settlement. If British Coal do make an offer at the meeting it will be no more than around the current rate of inflation. On this basis I would not propose to stand in the way of British Coal clinching an early favourable deal.

I will, of course, keep you in touch with developments.

I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robin Butler.

*Yours
Cecil*

CECIL PARKINSON

CONFIDENTIAL



FROM: MISS M P WALLACE

DATE: 3 October 1988

MR SEDGWICK

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Dame A Mueller
Mr Anson
Mr Scholar
Mr Monck
Mr Kelly
Mr Odling-Smee
Mr Hibberd
Ms Seammen
Mr S Price
Mr de Berker

WAGE SETTLEMENTS INDEX

The Chancellor was most grateful for your minute of 28 September. He agrees that we should leave the settlements question for the moment, and concentrate on the RPI excluding mortgage interest.

A handwritten signature in dark ink, appearing to read 'Moira Wallace'.

MOIRA WALLACE
Private Secretary

CONFIDENTIAL



cc: Mp
Chancellor
Sir Peter Middleton
Dame Anne Mueller
Mr Anson
Mr Monck
Mr C W Kelly
Mr Edwards
Mr Moore
Mr Turnbull
Mr Sedgwick
Ms Seammen
Mr de Berker
Mr Williams
Mr Holgate
Mr Call

Treasury Chambers, Parliament Street, SW1P

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

5 October 1988

Dear Secretary of State,

UDM PAY

Thank you for your letter of 30 September about this year's pay negotiations between the UDM and British Coal.

It is not entirely clear what the UDM are looking for, and I would be grateful for more details of their claim as soon as these become available. But from what you say they may be looking for another 2 year deal which indexes pay increases to movements in the RPI.

A two year deal would be acceptable provided the increase in the second year were lower than that in the first. But indexation is inherently undesirable and should be resisted. In any event, this year it could produce an increase of the order of 6 per cent which is excessive. Coming so early in the wage round it could have most undesirable repercussions on wage negotiations elsewhere in the economy. In any event, the industry cannot afford a straight pay increase of this magnitude. The Investment Financing Review (IFR) was based on an earnings increase of 4 per cent. I can see that you and British Coal may feel it necessary to go a little beyond this but, if so, it would be essential for the excess to be fully funded by additional productivity over and above the productivity targets we agreed for the IFR.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robin Butler.

Yours sincerely,

P. Walters

PP JOHN MAJOR

[Approved by the Chief Secretary and signed on his behalf.]

CONFIDENTIAL

Handwritten initials and scribbles in the top right corner.

As you see, appeal & much to low. Not worth @ all

FROM: J DE BERKER

DATE: 5 October 1988

- 1. MS SEAMMEN
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Paymaster General
- Sir Peter Middleton
- Dame Anne Mueller
- Sir T Burns
- Mr Anson
- Mr Monck
- Mr Kelly
- Mr Moore
- Mr Burgner
- Mr A S C Edwards
- Mr Sedgwick
- Mr Chivers
- Mr Gieve
- Mr Pickford
- Mr Graham
- Miss Simpson
- Mr Price
- Mr Leniston
- Mr Cropper
- Mr Tyrie
- Mr Call

Handwritten notes in red ink: 'You have a go', 'man pts as', 'private sector', 'public sector', 'the need for employees to have some competition as not to be a mass'.

un/ This really isn't very inspiring. I have scribbled some comments. But one of us could have a go at something better if you wish

PUBLIC SECTOR PAY

1. In previous years you have written to colleagues early in the pay round to urge restraint in pay matters and to circulate speaking notes. Mr Fowler's letter of 28 August circulated speaking notes which were agreed with us. His letter of 28 September provides a convenient opening for a response targeted on the need to curb review body and formula awards, and to ensure that the reporting arrangements for public trading sector pay negotiations are working properly.

Mr Fowler's letter of 28 September

2. Mr Fowler draws attention to the figures in the latest pay monitoring report {E(PSP)88(12)} which show that in the 1987-88 pay round settlements in the public services have averaged 8½ per cent compared with 5½ per cent in the public trading sector and

Handwritten notes in red ink: 'by low XR. M.' and other scribbles.

NO ?
private sector manufacturing. He concludes that although the figures for the public services include some exceptional cases like nurses and local authority manuals, Ministers have not been setting a good example of pay moderation in the sectors which they can control, ie on settlements negotiated with central government or directly controlled by it. You may wish to draw Mr Fowler's attention to the fact that his figures do not bear this interpretation.

3. In the last pay round review body awards and formula settlements for police and firemen averaged $10\frac{3}{4}$ per cent. If these and the 10.6 per cent negotiated between local authorities and their manual workers are excluded the average settlement in the public services falls to $5\frac{1}{4}$ per cent. If the remaining local authority settlements (including the 6 per cent for Scottish teachers) are excluded the average falls to 5 per cent. The main groups are the Civil Service, NHS Non-Review Body Staff and teachers in England and Wales.

4. It is clear that the overall level of settlements in the public services will remain too high unless colleagues are prepared to abate excessively generous review body awards, and to reform the formulas for police and firemen. You will want to say this.

Private Sector Pay

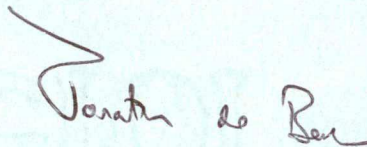
NO
5. Although settlements in the private sector are below the average for the public services, and are primarily the responsibility of the employers, you will wish to warn against the continuing danger of relying on an exceptionally strong performance on productivity to compensate for excessive earnings growth, and to rebut the argument that an increase in the RPI justifies higher pay increases. This may be "preaching" as far as the private sector is concerned but of course these points also apply to the public services and to the public trading sector. The point is covered in paragraph 7 of the draft letter, which highlights the perverse effect of mortgage rates upon the RPI.

Public Trading Sector

6. For the public trading sector you may wish to remind colleagues of the need for greater regional pay variation and to push for systems which relate pay to performance. The draft letter also reminds colleagues of the reporting arrangements for public trading sector pay negotiations, and in particular, asks for the first and full year effects of proposed pay offers on earnings and the organisation's pay bill. This is to counter a natural tendency to supply incomplete information - especially for deals which are suspect.

7. A draft letter is attached.

8. EA, and EB are content.

A handwritten signature in dark ink, appearing to read "Jonathan de Berker". The signature is written in a cursive style with a large initial 'J'.

JONATHAN DE BERKER

CONFIDENTIAL

DRAFT LETTER FROM: CHANCELLOR OF THE EXCHEQUER

TO: MR FOWLER

COPIES: Prime Minister, Other Members of
E(PSP) and to Sir Robin Butler

PAY

1. Thank you for your letter of 28 September about the importance of pay moderation. Needless to say I agree.

amir
2

2. It is instructive to look at the breakdown of pay increases in the public services last year. Review body awards and formula settlements for the police and firemen last pay round averaged $10\frac{3}{4}$ per cent. Local authority manual workers got 10.6 per cent. If we exclude these, and other settlements not under the direct control of Ministers, the average settlement in the public service was 5 per cent (the civil service NHS non-review body group and teachers in England and Wales) Too high perhaps, but this compares reasonably well with $5\frac{1}{2}$ per cent in private sector manufacturing, and 6 per cent in private sector services.

3. The implications are obvious. It goes without saying that we must continue to exercise firm control over the negotiations under our direct influence. But [even if we do, the overall level of settlements in the public services will still remain too high unless colleagues are prepared] to abate ^{or stop} [excessively generous

we must also be ready to impress upon the Review Bodies the case for restraint, and, where necessary,

We must also ask ourselves seriously how long we can allow

review body awards, and to reform the formulas for police and firemen. *to continue unreformed* [The police have, of course, just received another 8½ per cent under the Edmund-Davies formula.]

4. The level of settlements in the private sector is also a matter for concern. When I wrote to David Young last December I noted that there were indications that some private sector employers were beginning to feel that they could relax about pay. That trend appears to have continued. To date settlements in manufacturing for 1987-88 are about $\frac{3}{4}$ per cent up on the comparable period for the previous year.

5. It is unrealistic to rely for long upon an exceptionally strong performance on productivity to make up for shortcomings on pay. In the year to July UK manufacturing productivity increased by 7¼ per cent. But manufacturing earnings rose by about 8½ per cent. In consequence unit labour costs in manufacturing rose by just over 1 per cent. In most of our major competitors they fell.

6. In the service sector the picture looks no better, measured productivity growth is much lower, and can compensate even less for excessive earnings growth.

7. In the coming pay round there are bound to be claims that increases in the RPI justify higher pay increases. We must rebut these claims. Pay must be based on what

is needed for recruitment and retention within what can be afforded. There can be no justification for a given level of pay regardless of the circumstances. In any event, the increase in inflation will be temporary and is due in large part to the perverse effect of mortgage interest rates on the RPI. It should not be allowed to affect the level of wages permanently by being incorporated into excessively high settlements.

8. There is some very useful material on these and other points in the speaking notes you circulated with your letter of 28 August. I hope colleagues will take every opportunity to make use of them.

9. For our ^{own} employees we ^{have been} ~~are~~ introducing performance pay systems and greater regional variation. We must ~~continue to~~ encourage the introduction of market-sensitive pay systems in the public trading sector as well. The advantages in terms of recruitment and retention are clear, and the alternative of across the board pay increases is unnecessary and expensive.

875 // 10. ~~It is important that our internal arrangements for~~ ^{also} considering pay proposals work properly. I would be grateful if colleagues in charge of departments sponsoring public trading sector organisations would continue to insist on having, as an absolute minimum, seven working days notice of staff pay proposals from their Chairmen. Given the complexity of many proposals,

CONFIDENTIAL

and the very short time we have in which to consider them, I would also be grateful if each time a colleague seeks collective agreement to a particular negotiating stance they could provide a summary of its impact on average earnings in the first year, and in a full year, and also on the organisation's pay bill - again on a first and full year basis.

11. Where the proposals are a response to particular difficulties, eg on recruitment and retention, it is particularly important that sufficient information is given to justify the conclusions reached. We will need to be satisfied that all the alternatives have been considered and the most cost effective solution is being adopted. Without timely information on the justification and impact of pay proposals it is difficult to form a clear and consistent view of their implications.

12. I am copying this letter to the Prime Minister, other members of E(PSP) and to Sir Robin Butler.



CH/EXCHEQUER	
REC.	- 6 OCT 1988
ACTION	CST
COPIES TO	

CONFIDENTIAL

M

QUEEN ANNE'S GATE LONDON SW1H 9AT

6 October 1988

Dear Chief Sewby

(Handwritten signature in red ink)

PAY OF CHIEF POLICE OFFICERS

At a meeting on 27 September the relevant Committee of the Police Negotiating Board reached agreement on this year's pay increase for chief police officers. The agreement provides for an 8.5% increase for all chief police officer ranks from 1 September (with, as is normal, the same increase in the allowance received by officers in certain small Scottish forces).

There are, however, two significant enhancements proposed to the basic 8.5%. First, the Deputy Commissioner, Assistant Commissioners and Deputy Assistant Commissioners in the Metropolitan Police, and the Chief Constable, Deputy Chief Constable and Senior Assistant Chief Constables in the Royal Ulster Constabulary would receive an additional 3.2% from 1 September to reflect the increase shown in their relative job weights by the Hay MSL review. This was foreshadowed in my letter to you of 19 September. Second, all ranks would receive an increment of 2.5% above their salary from 1 January 1989, this increment to be payable to those with three or more years' service in the rank.

As from 1 January 1989 the deal would be worth about 11.2% to those with three or more years' service in the rank, and over 14% to those officers in the Metropolitan Police and the RUC whose salaries would get a 3.2% uplift at once to reflect increased job weights.

The 8.5% increase would add some £0.47M to the United Kingdom police pay bill in this financial year and about £0.8M in a full year. The additional 2.5% increment would add some £37,500 in this financial year and around £150,000 in a full year. The full year costs of the 3.2% uplift for officers in the Metropolitan Police and the RUC would be some £32,000.

In relation to the overall police pay bill, these additional costs are very small. They would, however, add some 10.5% in a full year to the United Kingdom pay bill for chief police officers. As you said in your letter of 23 September, a pay increase of 8.5% for this group of highly paid police officers is generous by any standards and, at a time when we are seeking to get across the message that high pay awards serve only to fuel inflation, I do not believe that it would be right for me to give effect to the PNB agreement. There is the further consideration that an unrealistically high pay award for chief police officers would convey the wrong message to the rest of the police service (and possibly to the arbitrators) about our determination to cut back on expenditure on rent allowance.

Subject to the views of Malcolm Rifkind and Tom King, I therefore propose to exercise my power to veto the PNB agreement and to impose an across-the-board pay award of 8.5%. This will be sourly received by the Staff Side of the PNB, who believed that they would have obtained much larger increases for the most senior ranks if the issue had gone to arbitration and who negotiated the PNB agreement with considerable reluctance. The Official Side, too, will feel that insufficient regard has been paid to their efforts to achieve a settlement, and avoid damaging arbitration which could well have delayed progress on rent allowance. We will antagonise for the time being quite a number of senior police officers.

This is unfortunate but must, I think, be endured. I therefore propose to invite representatives of the two Sides of the PNB, and the independent Chairman, to come to see me, so that I can explain the reasons for my decision. (Malcolm Rifkind and Tom King may wish to attend or be represented at the meetings). I would propose to base any explanation to them on the grounds of comparability with other senior public employees, and on the difficulty which the Government would have in accepting an increase of the size proposed at a time when it is seeking to hold down pay increases in the public sector because of their inflationary effect. I would be grateful for your advice on the line which I should take on these national economic and pay policy aspects.

The sooner I can proceed the better, since any premature leak could be very damaging. I would therefore be grateful for an early reply and confirmation from Malcolm Rifkind and Tom King that they are content.

I am sending copies of this letter to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and Sir Robin Butler.

Yours sincerely,

M. J. G. J. J. J.

(Approved by the Home Secretary and signed in his absence)

CONFIDENTIAL

ppp 07
I've only

FROM: J DE BERKER

DATE: 7 October 1988

1. MS SEAMMEN

2. CHIEF SECRETARY

Mr Hurd's line
is unexpectedly
robust. - all
We more welcome
for Oct

- Chancellor
- Paymaster General
- Sir P Middleton
- Dame Anne Mueller
- Mr Anson
- Mr Phillips
- Mr Kelly
- Mrs Case
- Mr Turnbull
- Mr Revolta
- Mr White
- Mr Potter
- Mr Brooke
- Mr Call

just checked out

X
ppp

PAY OF CHIEF POLICE OFFICERS

1. Mr Hurd's letter of 6 October reports that, subject to the views of Mr Rifkind and Mr King, he has decided to overturn an agreement reached in the Police Negotiating Board (PNB) which would have increased the pay bill of Chief Police Officers by 10½ per cent in a full year. Instead, he is proposing to impose an increase of 8½ per cent in line with the increase received by their men. You will want to welcome this, and to encourage Mr Rifkind and Mr King to support this decision.

2. Mr Hurd also asks for your advice on the line to take on national economic and pay policy aspects when he comes to explain his decision to the PNB. One of the arguments he proposes to use is that high pay awards cause inflation. You will want to explain that, given the Government's absolute determination to control inflation, excessive pay awards have their effect on jobs. We will be in touch with Home Office officials on detailed briefing. Apart from the point on inflation, you need only refer Mr Hurd to the speaking notes on pay circulated with Mr Fowler's letter to the Chancellor of 28 August and draw out the key points as they affect Chief Police Officers - in particular, that they cannot be immune from the Government's key criteria of recruitment and retention within the limits of affordability.

Background

3. The UK pay bill of Chief Police Officers amounts to about £5½ million. The pay of the Commissioner of the Metropolitan Police (£68,500) is the same as that of a Permanent Secretary and is based on the recommendations of the TSRB. This year his pay was increased by 5.4 per cent, with 4% from 1 April and the balance from 1 October. The pay of other Chief Officers ranges from £30,960 for Assistant Chief Constables to £52,982 for the Chief Constable in Ulster, and is based on negotiations in the PNB.

4. At a meeting on 27 September the two sides of the PNB agreed that Chief Offices should get a basic increase of 8½ per cent from 1 September, that some ranks in the Metropolitan Police and Ulster would get a further 3.2 per cent to reflect the increase in their job weights, and that all ranks with three or more years service in the rank would receive a 2½ per cent increase from 1 January 1989. In all, the deal would add 10½ per cent to the pay bill in a full year.

Police Allowances

5. The PNB met again on 29 September to discuss police allowances. We understand that the reform of rent allowance and the proposal to cease reimbursing NHS charges will go to arbitration, but there may be some possibility of a deal to convert one of the London Allowances into a retention allowance for constables with 5 or more year's service. Mr Hurd will be writing to you separately on this.

Assessment and Line to Take

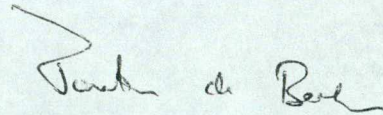
6. Giving the Chief Officers a larger increase than their men would make it harder to reform rent allowance, and imposition gives a clear message that there is a limit to what can be given to even the police on the basis of comparability. The Prime Minister has already made her views clear. Overturning a PNB Agreement is much preferable to the alternative of an arbitration reference. It is quite likely that the arbitrators' recommendations would not have

been acceptable, and we would have been faced with imposition at a later stage. In the meantime the arbitration reference on Chief Officers might have delayed the reference on rent allowance.

7. As to giving Mr Hurd advice on the line to take on national economic and pay policy aspects, we suggest you offer assistance at official level as the simplest way to take this forward, and refer him to Mr Fowler' speaking notes.

8. A draft letter is attached.

9. HE are content.



JONATHAN DE BERKER

CONFIDENTIAL

DRAFT LETTER FROM: CHIEF SECRETARY

TO: MR HURD

COPIES: Prime Minister, Other members of
E(PSP), Malcolm Rifkind, Tom King
and to Sir Robin Butler

PAY OF CHIEF POLICE OFFICERS

1. Thank you for your letter of 6 October about the pay of Chief Police Officers.

2. I welcome your decision to cut back the unrealistically high pay award for Chief Officers agreed in the Police Negotiating Board (PNB), and to impose an 8½ per cent increase in line with that received by lower ranks. If you consider this to be appropriate in England and Wales it cannot be right to treat Chief Officers in Scotland and Northern Ireland differently, so I trust that Malcolm Rifkind and Tom King will feel able to support you.

3. You asked for my advice on the line to take on national economic and pay policy aspects when you come to explain your decision to the PNB. One of the arguments you are proposing to use is that excessive pay awards cause inflation. This is not so given our absolute determination to control inflation. In these circumstances excessive pay increases will reduce the rate at which we are able to bring down unemployment. My officials will contact yours about detailed briefing,

but there is a lot of useful material in the speaking notes which Norman Fowler circulated with his letter to Nigel on 28 August. The key point is that for the generality of public servants pay is determined by what is required for recruitment and retention within what can be afforded. For the police these criteria have been largely suspended in favour of the uniquely favourable form of comparability enshrined in the Edmund-Davies formula. Chief Officers have been given an increase in line with their men. This is generous by comparison with the 5.4 per cent received by the Commissioner of the Metropolitan Police whose pay is based on the recommendations of the TSRB.

4. There is no recruitment and retention problem for Chief Officers, and there must be limits, even for the police, on what can be given to them on the basis of comparability. Excessive pay increases, particularly for the senior ranks, are bound to raise expectations first of the lower ranks of the police, but also elsewhere in the public service and in the economy as a whole.

5. Lastly, although Chief Officers may argue that they are not well paid considering their responsibilities, they will have benefited substantially from the last budget and we must take this into account when deciding what pay increases are appropriate.

6. I am copying this to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and to Sir Robin Butler.

CONFIDENTIAL



- cc
- Chancellor
- PMG
- Sir P Middleton
- Dame Anne Mueller
- Mr Anson
- Mr Phillips
- Mr Kelly
- Mrs Case
- Mr Turnbull
- Mr Revolta
- Ms Seammen
- Mr de Berker
- Mr White
- Mr Potter
- Mr Brooke
- Mr Call

pp

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
 Home Secretary
 Home Office
 50 Queen Anne's Gate
 London
 SW1H 9AT

11 October 1988

Dear Home Secretary,

PAY OF CHIEF POLICE OFFICERS

Thank you for your letter of 6 October about the pay of Chief Police Officers.

I welcome your decision to cut back the unrealistically high pay award for Chief Officers agreed in the Police Negotiating Board (PNB), and to impose an 8½ per cent increase in line with that received by lower ranks. If you consider this to be appropriate in England and Wales it cannot be right to treat Chief Officers in Scotland and Northern Ireland differently, so I trust that Malcolm Rifkind and Tom King will feel able to support you.

You asked for my advice on the line to take on national economic and pay policy aspects when you come to explain your decision to the PNB. You will want to emphasise our absolute determination to resist excessive pay awards which reduce the rate at which we are able to bring down unemployment. My officials will contact yours about detailed briefing, but there is a lot of useful material in the speaking notes which Norman Fowler circulated with his letter to Nigel on 28 August. The key point is that for the generality of public servants pay is determined by what is required for recruitment and retention within what can be afforded. For the police these criteria have been largely suspended in favour of the uniquely favourable form of comparability enshrined in the Edmund-Davies formula. Chief Officers have been given an increase in line with their men. This is generous by comparison with the 5.4 per cent received by the Commissioner of the Metropolitan Police whose pay is based on the recommendations of the TSRB.

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There is no recruitment and retention problem for Chief Officers, and there must be limits on what can be given to them on the basis of comparability. Excessive pay increases, particularly for the senior ranks, are bound to raise expectations first of the lower ranks of the police, but also elsewhere in the public service and in the economy as a whole.

Lastly, although Chief Officers may argue that they are not well paid considering their responsibilities, they will have benefited substantially from the last budget and we must take this into account when deciding what pay increases are appropriate.

I am copying this to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and to Sir Robin Butler.

Yours sincerely,

P. Wainless

PP JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence.]



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QU

01 211 6402

CH/EXCHEQUER	
REC.	11 OCT 1988
ACTION	CST
COPIES TO	

11/10

py

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

11 October 1988

Dear John,

UDM PAY

Thank you for your letter of 5 October.

The meeting between the Corporation and the UDM on 5 October went much as expected; the UDM presented a wide ranging and rather diffuse claim seeking a pay increase of something above the current level of inflation and a long list of proposed improvements in other benefits and allowances. But the Corporation made clear that meeting such a package was out of the question and requested the union to make a more specific claim identifying their priorities. A date for a further meeting was not set but it is likely to be within the next two weeks.

I have asked my officials to liaise closely with the Corporation on the handling of this claim and I shall continue to keep you in touch with developments.

I am copying this letter to the Prime Minister, Members of E(PSP) and Sir Robin Butler.

James East,
Cecil Parkinson

CECIL PARKINSON

2.

Agreement was reached on the one issue outside the review of police allowances. London weighting is to be increased by 7%, from £1,017 to £1,089 a year, with effect from 1 July 1988. In the light of London weighting settlements in previous years, where the allowance was increased by only 0.25% - 0.50% less than the pay settlement, and London weighting settlements elsewhere (over 14% in the Civil Service), the Official Side did well to get agreement at this low figure.

Copies of this letter go to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and Sir Robin Butler.

Yours truly,
A. J. G. G. G.
(approved by the
Head Secretary in
signed in his
absence)

mpw



FROM: MISS M P WALLACE
DATE: 17 October 1988

PS/CHIEF SECRETARY

cc Paymaster General
Sir P Middleton
Mr Anson
Dame A Mueller
Mr Phillips
Mrs Case
Mr C W Kelly
Mr Turnbull
Mr Revolta
Mr J de Berker

POLICE PAY REVIEW

The Chancellor has seen a copy of the Home Secretary's letter of 11 October. He notes in particular the Home Secretary's comment that a deal on replacing London allowance could be made "if agreement can be reached on increasing the level of the new allowance". He wonders how big an increase is envisaged, and if replacement on this basis is justifiable and acceptable.

mpw

MISS MOIRA WALLACE



M

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CH/EXCHEQUER	
REC.	18 OCT 1988
ACTION	CST
COPIES TO	

- 18/b

CONFIDENTIAL

The Right Hon Douglas Hurd CBE MP
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

18 October 1988

Dear Douglas,

PAY OF CHIEF POLICE OFFICERS

Thank you for copying to me your letter of 6 October to John Major about the above matter.

While there seems little doubt that our decision will be badly received by the Staff Side, I agree with your conclusion that we should veto the PNB agreement reached on 27 September and instead impose an 8½% increase for all ACPO ranks.

I also agree that it would be desirable for you to meet the various parties to explain the reasons for our decision. In view of the fact that their delegation will almost certainly include an ACPO(S) representative, I think that it would be desirable for either James Douglas-Hamilton or I to join you for the meeting with the Staff Side. Perhaps your office could liaise with mine about the arrangements. I think it is less essential for the Scottish Office to be represented at the meetings with the Official Side and the Independent Chairman especially if they are not held on the same day as that with the Staff Side.

I am copying this letter to the Prime Minister, John Major, other members of E(PSP), Tom King and to Sir Robin Butler.

*Yours ever,
Malcolm Rifkind*

MALCOLM RIFKIND



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

BF 24/10
25/10
27/10

CH/EXCHEQUER	
REC.	21 OCT 1988
ACTION	CST
COPIES TO	

✓ 21/10

CONFIDENTIAL

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

21 October 1988

UDM PAY

I undertook in my letter of 5 October to keep you informed of developments.

The Corporation met the UDM on 18 October. The union had asked for an increase on wage rates of 1% above the October RPI. They also sought a range of improvements in other benefits and allowances including retirement at 55 on terms equivalent to the RMPS; salaried staff status for their membership (with equivalent benefits) and improved holiday entitlements. As against these demands the UDM offered to drop fixed holidays at all pits they represent. The Corporation have costed the total package at some £300m pa.

As indicated in my letter of 30 September the Corporation offered a two year deal based on the September RPI. The UDM were given the choice of taking the total sum represented by a 5.9% increase on the wage bill of its members as a straight increase on grade rates or as a lesser increase plus some of the less expensive items on their shopping list. I understand the UDM were willing to negotiate on this basis and discussion focused on grade protection (for highly paid employees such as face workers temporarily transferred for health or other reasons to lower paid jobs elsewhere) plus increases on night and standard incentive rates. The same formula would apply in the second year, which would be based on the September 1989 RPI.

Against this offer must be set the effect of UDM's holiday concession for which the Corporation have been pressing for some



CONFIDENTIAL

time. This is valuable not only for the potential it offers for further improvements in productivity in Nottinghamshire but also for the precedent established for seeking this change in the other coal fields.

You will also be interested to know that Bob Haslam has told me the Corporation intend to offer the UDM negotiating rights for the Margam development. No action on this is being taken for the time being; it is being held back as a potential inducement to clinch the pay deal.

I shall continue to keep you in touch with developments.

I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robin Butler.

*Yours
Cecil*

CECIL PARKINSON

mp

discussed but not seen i doft.

FROM: J GRAHAM
DATE: 24 October 1988

- 1. ~~MR KELLY~~
- 2. PS/CHIEF SECRETARY

- cc PS/Chancellor
- PS/Sir P Middleton
- PS/Dame Anne Mueller
- Mr Phillips
- Miss Peirson
- Mr White
- Ms Seaman o/r
- Mr Sharrett
- Mrs Wiseman

SALARY OF C&AG

- 1. You asked this morning for a brief which I attach on the C&AG's salary for a meeting tomorrow when the Prime Minister is meeting Sir Peter Hordern and others to discuss the pay for the C&AG(NI) as well as that for the C&AG.
- 2. The attached has been cleared with ST.

Ch/you might just like to be aware that this old chestnut is being raised again.

JG

Briefing requested at
ENC v. shar notice by No 10

J GRAHAM

CST has had a look and thinks it OK, so it has been sent across to No 10 on that basis. But any comment you may have can be passed by phone tomorrow.

OK (this one would worry!)

mp

PAC FOURTH REPORT: SALARY OF THE COMPTROLLER AND AUDITOR GENERAL

Line to Take

1. We see no case for increasing the salary of the C&AG^{Jim} that of departmental Permanent Secretary to that of Permanent Secretary to the Treasury. Would involve an increase of £11,250 or 16½ per cent. Proposal considered in detail many time before when the Prime Minister has rejected it. See no difference on the pay side this time round. No difficulties in finding suitable successor to Sir Gordon Downey. Nor would it be right to change the basis for determining the C&AG's salary as the Commission suggest. TSRB now reviewing salaries in senior open structure and any changes to Permanent Secretary salaries will apply as usual to C&AG.

Background (see briefing on C&AG(NI))

2. The Exchequer and Audit Departments Act 1957 (extract at Annex A) provides that the Comptroller and Auditor General should be paid the same salary as if he were employed in the Civil Service in such appointments as the House of Commons may by resolution from time to time determine. The Act made clear that in the period before the first of any such resolution the C&AG's salary should be that of a Permanent Secretary. There has been no agreed resolution so the C&AG's salary remains tied to that of a Permanent Secretary.

3. The C&AG's salary is paid for from the Consolidated Fund rather than included in the NAO Estimates. The Commission, who approve the NAO Estimate, do not have authority over it.

4. Earlier PAC reports recommended that the C&AG's salary should be increased from the rate of a Permanent Secretary (currently £68,500) to that for the Permanent Secretary of the Treasury (currently £79,750). The Commission's main arguments were:

- (a) that the enhanced role of the C&AG following the National Audit Act justifies such an elevation;
- (b) that an increase is needed to provide headroom for the Deputy C&AG and the Assistant Auditor Generals; and
- (c) that a higher salary is needed to attract future C&AGs.

5. The proposals to link the C&AG's pay with that of the Permanent Secretary to the Treasury have been rejected by the Prime Minister in 1984, 1985 and again in 1986 (annex B).

6. In their Fourth Report, the Commission raise again the arguments at paras 3(b) and (c) and suggest new legislation to give the Commission power to determine the C&AG's salary.

7. On the arguments put forward by the Commission, there is no case for an increase in the C&AG's salary. The National Audit Act did not significantly alter the quality of the C&AG's workload. Merit pay is available to the deputy C&AG and assistant Auditor Generals, while maintaining adequate differentials. In their latest report the TSRB made no mention of a C&AG's salary. More importantly the existing salary has not affected the selection of a suitable successor to Sir Gordon Downey and in the light of this, there is not reason necessarily to suppose it would present a difficulty in the future. If it did, it could be addressed at the time.

8. As for the suggestion to let the Commission determine the C&AG's salary it would be wrong to do so when there is such a difference of view between the Government and the Commission on the appropriate salary for C&AG. Moreover, it is now established that the C&AG's salary is determined jointly between the Government and the House.

24 October 1988

EXTRACT FROM EXCHEQUER AND AUDIT DEPARTMENTS ACT
1957, AS AMENDED BY PARLIAMENTARY AND OTHER
PENSIONS AND SALARIES ACT 1976.

1.--(1) There shall be paid to the holder of the office of Comptroller and Auditor General the same salary as if he were employed in the civil service of the State in such appointment as the House of Commons may by resolution from time to time determine; and a resolution under this subsection may take effect from the date on which it is passed or from such other date as may be specified in the resolution. Salary of Comptroller.

(2) In relation to any time before the first resolution under subsection (1) above takes effect, the salary payable to the holder of the office of Comptroller and Auditor General shall be the same salary as if he were employed in the civil service of the State as a Permanent Secretary.]

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Annex B

10 DOWNING STREET

From the Principal Private Secretary

155	2 JUL 1984
Mr. Roper	
Mr. Butler	
Mr. Hadden	
Mr. Kemp	Mr. Walker
23 July, 1984.	
Mr. Carter	

Dear John,

Public Accounts Commission: Second Report

The Prime Minister has seen the Chief Secretary's minute of 19 July about the conclusions of this report on the salary of the Comptroller and Auditor General.

The Prime Minister does not think that it is right on merits to put the salary of the present C&AG on a par with the salary of the Secretary to the Cabinet and the Permanent Secretary to the Treasury. She also thinks that it would be a mistake for a resolution on this matter to be debated between now and the Recess. She understands that the Chairman of the Public Accounts Commission wants a debate on the report, and that the Business Managers are planning to arrange such a debate on the first Friday of the overspill. She concludes therefore that the Government should not put down a resolution before the Recess, but Mr. du Cann should be told that there will be an opportunity to discuss the question of the C&AG's salary in the debate which the Business Managers are arranging.

I am sending copies of this letter to David Peretz (HM Treasury), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

John Gieve, Esq.,
HM Treasury.

CONFIDENTIAL



10 DOWNING STREET
CHIEF SECRETARY

THE PRIME MINISTER

REC.	-7 AUG 1985
ACTION	Mr Corcoran
COPIES TO	MS, MST, Mr. Barber, Mr. Hillery Mr. Barley, Mr. Kenny Mr. Judd, Mr. Watson Mr. Gilhooly, Mr. Poff, Davis

7 August 1985

Year Edward

*Mr. Rayner
Mr. Woodall*

Thank you for your letter of 24 July in which you conveyed the views of the Public Accounts Commission about the salary of the Comptroller and Auditor General. We could not meet to discuss this matter owing to the summer holidays and I therefore agreed to send you this letter.

As the Commission recognise, following our decisions on the main TSRB report, the effective choice on the Comptroller and Auditor General's salary under present legislation is to make a new link with the Permanent Secretary to the Treasury or to maintain the present link with Permanent Secretary. I believe that to make the link to any intermediate point would require, not just a Resolution, but Primary legislation.

I have thought very carefully about what you say about linking the Comptroller and Auditor General with the Permanent Secretary to the Treasury. However, the TSRB did not recommend such a link and, in view of that and our decision on the proposed salary level 3, I do not think this would be appropriate. If such a link were established, the salary of the Comptroller and Auditor General would be raised by 54 per cent, compared with 32 per cent if the link is with Permanent Secretary. I am conscious of the desire of the Commission to ensure that there is adequate headroom to allow other salary changes in the NAO but the rise of £14,500 a year for the Comptroller and Auditor General, which follows

the link with Permanent Secretary pay, will clearly help a great deal for this purpose. The gap between the salary of an Assistant Auditor General and that of the Comptroller and Auditor General would widen from around £14,000 to £26,000, which should allow considerable room for performance related pay initiatives. I doubt whether, in advance of the TSRB report, the Commission were counting on a larger increase than this.

I am afraid I come back, therefore, to the view I set out in my letter of 18 July, and I hope that on reflection the Commission will agree. If, however, this does not prove possible I will be happy to discuss the issue with you. *Perhaps*

You would let me know how you and your colleagues feel.

Yours

Raymond

The Rt. Hon. Sir Edward du Cann, K.B.E., M.P.



Annex B (cont) 2

10 DOWNING STREET

THE PRIME MINISTER

23 July 1986

Dear Edward,

Thank you for your letter of 1 July.

I agree with you that the National Audit Office has made good progress in developing value for money audits. The Comptroller and his staff are to be congratulated for the work that they have done. The Government continues to attach great importance to the pursuit of value for money and would wish the NAO to continue to make this a high priority.

The Commission have repeated the conclusion in their previous report that the Government should take steps to align the salary of the C & AG with that of the Permanent Secretary to the Treasury. We have, of course, discussed this before, but I have to say that I remain unconvinced of the case for a change.

I quite understand the importance of maintaining adequate differentials in order to reward effort and provide room for performance pay, and that the salary of the C & AG is the anchor of the NAO's pay system. Over the last twelve months the C & AG's salary, which is linked to a departmental Permanent Secretary, has been increased from £45,500 to £62,100, which is a 36 per cent increase. As the Commission's report acknowledges, this provided sufficient headroom to introduce performance related pay for Assistant Auditor-Generals, the third most senior grade. In the nature of things, differentials between grades will be affected for

groups becoming eligible for performance related pay and there is surely no cause for alarm in that.

The Government recognises and appreciates the valuable work being done by the C & AG but this does not necessarily mean that he should be paid the same as the Permanent Secretary to the Treasury. In overall job weight terms I have no doubt that the C & AG position is not as heavily loaded as that of Permanent Secretary to the Treasury.

As I said in my letter of 18 June 1985, the position could be reconsidered if, at some future date, it was decided to recruit a Comptroller and Auditor General from outside the Civil Service and the need then arose to pay the right candidate a higher salary on a personal basis. However, for the moment the Government does not intend to ask the House to alter the present position.

I am content for you to circulate this reply to your fellow Commissioners. I am sending a copy to John Biffen.

Yours
Raymond

CONFIDENTIAL

FROM: J De BERKER
DATE: 25 OCTOBER 1988

1. MR KELLY ^{26.10}
2. CHIEF SECRETARY

cc Chancellor
Sir Peter Middleton
Dame Anne Mueller
Mr Anson
Mr Phillips
Mrs Case
Mr Turnbull
Ms Seammens o/r
Mr Revolta
Mr A M White
Mr Potter
Mr Brook
Mr Call

POLICE PAY REVIEW

Mr Hurd's letter of 11 October reports the outcome of the meeting Police Negotiating Board (PNB) on 29 September. The main points are:

- (i) Rent Allowance will go arbitration and there now seems a reasonable chance of getting the result in time for the new arrangements to be introduced before April 1989. You will want to welcome this, and to reiterate the importance of being in a position to impose the rent allowance package envisaged by E(PSP) for the whole country by that date.
- (ii) There is some prospect that the two sides of the PNB may agree to transform the London Allowance of £1,011 per annum paid to all members of the Metropolitan Police into a retention allowance paid only to experienced officers. But the allowance would have to be increased, it has been frozen since 1982, and the additional cost would be about 4 million pounds in a full year. You will want to reject this. The

papers for E(PSP) were on a nil cost basis and if it is not possible to reform London Allowances along these lines it should remain frozen at its original level.

- (iii) As well as getting a London Allowance police in London also get London Weighting. It was agreed that London weighting should be increased by 7 per cent from £1,017 to £1,099 per annum with effect from 1 July 1988. Mr Hurd points out that this is significantly less than the pay settlement, and considerably less than the increase in London weighting for the civil service. You may wish to remind Mr Hurd that an 8½ per cent general pay increase leave plenty of scope for a more modest London weighting settlement.

Rent Allowance

2. This was discussed in my submission of 22 September. The key points are that: imposing new arrangements before the arbitration results are available opens Ministers to the risk of judicial review, and secondly, if new arrangements can be introduced for the whole country in April 1989 we will be able to avoid the rent reviews due next year. On past form, rent reviews would increase the rent allowance substantially, and consequently the amount which would be recycled into its replacement. The news that the arbitration results will be available before April 1989 is therefore very welcome.

3. At the moment there are only two likely arbitration references, rent allowance and reimbursement of NHS Charges with rent allowance ahead of NHS charges. The next stage on rent allowance is for both sides to prepare their cases. We understand that the cases will probably reach the arbitrators at the end of November or early December.

London Allowance

4. The papers for E(PSP) envisaged that this should be transformed into a retention allowance at nil cost although Mr Hurd did enter a reservation it might be worth putting extra money into the proposal. Ministers have not discussed the proposal - it has always been a minor item in the list of changes that have been sought - but we advised you to go along with it as long as it did not entail additional expenditure.

5. Mr Hurd's letter does not specify how much extra money would have to be put in to get a deal but his officials speculate that it could be as much as £4 million in a full year. Since we are looking for savings in police allowances rather than increases this is not acceptable.

6. The benefits of transforming London allowance into a retention allowance have always been dubious in our view. We are not convinced that there is a serious retention problem for experienced officers - net transfers from the Metropolitan police to other forces in 1987 were about 1.3 per cent - and under the original nil cost proposals officers with five or more years service would eventually have been paid another £440 a year. We do not think that this would discourage them from asking for a transfer. Balanced against this officers with less than five years service would receive £1,011 a year less so it would be surprising if there was not some increase in their wastage. So it is arguable that if the proposal was implemented there might be a net increase in overall wastage in the metropolitan police.

London Weighting

7. Mr Hurd compares the 7 per cent increase in London Weighting for the police favourably with 14 per cent for the Civil Service this year. But in recent years the police have generally received

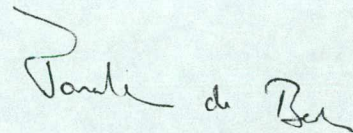
a large increase in their London Weighting than civil servants - 1988 is the first time since 1984 that civil servants did better - and the police have also had consistently better pay settlements under the Edmund-Davies formula.

Conclusion

8. We do not think that at this stage Mr Hurd will contest the line we have advised you to take on rent allowance and London weighting although he may want to argue about the rent allowance package when the arbitration results are available and we are faced with imposition. But he may well want to come back to you on London Allowance before the PNB meets to discuss it on 14 November - although there are no recruitment and retention grounds for increasing expenditure to turn it into a retention allowance.

9. A draft letter is attached.

10. HE are content.



J De BERKER

CONFIDENTIAL

DRAFT LETTER

FROM CHIEF SECRETARY
TO MR HURD

cc Prime Minister
Other Members of E(PSP)
Malcolm Rifkind
Tom King
Sir Robin Butler

POLICE PAY REVIEW

Thank you for your letter of 11 October about the meeting of the Police Negotiating Board (PNB) on 29 September. I am glad that there now seem to be reasonable prospects of getting an arbitration award in time for the new rent allowance arrangements to be introduced before 1 April 1989. It is essential that we are in a position to impose the rent allowance package we agreed in E(PSP) for the whole country by that date.

The papers for E(PSP) on London Allowance were on a nil cost basis. I cannot accept that there should be any additional cost. We are looking for savings in the bill for police pay and allowances. It may be possible to absorb the increase within the Metropolitan Police's cash limit this year, but it is still an increase in expenditure, and it will also increase expenditure in the future. If it is not possible to reform the London allowance on a zero cost basis I suggest we leave it frozen at its current level.

Lastly, a London weighting a settlement lower than the general increase in police pay is obviously welcome. ~~But~~ A general increase in Police pay as high as 8½ per cent obviously leaves a lot of scope for this.

I am copying this to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King, and Sir Robin Butler.

MP

CONFIDENTIAL

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

CH/EXCHEQUER	
REC.	28 OCT 1988
ACTION	CST
COPIES TO	

✓ 28/10

Direct line 215 5147
Our ref
Your ref
Date 27 October 1988

Dear Chief Secretary,

POST OFFICE REGIONAL PAY

Thank you for your letter of 21 October.

You agreed with me that I should press the Post Office to relate the payments to the severity of problems locally rather than regions and that they should be able to end the supplements if the problems cease. The Post Office has now responded that the supplements should be determined on a district office rather than a "regional" basis using the criterion of "avoidable" wastage over 15%, coupled with a cross reference to local employment levels over 5.5%. I believe your officials understand the reasons for choosing these figures. The payments will not be consolidated and there will be an explicit review provision in the agreement to allow for withdrawal of the supplements when the criteria are not met in future.

As you recognise, I have been concerned to ensure as far as possible that the supplements should not result in any net additional cost. I asked Sir Bryan Nicholson to come in to see me again this morning so that I could press him once again on this.



the department for Enterprise

Before setting out his proposals, I should make the general point that better staffing and improved local handling in the South East would enable the Post Office to deliver a better service in the area with the highest growth potential in the country. This should lead to a growth in traffic whereas a poor service would further depress the rate of growth. The payment of the supplement should therefore lead to increased efficiency. This should give the Post Office every opportunity to keep down its total wage bill.

As regards paying for the supplement, you are of course quite right to point out that the Post Office proposal for the current financial year of using the £10m savings intended for the New Year stamp book discount would not then make good part of the RUC shortfall. Indeed it would probably increase the shortfall. To some extent the point is probably academic because the new supplement could not now be introduced as early as 1 November. But the fact remains, as I pointed out in my previous letter, that it would be a benefit for the private user only, not businesses who were also adversely affected by the recent industrial action. More importantly, however, there seems no other sensible way of finding such a sum at this stage of the financial year. To press the Post Office to do so would merely mean delaying plans until next year with a consequent increase in costs and a possible reduction in revenue. I could of course ask you to agree to a relaxation in their EFL but I doubt that you would wish to countenance this. I am in any event convinced that to establish a precedent for differentiating pay on the basis of the severity of local wastage and recruitment problems would be a better use of this money in the long term than benefiting the private user through a temporary offer on prices.

In subsequent years, the Post Office would expect to reduce recruitment costs by £3m and intends to set the managers specific targets to produce additional cost savings amounting to £21m to offset fully the cost of the pay supplements. If there is any shortfall in the targeted savings this will be taken into account fully in the next pay round (due to come into effect for Letters from September 1989). For my part I have it in mind to reinforce this by getting Sir Bryan to set performance bonus targets for the Directors of Royal Mail Letters and Personnel that require them to achieve these savings. I also intend that Sir Bryan himself should have a similar target.

You comment that you understand that the Post Office have said they wish to concede generally high pay increases in order to match earnings in the wider economy. I too am concerned about this although Sir Bryan Nicholson has not yet put any specific proposals to me. I do not expect him to put pay proposals to me

TN9AAA



the department for Enterprise

until we come to discuss the next round of Post Office targets at the beginning of 1989. The issue will of course also surface in the next Corporate Plan, due to be submitted next March. I can assure you that I will at that time wish to scrutinise any proposals very carefully indeed. I hope you will agree that we should tackle the issue then rather than try to address it, somewhat prematurely, in the present context.

Underlying these issues, there is frankly a basic political point which I hope you will consider carefully. The Post Office management secured a considerable victory in ending the recent industrial action by Royal Mail employees. The union effectively had to concede that they would discuss with management an alternative arrangement for implementing differential pay and that in the meantime the DRAS payments would continue. There was little or no public sympathy for the strike action.

The offer of talks on a DRAS replacement was offered by management at the outset of the dispute. As I explained in my previous letter, this potentially gives the management a very real prize: the opportunity to negotiate a regional pay proposal in a nationalised industry on its own terms. Moreover, for the management not to present any such proposals at this stage would give the union every opportunity to make up some of the ground they lost in the dispute. Perhaps most significantly they would have won back the initiative. Sir Bryan has told me he would find it hard to rebut charges that management had misled the union. He also feels that public support would rapidly disappear. I believe he is right in this and that, if the union were to commence further industrial action, particularly in the run up to Christmas, the management would be on very weak ground indeed.

I hope you will now be prepared to agree to my allowing Sir Bryan to put his proposals to the union. The next negotiating meeting is on Monday 31 October. I should therefore be grateful for an urgent response to this letter.

I am sending copies of this letter to the Prime Minister, members of E(PSP) and Sir Robin Butler.

Yours sincerely,

Peter Smith

PP TONY NEWTON

*(Approved by the Chancellor
and signed in his absence)*

TN9AAA

FROM: PETER PATTERSON
DATE: 1 NOVEMBER 1988

MR HIBBERD
MS SEAMMEN
MR HUDSON

cc Mr Odling-Smee
Mr Sedgwick
Mr Pickford

LINE TO TAKE ON EARNINGS FIGURES

I have been asked by DE to co-ordinate Treasury comments on the briefing line on earnings. The attached letter from Mark Adams suggests that there will be a further rise in the underlying earnings figure for September, to be published on November 17. Mr Fowler will as usual wish to say something on earnings, and this gives us an opportunity to influence his statement.

2. The attached speech (pages 2 and 3) contains Mr Fowler's last words on this subject, which can be summarised as follows:

- pay is matter for employer and employee
- settlements rising faster than is good for longer term job prospects
- but should not be too alarmist about the figures, because of special factors (nurses' pay) and performance-related aspects
- Government will maintain firm policy to provide favourable climate for businesses to plan, etc.

3. I do not think there is much need to amend this, other than to bring out more fully the economic background presented in the Autumn Statement. However if you or copy recipients have any further comments or suggestions I should be grateful if you could send them to me by close on Thursday 3 November if at all possible.

1. Alex

2. C

Any views on the proposed line? I would suggest
(a) more stress on settlements, not earnings;
(b) a mention of the TPI;
(c) and more on performance-related pay.

Peter Patterson

P L PATTERSON
EB Division

EMRU

EMPLOYMENT MARKET RESEARCH UNIT

Department of Employment, Caxton House, Tothill Street, London SW1H 9NF

Telephone: 01-213

Mr P Patterson
Room 98/2
H M Treasury
Parliament Street

26 October 1988

Dear Mr Patterson

I agreed to send you a copy of our Secretary of State's speech made after the July average earnings figures were announced (on September 15).

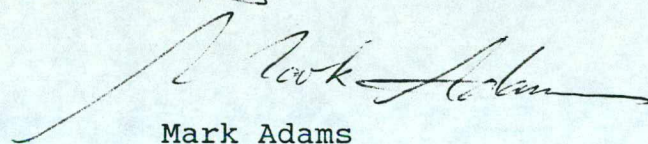
The average earnings and RPI figures to be announced in November will be worse. In addition the RPI figure will form the basis of the second stage of the Ford deal.

Our Secretary of State's response will probably be similar to that outlined in the enclosed speech. But a change of emphasis even if not of content may be desirable.

Could you please let me have any comments as soon as possible. You may wish to collect views from colleagues in EA1 and in Pay Division.

I am copying this letter to Jon Stern in EMRU

Yours Sincerely



Mark Adams

VISIT BY SECRETARY OF STATE TO GENZYME (UK) LTD: 16 SEPTEMBER

OPENING ADDRESS

Dr Cox, Ladies and Gentlemen,

Delighted to be here today to have the opportunity of officially opening Genzyme's new Pharmaceutical Chemical Facility.

Fully aware of the importance of this new plant to the continuing success of Genzyme. Understand that it will enable Genzyme to utilise new technology in the field of enzymatic syntheses. This represents a major investment by an American company in the United Kingdom.

Want to take this opportunity to acknowledge and welcome the vital contribution by the many overseas companies of quality, who have chosen to invest in this country. Investment from overseas is a potent sign of returning confidence in our growing economy.

And make no mistake, the British economy is now very strong. UK has grown faster than all the other major European Community countries since 1980. Manufacturing output is at an all-time high. Production, investment and exports are all forging ahead.

Meanwhile unemployment continues to fall dramatically. It has now declined for 25 months running and over the past year faster than in any other major industrial country. Since 1983 we have created over 1.8 million jobs for employees and the self-employed. All this bears witness to a powerful economy based on sound policies.

These trends also reveal a long-term improvement in our ability to supply goods and services. But there is no room for complacency.

Average earnings have been increasing at an unhealthy rate for some time past. Figures published yesterday show the increase getting bigger still. Over the economy as a whole average earnings are now rising at 9% a year. That must sound a warning to everyone who has a responsibility for pay. By that I mean, basically, employers and employees in their individual enterprises. Government of course has a vital role in setting a firm economic framework; in removing hindrances to business; and in encouraging competition. But within that framework, decisions on pay, as on other matters, rest with those who run each business and work for it.

There is a positive side to this rapid growth of earnings. It reflects our continuing economic growth and record productivity in manufacturing which have led to high overtime and bonus payments. But basic pay settlements are often too high. And comparisons with our major overseas competitors give rise to concern. In Japan, Germany and the USA earnings growth in manufacturing is in the range around 3% to 5%. In fact the only European countries with higher figures than our own are Norway, Portugal and Greece.

Excessive pay settlements and earnings are of course bound to feed into unit wage costs. Despite our impressive current record in productivity growth, we are seeing some rise in our unit wage costs at a time when key competitors abroad are securing actual reductions in theirs. That poses a threat to our competitiveness as a nation and to prospects for jobs - particularly if productivity growth slows down.

In fact, employment prospects will only be sustained by moderation in wage increase and greater flexibility in pay bargaining arrangements. In other words, realism about what can be afforded, and what is required to improve competitiveness, rather than the time-honoured practice of simply following a "going rate".

I said a moment ago that the Government's role is to set a firm economic framework. The long-term control of inflation remains a priority. That is why interest rates have been put up - to temper the exceptional strength of consumer demand. Despite the short-term impact on mortgages and the Retail Price Index, the effect is to maintain the downwards pressure on inflation that provides the conditions for further output growth.

And it is important to remember that unjustified pay increases, which are within industry's control, are potentially much more damaging than rises in interest rates. In fact, it has been calculated that each 1% extra on pay costs industry three times as much as 1% more on the cost of borrowing, even if that were maintained for a whole year.

Another key to Britain's continued economic success is the fundamental change for the better in our industrial relations. The clearest indication of this is the record on strikes. In the 1970s we lost an average of 13 million working days a year through strikes. The figure for the 12 months up to July this year is 2.2 million. And the number of strikes over the past three years at around a thousand a year is the lowest since 1940.

Against that background, we can only be saddened when completely unnecessary strikes continue to break out and are prolonged. The postal workers dispute is an obvious case in point. Quite apart from the inconvenience to the general public, it will have cost businesses - especially small businesses - millions of pounds in lost orders and delays, for no good reason. The lengthy dispute between P and O Ferries and the seamen's union last spring was also highly expensive and similarly unnecessary.

Those sort of episodes mar the enormous improvement in industrial relations which could not have been achieved without our programme of trade union law reform. The country has turned its back decisively on the sort of industrial anarchy which reached its culmination in the Winter of Discontent in 1978 and early 1979. It was strike action of that kind which reduced industrial output and exported British jobs overseas. The decline in the number of days lost because of strikes is a key element in our new found economic strength. The changes we have made since 1979 have made an undoubted and real contribution to that.

Dr Cox, I hope I have said enough - without speaking for too long
- to show how the Government is fulfilling its proper role in
creating the conditions for businesses like yours to achieve the
progress and expansion you clearly desire. I wish you all every
success and on that note it gives me great pleasure to declare
your new facility open [unveils plaque].



FROM: A P HUDSON

DATE: 2 November 1988

- 1. MR A C S ALLAN
- 2. CHANCELLOR

Agreed.
M. F. 8/5
govt for the 9% (a slash)
at all: if it's in the way of
the country or can be
done better

LINE TO TAKE ON EARNINGS FIGURES

Please see the attached note from Peter Patterson, and the proposed line for Mr Fowler.

2. Any views at this stage? I would suggest

- (a) more stress on settlements, not earnings;
- (b) a mention of the TPI;
- (c) and more on performance-related pay.

(The CBI have
compared this with
he said was
be alarming

3. At some stage, fairly shortly, it might be worth repeating another, more complicated line you have used in the past: that excessive pay increases injecting inflationary pressures in to the economy which have to be neutralised through higher interest rates, and hence that higher pay increases put upward pressure on interest rates. Clearly the words have to be chosen with care. I don't suggest we give this to Mr Fowler. But you might deploy it, for example, when you address the CBI Council on 23 November. I suggest we discuss this, along with other speeches, early next week.

✓ |

APH

A P HUDSON

A man in his 50s
who puts up
with the rate &
the RPI is not
by choice.

CONFIDENTIAL



cc:
 Chancellor
 Sir Peter Middleton
 Dame Anne Mueller
 Mr Anson
 Mr H Phillips
 Mrs Case
 Mr Turnbull
 Ms Seammen
 Mr C W Kelly
 Mr de Berker
 Mr Revolta
 Mr A M White
 Mr Potter
 Mr Brook
 Mr Call

Treasury Chambers, Parliament Street, SW1P

The Rt Hon Douglas Hurd CBE MP
 Home Secretary
 Home Office
 50 Queen Anne's Gate
 London
 SW1H 9AT

MP

2 November 1988

Dear Home Secretary,
 POLICE PAY REVIEW

Thank you for your letter of 11 October about the meeting of the Police Negotiating Board (PNB) on 29 September. I am glad that there now seems to be reasonable prospects of getting an arbitration award in time for the new rent allowance arrangements to be introduced before 1 April 1989. It is essential that we are in a position to impose the rent allowance package we agreed in E(PSP) for the whole country by that date.

The papers for E(PSP) on London Allowance were clearly on a nil cost basis. I cannot agree that there should be any additional cost. We are looking for savings in the bill for police pay and allowances. It may be possible to absorb the increase within the Metropolitan Police cash limit this year, but it is still an increase in expenditure, and it will also increase expenditure in the future. If it is not possible to reform the London allowance on a zero cost basis I suggest we leave it frozen at its current level.

Lastly, on London weighting a settlement lower than the general increase in police pay is obviously welcome. A general increase in police pay as high as 8½ per cent obviously leaves a lot of scope for this.

I am copying this letter to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King, and Sir Robin Butler.

Yours sincerely,
P. Walker

PP JOHN MAJOR

[Approved by the Chief Secretary and signed on his behalf.]



FROM: A P HUDSON
DATE: 3 November 1988

Handwritten signature

MR PATTERSON

cc Mr Odling-Smee
Mr Sedgwick
Mr Pickford
Mr Hibberd
Ms Seammen

LINE TO TAKE ON EARNINGS FIGURES

Thank you for your 1 November minute. I have shown this to the Chancellor.

2. On Mr Fowler's earlier statement (attached to Mr Adams' 26 October letter), the Chancellor thinks there should be more stress on settlements, not earnings; a mention of the TPI; and more on performance-related pay.

3. More generally, he thinks Mr Fowler should avoid quoting the figure for earnings growth - 9 per cent, in his last statement - at all. If it has any effect, it can only be counter-productive, and the CBI have complained about this in the past. Moreover, Mr Fowler should not be alarmist. A run on the £, which put up interest rates and the RPI, would not be a clever outcome. So phrases like "an unhealthy rate", and the international comparison, are best avoided.

Handwritten signature

A P HUDSON



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I have asked for
ppp

QUEEN ANNE'S GATE LONDON SW1H 9AT

7 November 1988

BF 11/11

14/11
15/11
18/11
ppp

Dear John,

POLICE PAY REVIEW

In my letter of 11 October, summarising where we had got to on the Police Negotiating Board's review of police allowances, I said that there was some prospect of achieving agreement on the Official Side's proposal that the existing London allowance should be replaced by a retention allowance, payable only to officers with 5 years' service or more in one of the London forces, provided that a suitable level for the new allowance could be negotiated.

Since then a number of developments have caused me to reconsider this. First, there has been an encouraging drop this year in the number of experienced officers transferring from the Metropolitan Police to other forces. This is due more to the Commissioner's success in persuading provincial chief constables to stop poaching his officers than to a fall in the number of officers wishing to leave the force but it has eased the retention problem to some extent.

Secondly, it is doubtful whether a retention allowance set at a level which could be contained within the Metropolitan Police cash limit would have any significant impact on the retention problem. Replacing the London allowance (£1,011) by a retention allowance of some £1,100 would provide very little incentive for experienced officers to stay in the Metropolitan Police.

Thirdly, recruitment could be badly affected by in effect reducing starting salaries by over £1,000. Additionally, the Commissioner has expressed concern about the likely effects on recruitment of the Official Side's proposal that police officers should not be reimbursed the community charge. A typical married officer, paying two community charges and living in outer London is likely to be between a further £400 and £600 worse off but in some of the inner London boroughs such an officer could be a further £1,000 worse off.

/Finally, the police

The Rt Hon John Major, MP
Chief Secretary

Finally, the police service (like most other occupations) is expected to start having recruitment problems from 1991 onwards as the effects of the fall in the birth-rate during the 1960s are reflected in a substantial fall in the number of school leavers coming in to the employment market. The Metropolitan Police always has more problems than other forces in meeting its recruitment needs. It is therefore likely to be hit particularly hard by the fall in the number of school leavers.

In these circumstances, I believe that the adverse effects on recruitment of abolishing the London allowance could heavily outweigh the benefits which would be likely to arise from introducing a retention allowance at a level which the Metropolitan Police could meet within their existing cash limit.

I therefore agree (though for rather different reasons) with the conclusion in your letter of 2 November and I propose to instruct my officials to seek to persuade the Official Side not to pursue any further their proposals for replacing the existing London allowance with a retention allowance. That will leave outstanding the Staff Side's claim for an 8.5% increase in the London allowance. In terms of undermanning (which was the original reason for introducing the allowance) there is clearly no case for conceding the claim. This is the line which the Official Side have taken consistently since 1981 and there is no reason to believe that they will change it this year. It would, of course, be open to the Staff Side to take the issue to arbitration if their claim was rejected.

I am sending copies of this letter to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and Sir Robin Butler.

Yours,
Douglas.

MP



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-273 5803
Switchboard 01-273 3000 Telex 915564
GTN Code 273 Facsimile 01-273 5124

The Rt Hon John Major MP
Chief Secretary
H M Treasury
Parliament Street
LONDON
SW1P 3AG

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Moore 15

POLICE PAY REVIEW

I was very disappointed to see Douglas Hurd's proposal, in his letter of 7 November, that the PNB Official Side should be pressed to drop the case for moving to a retention allowance for the Metropolitan Police.

The arguments for replacing the existing London allowance were considered by E(PSP) during the summer, when Douglas was arguing for the change as a response to the retention problem which would not adversely affect recruitment. I also support the idea as a means of demonstrating practical Government support for the sort of labour market and pay flexibility that is so central to our continuing economic success. The lessons of the examples we set are not lost on other pay negotiators.

The reasons for not pursuing the suggested change are I believe open to question. To begin with, the easing of the retention problem this year rests on a very unsure foundation, as Douglas explains. As to the level of allowance, it must surely be possible to find the optimum trade-off between retention and recruitment effects. If necessary, other alternatives to the 5 year period could be explored. The plan



not to reimburse community charge applies to all police officers everywhere. The anticipated recruitment problem arising from the coming reduction in numbers of young people will similarly affect all employers; but it can be dealt with flexibly when it really starts to bite.

I should therefore like to see the proposal kept open, in some form or another.

I am copying this letter to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and Sir Robin Butler.

A large, stylized handwritten signature in black ink, appearing to be "John Major".



→ cc PS Ministers
Mr Manley
Mr Whybren
Mr A G Johnson
Miss Diamond
Mr Lightfoot.

COVERING PERSONAL AND CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-273 5803
Switchboard 01-273 3000 Telex 915564
GTN Code 273 Facsimile 01-273 5124

Paul Gray Esq
10 Downing Street
LONDON
SW1A 0AA

16 November 1988

... I enclose our standard revised brief for unit wage and salary costs and productivity, which are to be issued on Thursday. The figures are personal and confidential until 11.30 am Thursday 17 November.

I am copying this to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Mr Hibbert (CSO), Mr Footman (Bank of England), Neil Thornton (DTI), Sir Brian Hayes (DTI), and Andrew Dunlop (No.10 Policy Unit).

for *Grans*
ANGELA WILKINS
Private Secretary

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LABOUR MARKET STATISTICS PRESS NOTICE

NOTES FOR THE PRIME MINISTER

UNIT WAGE AND SALARY COSTS AND PRODUCTIVITY

I enclose revised pages for unit wage and salary costs and productivity for manufacturing industries and the whole economy. The manufacturing industry figures are based on the Index of Production figures released by the CSO at 11.30 am on 15 November 1988.

These figures are personal and confidential until 11.30 am on Thursday 17 November 1988.

M J JANES
STATISTICS A1
DEPARTMENT OF EMPLOYMENT
16 November 1988

Handwritten initials

UNIT WAGE AND SALARY COSTS

In the three months ending September 1988, wages and salaries per unit of output in manufacturing industries were 0.8 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in manufacturing (see Table 10) as there was a rise of about 7 1/2 per cent in productivity over this period (see Table 13).

In the second quarter of 1988 wages and salaries per unit of output in the whole economy were 4.4 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in the whole economy as there was a rise of about 3 3/4 per cent in productivity over this period.

Recent figures are:

TABLE 11: WAGES AND SALARIES PER UNIT OF OUTPUT seasonally adjusted

		Manufacturing		Whole Economy	
		Index 1985 = 100	Percentage increase on a year earlier	Index 1985 = 100	Percentage increase on a year earlier
1986	Q1	104.8	8.3	104.1	6.1
	Q2	104.9	6.6	105.2	6.7
	Q3	104.6	3.8	105.7	4.7
	Q4	103.7	-0.3	107.0	4.6
1987	Q1	106.0	1.1	108.4	4.1
	Q2	104.6	-0.3	109.8	4.4
	Q3	104.7	0.1	110.1	4.2
	Q4	105.7	1.9	112.3	5.0
1988	Q1	106.5	0.5	113.5	4.7
	Q2	107.3	2.6	114.6	4.4
	Q3	105.5	0.8		
1988	Apr	108.1	3.7	..	..
	May	107.0	2.7	..	..
	Jun	106.7	1.1	..	..
	Jul	105.6	0.5	..	..
	Aug	104.8	1.4	..	..
	Sep	106.2	0.5	..	..
3 months ending					
1988	Apr	107.4	2.3	..	..
	May	107.4	2.5	..	..
	Jun	107.3	2.6	..	..
	Jul	106.4	1.4	..	..
	Aug	105.7	1.0	..	..
	Sep	105.5	0.8	..	..

Handwritten red circle around 0.8 with an X next to it.

Handwritten red notes: "but will be made the amount of X & Y."

PRODUCTIVITY

Manufacturing output per head in the three months to September was 3.3 per cent higher than in the three months ending June and 7.4 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the second quarter of 1988 was 0.7 per cent higher than in the previous quarter and 3.8 per cent higher than in the same quarter a year earlier.

Recent figures are:

TABLE 13: OUTPUT PER HEAD seasonally adjusted

		Manufacturing		Whole Economy	
		Index 1985 = 100	Percentage increase on a year earlier	Index 1985 = 100	Percentage increase on a year earlier
1986	Q1	99.9	-0.3	100.8	1.6
	Q2	101.8	0.9	101.8	1.4
	Q3	103.4	3.3	102.9	2.8
	Q4	107.1	8.4	103.5	3.2
1987	Q1	106.4	6.5	103.5	2.7
	Q2	109.9	8.0	104.5	2.7
	Q3	112.0	8.3	106.3	3.3
	Q4	113.7	6.2	106.7	3.1
1988	Q1	114.5	7.6	107.7	4.1
	Q2	116.5	6.0	108.5	3.8
	Q3	120.3	7.4		
1988	Apr	115.8	5.4	..	..
	May	116.7	6.0	..	..
	Jun	117.1	6.7	..	..
	Jul	119.9	7.8	..	..
	Aug	120.9	6.8	..	..
	Sep	120.3	7.7	..	..
3 months ending					
1988	Apr	113.3	4.7	..	..
	May	114.5	5.1	..	..
	Jun	116.5	6.0	..	..
	Jul	117.9	6.9	..	..
	Aug	119.3	7.1	..	..
	Sep	120.3	7.4	..	..

MP

From: C D FORD
Date: 21 November 1988

MISS WALLACE

cc: Mr Riley
Mr Bolton

REAL INCOMES

["Real income higher than ever before throughout the income distribution"]

Positive

DHSS statistics ("Households Below Average Income") show that between 1981 and 1985 incomes of poorest tenth of people rose by 8.3 per cent compared to average for all households of 6.4 per cent real increase (see table attached).

2. 1979 figures (not publicly available) show real increases in each income group over period 1979-1985 (although real incomes did fall for poorest households between 1979 and 1981).

3. Since 1985, real incomes have continued to rise, unemployment has fallen sharply and taxes have been further reduced.

4. Real take home pay of married man on average earnings up by over 30 per cent since 1979 compared to less than 1 per cent between 1973-74 and 1978-79.

5. New Earnings Survey shows that real take home pay up throughout the income distribution. Man with earnings equal to bottom decile of male earnings had real increase of over 6 per cent between April 1979 and April 1988.

6. Real value of supplementary benefit increased between 1979 and 1987. Between 1979 and 1986 total average net incomes of pensioners increased by 23 per cent in real terms.

Reasons for Caution

7. Particular family types (eg bottom 40 per cent of couples without children) may have seen reduction in average real income between 1979 and 1985. Likely that any such reductions have been at least partially offset in recent years as a result of fall in unemployment; however figures to support this hypothesis are not available .

8. CSO will be publishing an article in mid-January which will permit some of the distributional calculations to be carried forward to 1986. We have only just received a draft and have yet to analyse it any detail. Our initial impression is that some of the material will provide additional ammunition for the Government's critics.

CHRIS FORD

Since the Secretary of State for Social Services is addressing the IOD this evening (Wednesday 8 May) some references to the statistics have been included in his speech (copy attached). This will be reported in tomorrow's papers simultaneously with the CPAG/LPU news release.

KEY FIGURES

INDIVIDUALS BELOW VARIOUS PERCENTILES OF THE INCOME DISTRIBUTION
INCREASE IN REAL INCOMES 1981-1985
(%)

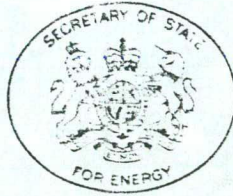
	Below 10%	Below 20%	Below 30%	Below 40%	Below 50%	Overall
All individuals (before housing costs)	8.3	6.6	5.9	5.6	5.6	6.4
All individuals (after housing costs)	8.4	6.7	5.3	4.5	4.1	4.8

Source: "Households Below Average Income" - DHSS : May 1988

Similar real income growth figures for the period 1979-85 are not publicly available. They show that real incomes have grown in each percentile throughout the income range. For the bottom 2 percentiles the real increases are smaller than for the period 1981-85 which implies that real incomes actually fell between 1979 and 1981.

I. Williams

I WILLIAMS
B2A
Room 537
Ext 2515
New Court



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QU

MP

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The Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

24th November 1988

Dear John,

UDM PAY

Thank you for your letter of 7 November. I have also seen Norman Fowler's comments on the proposed pay agreement between British Coal and the UDM in his letter to you of 3 November. Our officials are in touch over the detailed points you have each raised on the proposed agreement.

As you know the agreement was subsequently rejected in a ballot of the UDM membership. The main reason is understood to have been the proposed restructuring of night shift allowances. While this represented a very small proportion (0.3%) of the total 5.9% cost of the deal the removal of the two hours' allowance (6.00am to 8.00am) currently payable to men working the morning shift apparently weighed more heavily with the individuals concerned - including many officials of the union - than the more positive benefits in the package.

This rejection puts the Corporation in a very difficult position and threatens to undermine their strategy for having an agreed deal with the UDM in place in time for the forthcoming NUM ballot on an overtime ban on 16/17 December:

To restore the position the Corporation have made a minor concession to the UDM by restoring the two hours of night shift



allowance at 25p an hour payable to men on the morning shift. The necessary savings have been found for the first year of the deal by dropping the proposed increase from 25p to 50p an hour between 6.00pm and midnight and substituting a uniform 30p per hour rate from 6.00pm to 6.00am. The 50p per hour rate will operate from 1 November 1989 but the additional cost will be met from equivalent savings in the wage rates to operate from that date under the terms of the agreement.

The revised deal is being put to the UDM membership in a further ballot on 8 and 9 December with a unanimous recommendation for acceptance by the union's Executive. British Coal are reasonably confident that their concession will secure approval of the agreement but I will continue to keep you informed of developments.

Copies of this go to the Prime Minister, members of E(PSP) and Sir Robin Butler.

*Yours truly,
Cecil Parkinson*

CECIL PARKINSON

CONFIDENTIAL

MP

MONTHLY NOTE ON PAY AND PRICES - NOVEMBER 1988

PRICES

- * The Retail Prices Index rose by 1.0 per cent between September and October. The 12 month rate of change was 6.4 per cent. The average rate of inflation for 1988Q3 was 5.5 per cent.
- * Outside forecasts (on average) expect RPI inflation to be 5.9 per cent in 1988Q4.
- * The 12-month increase in the producer output price index for home sales of manufactured goods (excluding food etc) was 4.7 per cent in October.
- * Import prices in September were 1.5 per cent higher than a year earlier.
- * Consumer price inflation in the six other main OECD industrial countries taken together was 3.1 per cent in the year to September.

EARNINGS

- * Settlements in the private sector in the 1987-88 pay round have averaged 6 per cent, about $\frac{1}{2}$ per cent above the level of the previous round. [Settlements figures not for use]
- * The underlying 12-month increase in average earnings in the whole economy remained at $9\frac{1}{4}$ per cent in September.

COSTS

- * In the three months ending September, manufacturing unit wage and salary costs were 0.8 per cent higher than in the same period last year.
- * The material and fuel inputs price index for manufacturing industry (excluding food etc) in October was 2.4 per cent higher than a year earlier.
- * The prices of imported basic materials rose by 1.5 per cent in September, to a level 8.5 per cent higher than a year earlier.
- * Non-oil non-food commodity prices (measured in SDRs) in October were 18.5 per cent higher than a year earlier.

S PRICE
M BAILEY
EA1 Division
Ext 5401/5398

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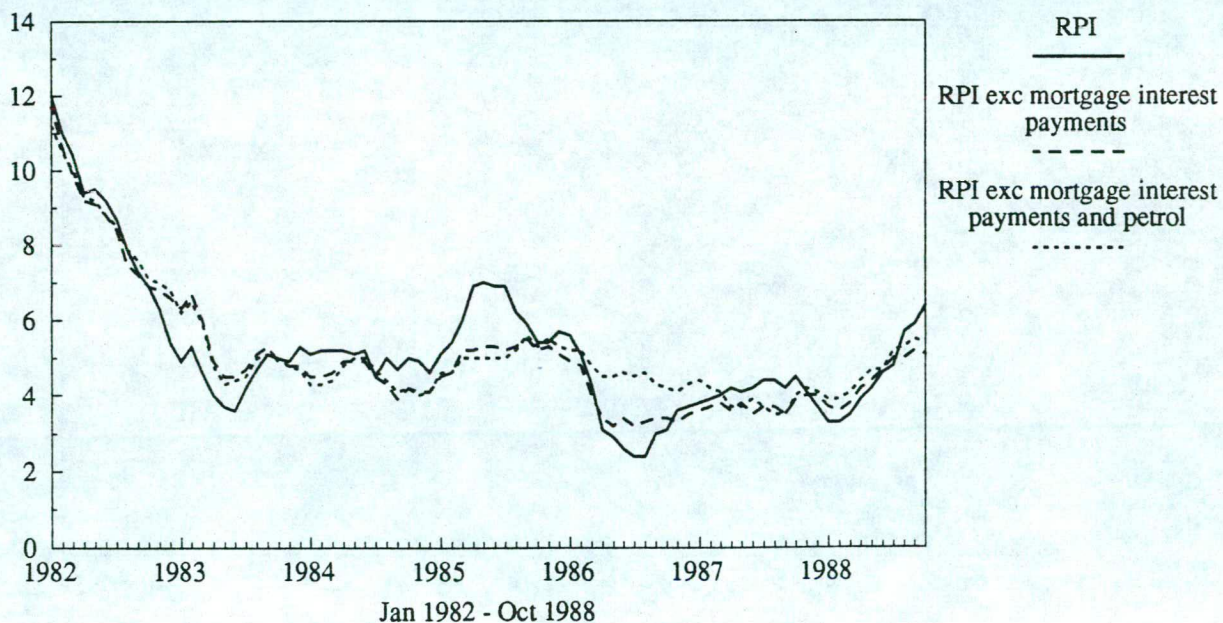
MAIN POINTS

1. Retail price inflation rose for the eighth successive month in October to the highest level since July 1985. The sharp increase in inflation was entirely due to increased mortgage interest rates. Excluding mortgage interest payments, the annual rate of inflation fell slightly, from 5.2 per cent in September to 5.1 in October. Producer output price inflation (excluding food, drink and tobacco) rose slightly in October. Seasonally adjusted input prices continued to fall following the increases of earlier this summer. The growth of earnings has not increased this month, although it is still high. This is due to high public sector settlements (notably for nurses and local authority manuals), but private sector settlements also rose. Increases in unit wage costs however remain low, particularly in the manufacturing sector. Commodity prices, as measured by the Economist index, continue to show signs of weakening. Sterling import prices have only risen slightly since this time last year.

PRICES

2. The RPI rose by 1.0 per cent between September and October to 109.5. The 12 month inflation rate was 6.4 per cent in October, compared to 5.9 per cent in September. Excluding mortgage interest payments, the rate fell slightly from 5.2 per cent in September to 5.1 per cent. Prices of private sector goods and services (excluding food, housing and petrol) rose by 0.6 per cent between September and October. The RPI rose at an annual rate of 5.5 per cent in 1988Q3.

RPI, RPI EXCLUDING MORTGAGE INTEREST PAYMENTS AND
RPI EXCLUDING MORTGAGE INTEREST PAYMENTS AND
PETROL



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3. RPI Components

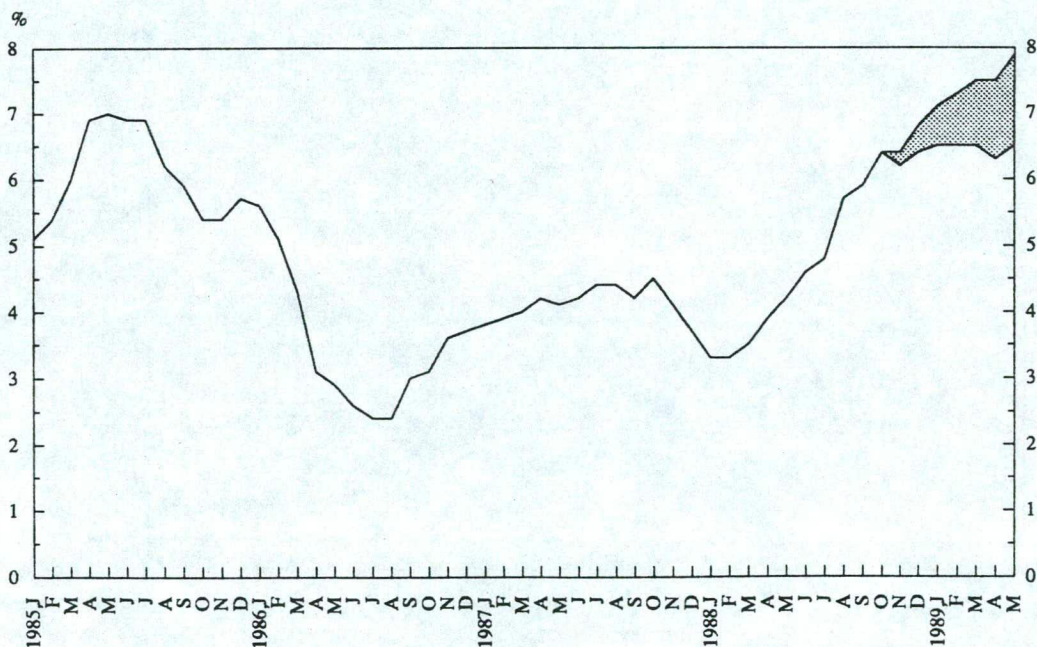
Percentage increase in year to:

	Weights ⁽¹⁾ (1988)	Oct 1987	July 1988	August 1988	Sept 1988	Oct 1988
Private sector less food, housing and petrol	(594)	4.6	4.6	4.6	4.6	4.9
Seasonal food	(24)	3.5	0.9	-1.1	1.6	0.3
Non-seasonal food	(139)	2.9	4.0	4.7	4.8	4.5
Housing Nationalised Industries	(160)	10.2	6.2	11.2	11.6	15.1
Industries	(54)	2.0	7.2	6.9	7.5	7.6
Petrol	(36)	1.4	-0.3	-0.4	-0.6	-0.2
All items	(1000)	4.5	4.8	5.7	5.9	6.4
All items <u>less</u> mortgage interest payments		3.9	5.0	5.0	5.2	5.1
All items <u>less</u> mortgage interest payments and petrol		4.0	5.3	5.3	5.5	5.4

(1) Weights do not add to 1000 as water rates are included in both housing and nationalised industries.

4. [CONFIDENTIAL The twelve month change in the RPI may decrease slightly in November, as a result of the "error" of last year dropping out of the index. Thus it remains possible that the annual increase may be 6½ per cent in the fourth quarter as forecast in the Autumn Statement. However, the higher than expected October figure means that the likelihood is now that the Q4 figure will round to 6½.]

CONFIDENTIAL
RETAIL PRICES INDEX-FORECAST AND OUTCOME
percentage increase on a year earlier



Jan 1985 - Oct 1988

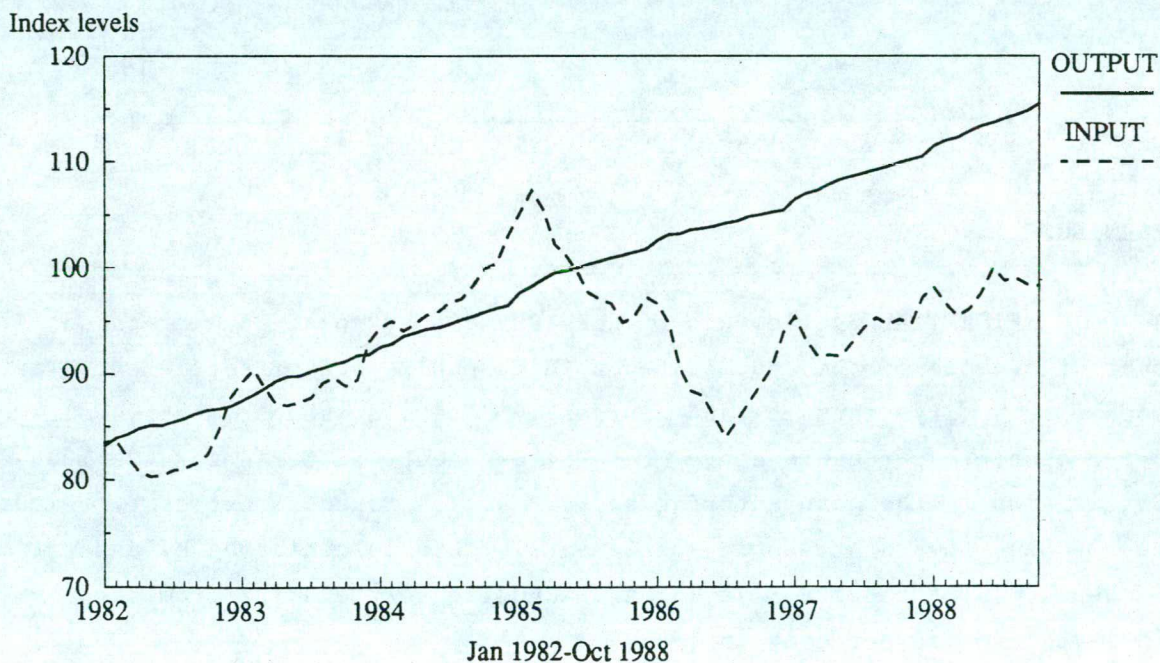
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5. The 1988 Autumn Statement forecasts RPI inflation of 6½ per cent in 1988Q4 (5 per cent excluding mortgage interest payments), and 5 per cent in 1988Q4 (see table 2.7 in the AS). Paragraph 2.42 of the AS says that "retail price inflation could rise further during the first half of 1989 before moderating to 5 per cent by the fourth quarter. The fluctuations in the RPI are chiefly the results of past changes in mortgage rates; excluding mortgage interest payments, the inflation path is likely to be much smoother."

6. The twelve month increase in the producer price index for home sales of manufactured products (excluding food etc) was 4.7 per cent to October, down from 4.9 per cent last month. The index rose by 0.5 per cent between September and August. Twelve-month producer price inflation for manufacturing industry excluding food, drink and tobacco rose for the sixth consequent month, to 5.1 per cent in October. This is consistent with the forecast of 4¾ per cent for 1988 as a whole, as contained in table 2.6 of the AS. Prices of imports of finished manufactures rose again last month, after being broadly flat over the last year (see para 12). The October CBI Industrial Trends Survey shows the (seasonally adjusted) balance of firms expecting to raise prices in the near future at 35 per cent, higher than the September figure of 33 per cent. This figure is the highest since early 1985. Input prices in the manufacturing sector (excluding food etc) were 0.3 per cent lower in October than in September but 2.4 per cent higher than a year earlier (a lower annual increase than last month). Seasonally adjusted input prices for manufacturing industry as a whole fell by 0.7 per cent between September and October. The index has fallen by 2 per cent from its July peak.

PRODUCER PRICE OF OUTPUT AND INPUT

(excl. food, drink and tobacco)
1985=100



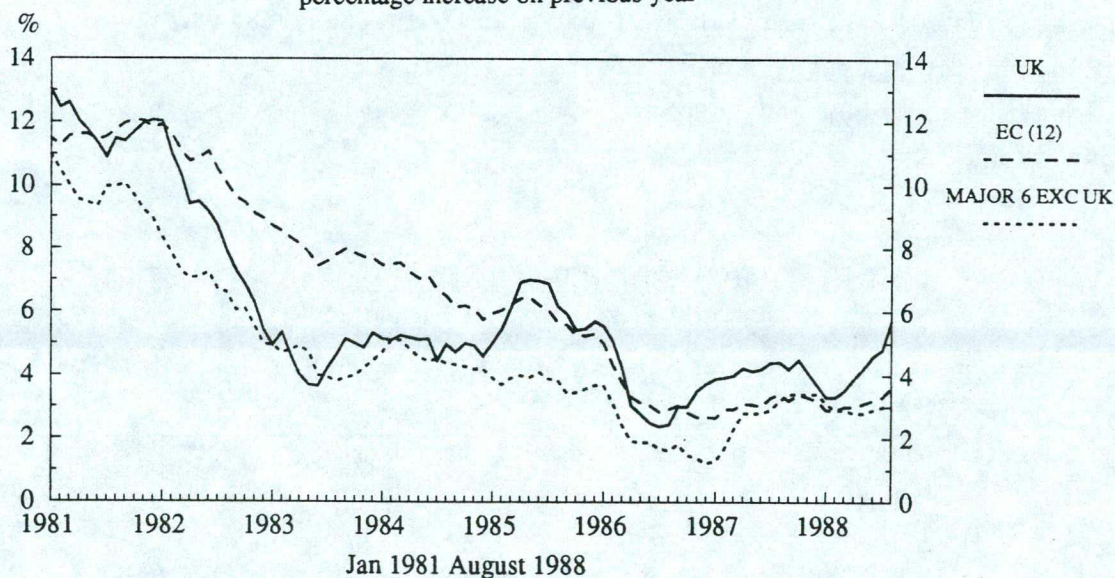
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7. Consumer (retail) price inflation in the other major six OECD economies was 3.1 per cent in September. UK inflation in September was higher than in any of the other major seven countries.

	July 1986	July 1987	Jan 1988	Feb 1988	Mar 1988	April 1988	May 1988	June 1988	July 1988	Aug 1988	Sept 1988
US	1.6	3.9	4.0	3.9	3.9	3.9	3.9	4.0	4.1	4.0	4.2
Japan	0.5	-0.4	0.7	0.6	0.5	0.0	-0.1	0.0	0.5	0.6	0.5
West Germany	-0.5	0.7	0.7	0.9	1.0	0.9	1.1	1.1	1.0	1.2	1.4
France	2.0	3.4	2.4	2.4	2.5	2.5	2.5	2.6	2.7	2.8	3.0
Italy	6.4	4.7	5.1	4.9	4.9	5.0	4.9	5.1	5.0	5.0	4.8
Canada	4.2	4.7	4.1	4.1	4.1	4.0	4.1	3.9	3.8	4.0	4.1
Major 6 (excluding UK)	1.7	3.0	3.1	2.9	2.9	2.8	2.8	2.9	3.0	3.0	3.1
UK	2.4	4.4	3.3	3.3	3.5	3.9	4.2	4.6	4.8	5.7	5.9
EC (12 countries)	3.0	3.3	2.9	2.9	3.0	3.0	3.1	3.2	3.3	3.6	3.7
OECD Europe	3.9	4.2	3.9	4.1	4.4	4.5	4.5	4.7	4.8	4.3	5.4
OECD Total	2.4	3.5	3.5	4.5	3.6	3.5	3.5	3.6	3.8	4.2	4.0

CONSUMER PRICE INFLATION

percentage increase on previous year



EARNINGS

8. [CONFIDENTIAL Settlements in the 1987-88 pay round have averaged 7 per cent over the whole economy, dominated by high public sector settlements (notably for local authority manuals and nurses). Private sector settlements averaged 6 per cent, $\frac{1}{4}$ per cent above the $5\frac{1}{4}$ per cent outturn for the 1986-87 round. Settlements in the manufacturing sector have averaged $5\frac{1}{2}$ per cent. There seems to be an upward trend in settlements. This is confirmed by data from the CBI Databank, which shows a rise in manufacturing settlements, from about 6 per cent in 1988H1 to 6.3 per cent in 1988Q3.]

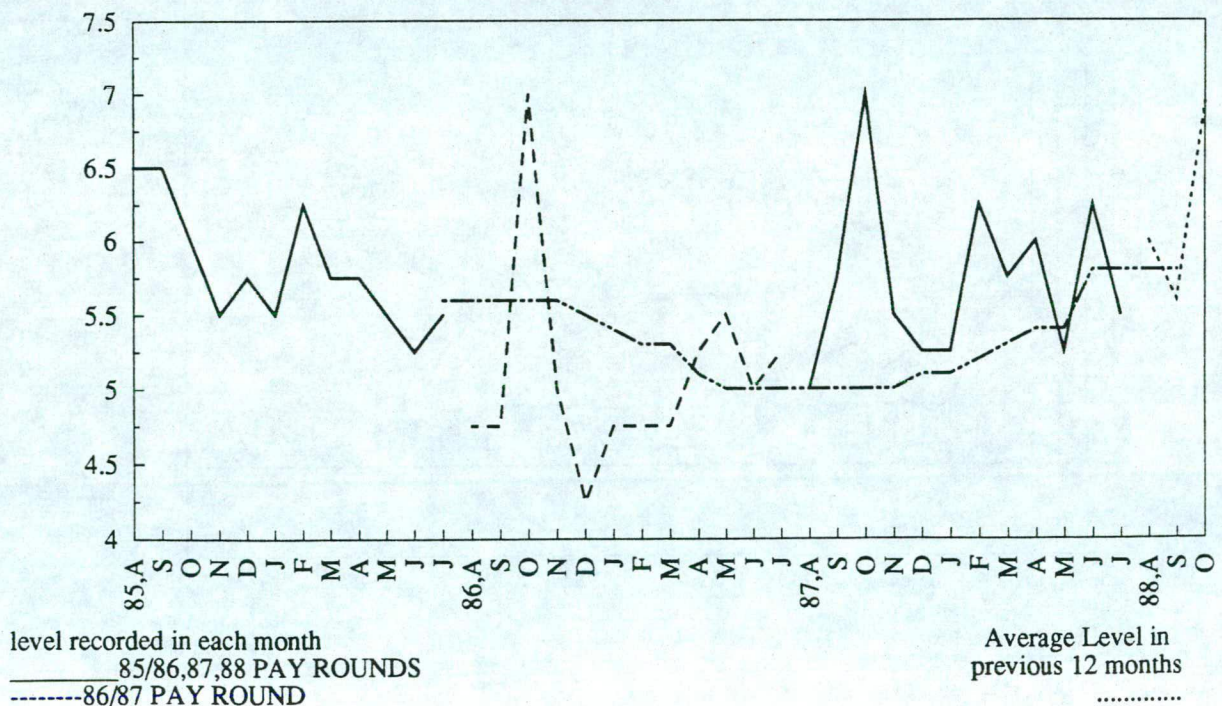
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Settlements levels, percent (not for use)

	1984-85 outurn	1985-86 outurn	1986-87 outurn	1987-88 latest figures
Whole economy	5	6	6	7
Public sector	5½	6½	6½	8
trading	5½	6	5	5½
services	5½	6½	7	8½
Private sector	6	5½	5½	6
manufacturing	6	5½	4½	5½
non-manufacturing	6	5½	5½	6

9. The underlying increase in whole economy average earnings remained unchanged at 9½ per cent in the year to September. The increase from 7½ per cent in September 1987 is largely due to a few large public sector awards. However, it also reflects the upward drift in private sector settlements over the last year. The actual increase in earnings in September was 8.6 per cent. (This figure is lower than the underlying increase due to timing and other adjustments. In particular, the nurses award of 17.9 per cent is recorded in the underlying increase, but only 4 per cent of this is included in the actual). The underlying increase in manufacturing earnings was 8½ per cent in September, ¼ per cent down from August. Overtime worked per operative has dropped slightly, but is still at close to record levels, and is currently adding about ¼ per cent to underlying earnings growth in manufacturing. In the medium term, the upward drift in the average level of settlements will probably be offset by a negative contribution from overtime, so whole economy earnings growth may start to fall towards the end of the year.

Private Sector Settlement Levels



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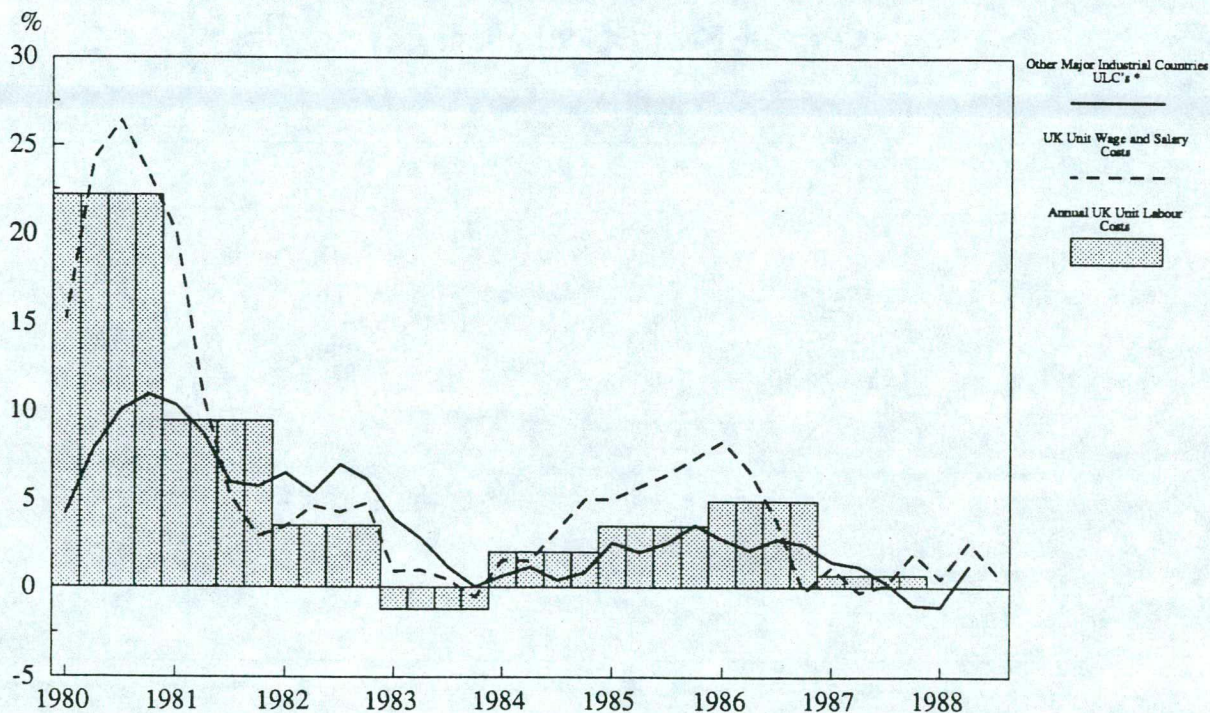
COSTS

10. Manufacturing unit wage and salary costs in the three months to September were 0.8 per cent higher than in the corresponding period of 1987. Unit wage costs in the UK's main competitors increased by about 2.3 per cent on average in 1986 and by 0.3 per cent in 1987.

Productivity and Costs in Manufacturing Industry
percentage change on same period a year earlier

		Output	Employment	Output per head	Output per hour	Average Earnings	Unit Wage Costs
1986		0.9	-2.0	3.1	3.3	7.7	4.5
1987		5.8	-1.4	7.2	6.6	8.1	0.7
1987	1	3.9	-2.5	7.5	6.7	7.8	1.1
	2	6.3	-1.6	8.0	7.4	7.7	-0.3
	3	7.4	-0.8	8.3	7.5	8.5	0.1
	4	5.6	-0.6	6.3	4.9	8.3	1.9
1988	1	7.6	-0.1	7.6	6.4	8.1	0.5
	2	5.6	-0.3	6.0	5.5	8.7	2.6
	3	6.9	-0.3	7.4	6.9	8.2	0.8

UNIT LABOUR COST IN MANUFACTURING
percentage change on previous year



* Trade weighted average

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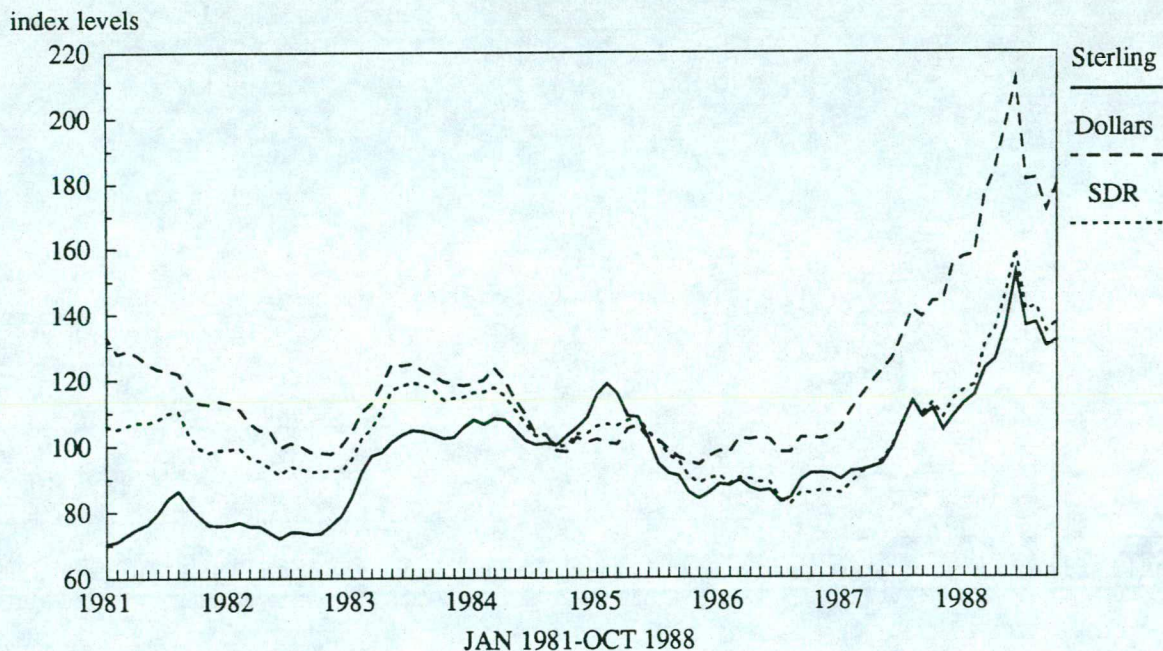
11. Non-oil commodity prices, as measured by the Economist index*, fell yet again last month. The rapid rises of the last year now seem to have halted. The index has moved erratically recently due to large fluctuations in metals prices (particularly nickel). In October the SDR all items index was 1.1 per cent lower than in the previous month and 19.9 per cent higher than a year earlier. Industrial prices have risen rapidly since their last trough in the summer of 1986. However, prices in SDR terms have trended downwards since July (despite a 1.2 per cent rise in October which brought them to a level 18.5 per cent higher than last year). Food prices fell by 2.4 per cent over the last month. They are however 19.5 per cent higher than a year earlier, largely as a result of the drought in North America.

Economist index of Industrial Materials prices*

Index in	% change on one month ago	% change on one year ago
Sterling	2.2	21.9
Dollars	4.6	24.9
SDR's	1.2	18.5

* all figures are average of weekly observations recorded in October.

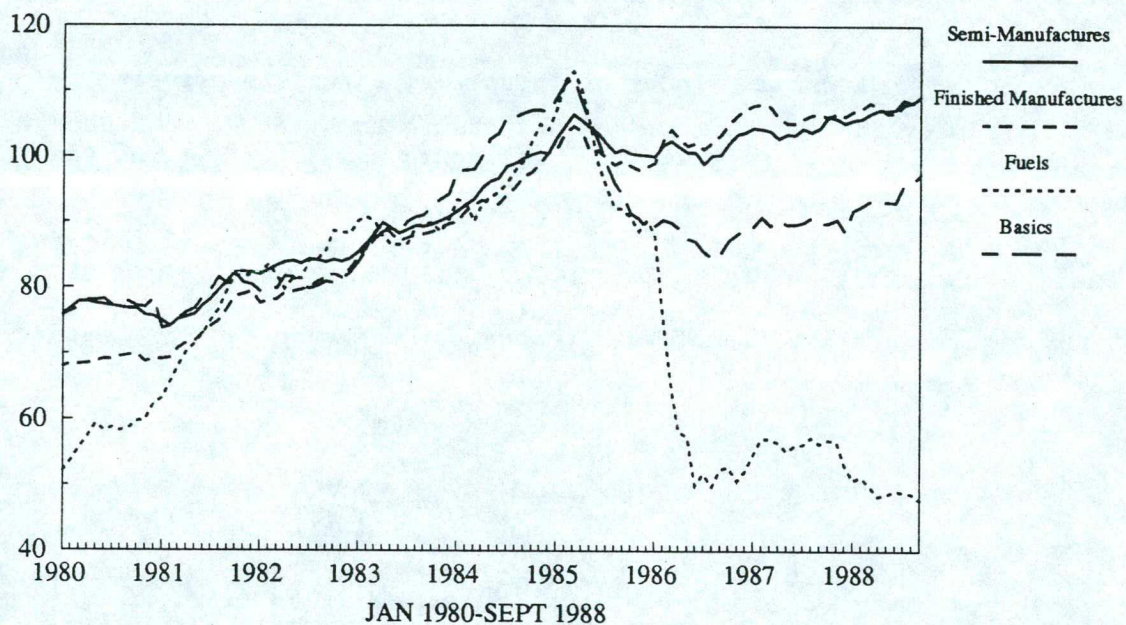
ECONOMIST INDEX OF INDUSTRIAL
COMMODITY PRICES EXCLUDING OIL
1985=100



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12. The sterling unit value index of imports* rose by 0.5 per cent in September to a level 1.5 per cent higher than in September 1987. The index for imports of basic materials rose by 1.5 per cent to a level 8.5 per cent higher than a year ago. The price of finished manufactures rose by 1.0 per cent between August and September to a level 3.0 per cent higher than a year ago. The price of fuel imports fell by 15.0 per cent in the year to September. The oil market is expected to remain weak for some time.

IMPORT UNIT VALUE INDICES 1985=100

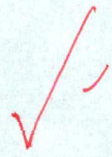


*All figures Overseas Trade Statistics basis, not seasonally adjusted.

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MONTHLY NOTE ON PAY AND PRICES - DECEMBER 1988

PRICES

- * The Retail Prices Index rose by 0.3 per cent between November and December. The twelve-month rate of change rose to 6.8 per cent. The average rate of inflation for 1988Q4 was 6.5 per cent.
- * Outside forecasts (on average) expect 5.3 per cent in 1989Q4.
- * Import prices in November were 1.5 per cent higher than a year ago.
- * Consumer price inflation in the six other main OECD industrial countries taken together was 3.3 per cent in the year to November.

EARNINGS

- * Private sector settlements in the 1987-88 payround averaged 6 per cent, about 3/4 per cent above the level of the previous payround. Settlements in the current payround are averaging 6 1/2 per cent at present.
[Settlements figures not for use]
- * The underlying twelve-month increase in average earnings for the whole economy was 8 3/4 per cent in November, down by 1/4 per cent from last month.

COSTS

- * In the three months ending November, manufacturing unit wage and salary costs were 0.5 per cent higher than in the same period last year.
- * The material and fuel inputs price index for manufacturing industry (excluding food, drink and tobacco) in December was 6.5 per cent higher than a year ago.
- * The prices of imported basic materials fell by 0.5 per cent in November to a level 8.0 per cent higher than a year earlier.
- * Non-oil non-food commodity prices (measured in SDRs) in December were 23.7 per cent higher than a year earlier.

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PRICES

RPI

1 . The RPI rose by 0.3 per cent between November and December. The twelve-month rate of inflation was 6.8 per cent in December, up from last month's figure of 6.4 per cent. The rise is mainly the result of a fall in mortgage interest rates between November and December 1987 now dropping out of the index. Excluding mortgage interest payments the twelve-month inflation rate has remained unchanged since October, at 5.1 per cent. Prices of private sector goods and services (excluding food, housing, NIs and petrol) rose by only 0.1 per cent between November and December.

2 . RPI Components

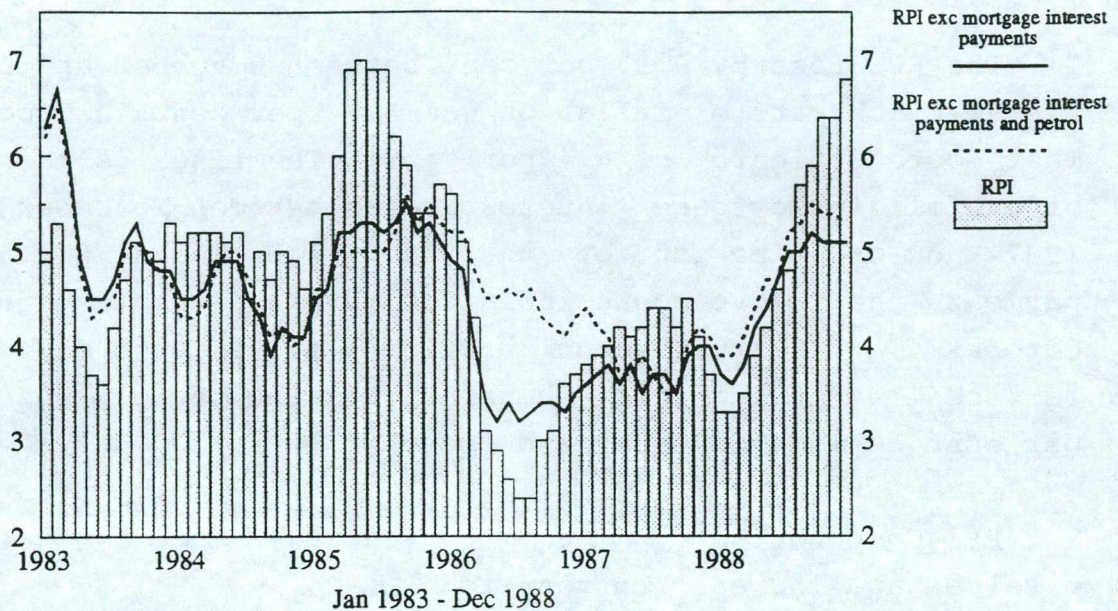
Percentage increase in year to:

	Weights ⁽¹⁾ (1988)	Dec 1987	Sept 1988	Oct 1988	Nov 1988	Dec 1988
Private sector less food, housing and petrol	(594)	4.2	5.0	4.9	4.8	4.8
Seasonal food	(24)	6.7	0.6	0.3	0.0	-0.9
Non-seasonal food	(139)	3.1	4.8	4.5	4.8	4.9
Housing	(160)	4.1	11.6	15.1	15.6	17.9
Nationalised Industries	(54)	2.6	7.5	7.6	7.3	7.3
Petrol	(36)	1.0	-0.6	-0.2	-0.3	0.1
All items	(1000)	3.7	5.9	6.4	6.4	6.8
All items <u>less</u> MIPS*		4.0	5.2	5.1	5.1	5.1
All items <u>less</u> MIPS* and petrol		4.1	5.5	5.4	5.4	5.4

(1) Weights do not add to 1000 as water rates are included in both housing and nationalised industries.

* mortgage interest payments

RPI, RPI Excluding Mortgage Interest Payments and RPI Excluding Mortgage Interest Payments and Petrol



3 . The annual increase in the RPI to the fourth quarter of 1988 was 6 1/2 per cent, slightly higher than the forecast of 6 1/4 per cent published in the Autumn Statement. The outturn of 5 per cent growth for the RPI excluding mortgage interest payments for the same period was consistent with the Autumn Statement forecast.

4 . The 1988 Autumn Statement forecasts RPI inflation of 5 per cent in 1989Q4 (see table 2.7 in the AS). Paragraph 2.42 of the AS says that:

"retail price inflation could rise further during the first half of 1989 before moderating to 5 per cent by the fourth quarter. The fluctuations in the RPI are chiefly the results of past changes in mortgage rates; excluding mortgage interest payments, the inflation path is likely to be smoother."

The Chancellor remarked in the Autumn Statement debate (12 January) that:

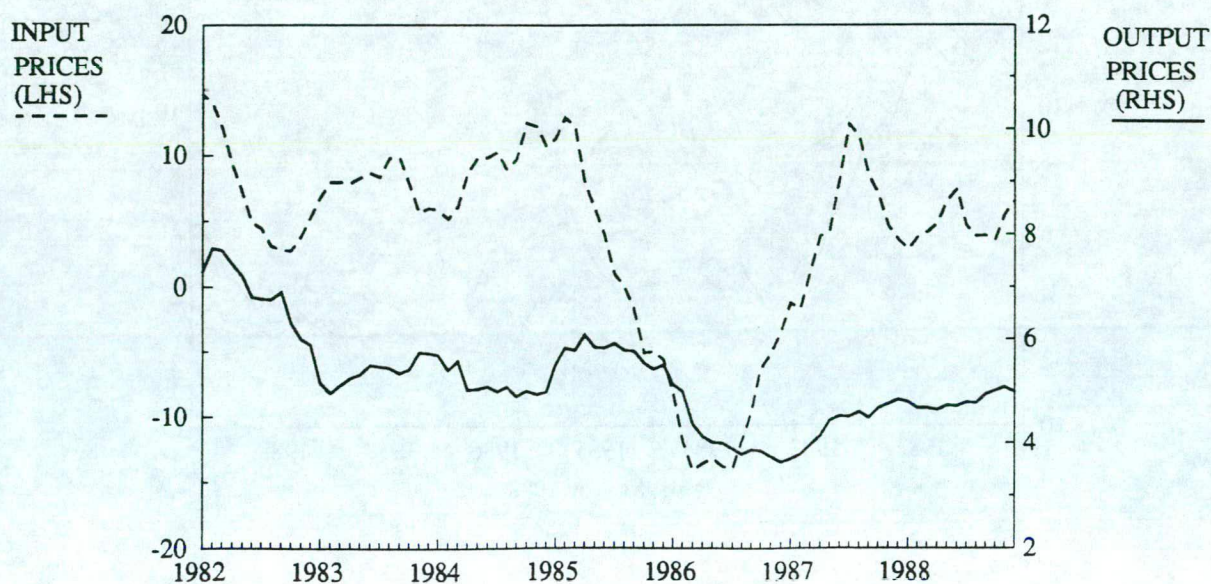
" the RPI excluding the distorting effect of mortgage interest payments, which reached 5 per cent in July, is likely to edge up a little over the next few months, perhaps to the 5 1/2 per cent it reached in the last inflation blip in 1985. But then, just as it did in 1985, it will start coming down again". (OR vol 144 no 26 col 1007).

PRODUCER PRICES

5 . The twelve-month increase in the producer price index for home sales of manufactured products was unchanged from the revised November figure of 4.9 per cent. The index rose by 0.2 per cent between November and December, which, because of the seasonal pattern, is the lowest figure since the end of 1987. Twelve-month producer price inflation for manufacturing industry excluding food, drink and tobacco was 5.0 per cent, down slightly from last month's figure of 5.1 per cent. The provisional index figure for December implies an increase rounding to 4 3/4 per cent for 1988 as a whole, as forecast in the Autumn Statement. Prices of imports of finished manufactures remained unchanged from last month, and have been broadly flat over the last year (see para 12). The January CBI Industrial Trends Survey shows the balance of firms expecting to raise prices in the next four months to be 37 per cent, which is unchanged from last month's figure. However, this compares with an average level of 34 in the fourth quarter of last year, and with an average of 29 for the second half of 1988. Input prices in the manufacturing sector (excluding food etc) were 3.5 per cent higher in December than in November, mainly as a result of the second (and final) instalment of the seasonal rise in industrial electricity prices. The annual increase to December was 6.5 per cent, and is mainly due to higher prices of metals and electricity. This compares with a revised annual increase of 5.6 per cent to November. Seasonally adjusted input prices for manufacturing industry as a whole rose by 0.5 per cent between November and December. The index is approaching the value of its July peak - it is now only 0.8 per lower.

PRODUCER PRICE OF OUTPUT AND INPUT

(excl. food, drink and tobacco)
Percentage increase on a year earlier

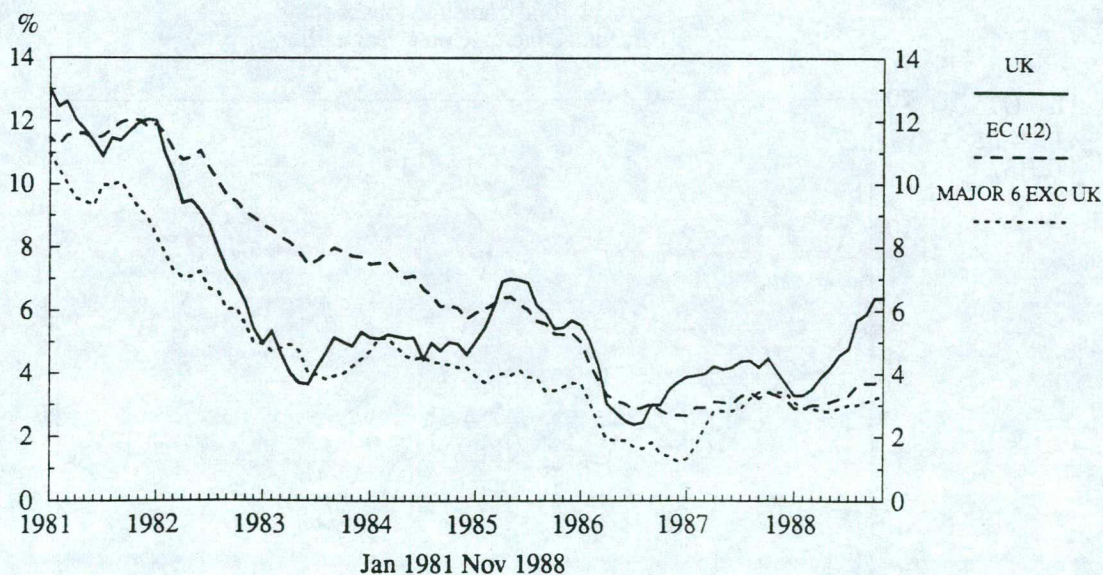


INTERNATIONAL COMPARISONS

6 . Consumer (retail) price inflation in the other major six economies was 3.3 per cent for the twelve months to November. The UK annual inflation figure was considerably higher than in any of the other major six countries.

	Nov 1986	Nov 1987	Apr 1988	May	June	July	Aug	Sept	Oct	Nov
US	1.3	4.5	3.9	3.9	4.0	4.1	4.0	4.2	4.2	4.2
Japan	-0.2	0.4	0.0	-0.1	0.0	0.5	0.6	0.5	1.0	1.2
W Germany	-1.2	1.0	0.9	1.1	1.1	1.0	1.2	1.4	1.3	1.6
France	2.1	3.2	2.5	2.5	2.6	2.7	2.8	3.0	3.0	3.0
Italy	4.8	5.2	5.0	4.9	5.1	5.0	5.0	4.8	4.7	5.3
Canada	4.5	4.2	4.0	4.1	3.9	3.8	4.0	4.1	4.2	4.1
Major 6 (excl UK)	1.2	3.3	2.8	2.8	2.9	3.0	3.0	3.1	3.2	3.3
UK	3.6	4.1	3.9	4.2	4.6	4.8	5.7	5.9	6.4	6.4
EC (12 countries)	5.7	2.5	3.0	3.1	3.2	3.3	3.6	3.7	3.7	3.9
OECD Europe	3.4	3.6	4.5	4.5	4.7	4.8	4.3	5.4	5.8	N/A
OECD Total	1.9	3.6	3.5	3.5	3.6	3.8	4.2	4.0	4.2	4.3

CONSUMER PRICE INFLATION
percentage increase on previous year



EARNINGS

SETTLEMENTS

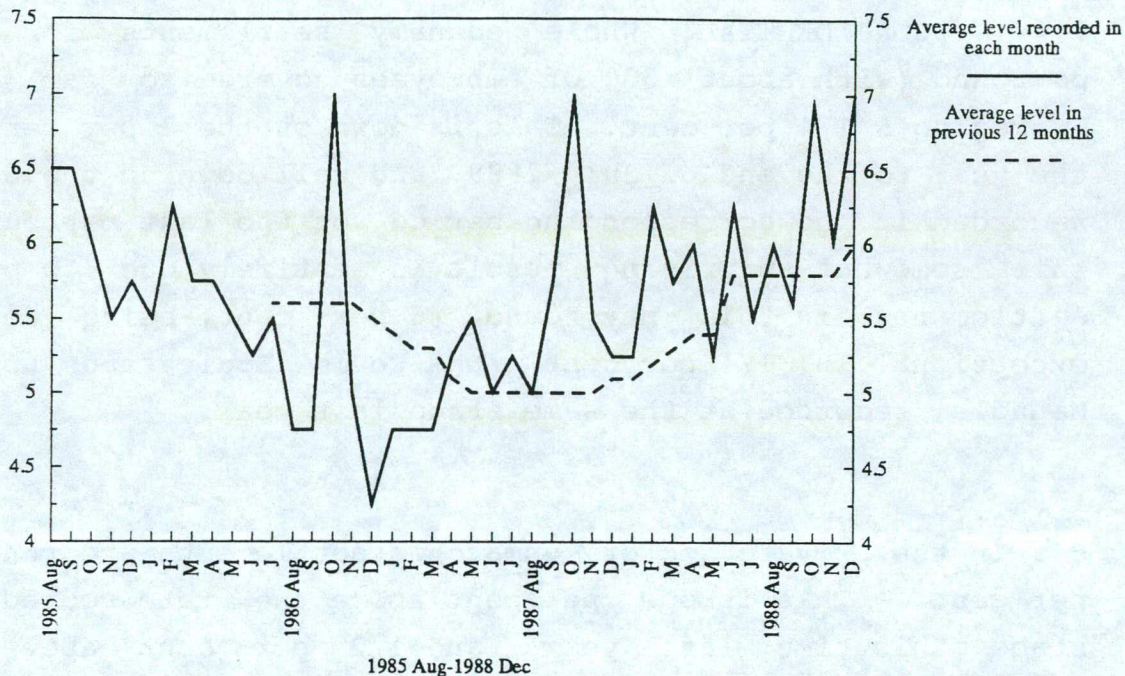
7 . [CONFIDENTIAL: Whole economy settlements for the 1988-89 payround (with about 30% of employees covered so far) are currently averaging 6 1/4 per cent. This is down on the 7 per cent recorded in the year to the end of July 1988, and well down on the 8 1/4 per cent recorded in the corresponding period of the last payround. However, this somewhat surprising result is entirely due to public sector settlements in this pay round (6 per cent) being well below the exceptional 10 1/4 per cent (NHS Review Bodies and Local Authority Manuals) recorded at the same stage last year.

8 . In the private sector, unmatched settlements are running at 6 1/2 per cent. This is one per cent above the rate scored at the same stage this time last year, and 1/2 per cent above the 1987/88 average. Manufacturing settlements (also unmatched) are currently averaging 6 per cent, only 1/2 per cent up on the 1987/88 payround. However, other indicators suggest manufacturing settlements are running at a higher rate. DE's measure of matched settlements averaged 6 1/2 per cent in November, compared with 6 per cent a year earlier. And the CBI Databank records manufacturing settlements in 1988Q4 at 6.9 per cent, over a full point up on the 1987Q4 figure. NB All settlement figures are to the nearest quarter of a percent]

Percentage Increase in Unmatched Settlement Levels

CONFIDENTIAL	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88	1988-89 latest figures
Whole economy	5.75	6	6	7	6.25
Public sector	5.5	6.5	6.75	8	6
trading	5.5	6	5	5.75	6
services	5.5	6.5	7	8.25	6
Private sector	6	5.5	5.25	6	6.5
manufacturing	6	5.5	5	5.5	6
non-manufacturing	6	5.5	5.5	6	6.75

PRIVATE SECTOR SETTLEMENTS



EARNINGS

9 . The underlying increase in **whole economy average earnings** was 8 3/4 per cent in the twelve-months to November, down from last month's figure of 9 per cent. This is the second consecutive month that underlying earnings growth has slowed, which happened last in 1983. There are two reasons for the fall; the first is that the large public-sector awards (ie local authority manuals and teachers) of last year are continuing to "fall out" of the index. In addition, the one-off increase in earnings that resulted from the storm of last year is also dropping out of the calculation. However, the annual increase in **underlying earnings in the manufacturing sector** was 8 3/4 per cent in November, up from the revised October figure of 8 1/2 per cent. This is partly due to a level of overtime that is unchanged from last month's surprisingly high figure.

* Not for disclosure

COSTS

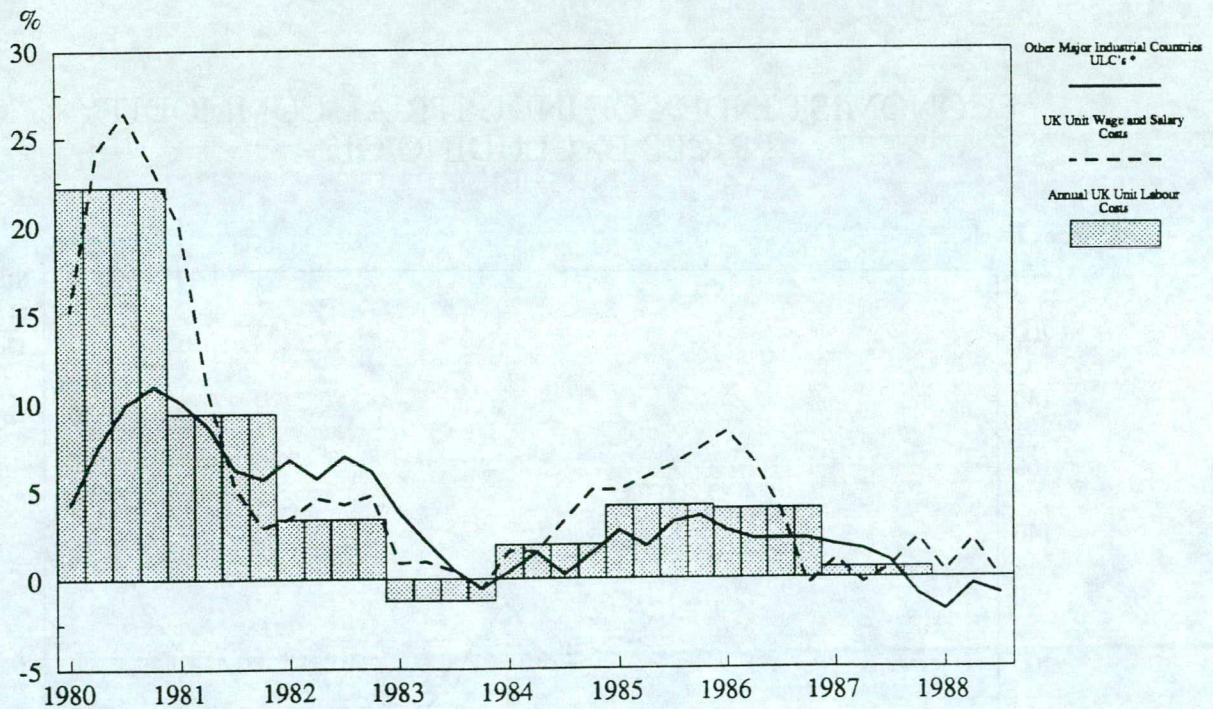
10 . **Manufacturing unit wage and salary costs** in the three months to November were 0.5 per cent higher than in the corresponding period of 1987. Unit wage costs in the UK's main competitors increased by about 2.3 per cent on average in 1986 and by 0.3 per cent in 1987.

Whole economy unit wage costs continue to rise at over 5 per cent.

Productivity and Costs in Manufacturing Industry
(percentage change on same period a year earlier)

	Output	Employ-	Output	Output	Average	Unit Wage
	ment	ment	per head	per hour	Earnings	Costs
1986	1.0	-2.0	3.1	3.3	7.7	4.5
1987	5.6	-1.4	7.1	6.5	8.1	0.9
1987 Q1	4.0	-2.5	6.7	6.8	7.8	1.0
Q2	6.3	-1.6	8.0	7.4	7.7	-0.3
Q3	6.9	-0.8	7.7	7.0	8.5	0.6
Q4	5.2	-0.6	6.0	4.7	8.3	2.2
1988 Q1	7.8	-0.1	7.7	6.7	8.1	0.3
Q2	6.1	-0.3	6.5	5.9	8.7	2.1
Q3	7.9	-0.3	8.3	7.8	8.2	-0.1
3 months to November	7.2	-0.5	7.7	7.2	8.3	0.5

UNIT LABOUR COST IN MANUFACTURING
percentage change on previous year



* Trade weighted average

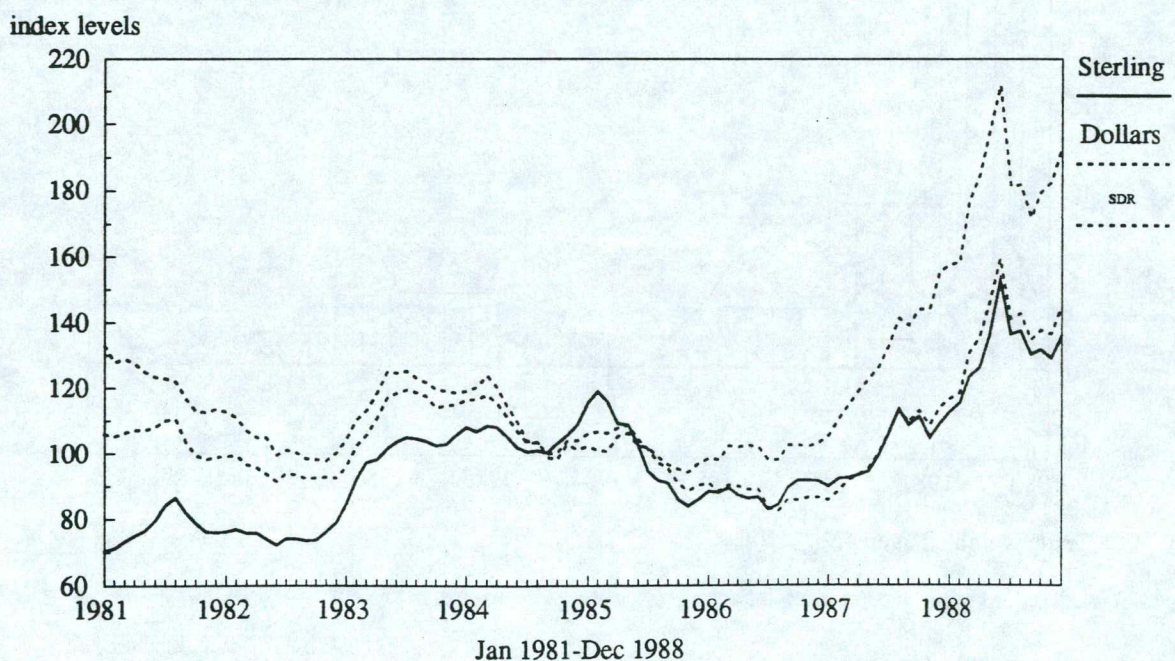
11. **Non-oil non-food commodity prices**, as measured by the Economist index, rose by 4.7 per cent between November and December, and are now 23.7 per cent higher than a year earlier. Although metal prices have continued to fluctuate, price increases in other components have contributed to the rise in the index. Industrial prices have risen rapidly since their last trough in the summer of 1986. Although prices in SDR terms trended downwards between July and September, they have risen again recently, with the index rising by 5.7 per cent between November and December. Food prices rose by 3.4 per cent over the last month, largely due to a sharp rise in the price of coffee. They are now 18.4 per cent higher than a year ago, as prices continue to reflect the drought in North America.

Economist index of Industrial Materials prices*

Index in	% change on one month ago	% change on one year ago
Sterling	4.7	19.3
Dollars	2.5	24.5
SDR's	5.7	33.2

* all figures are average of weekly observations recorded in December.

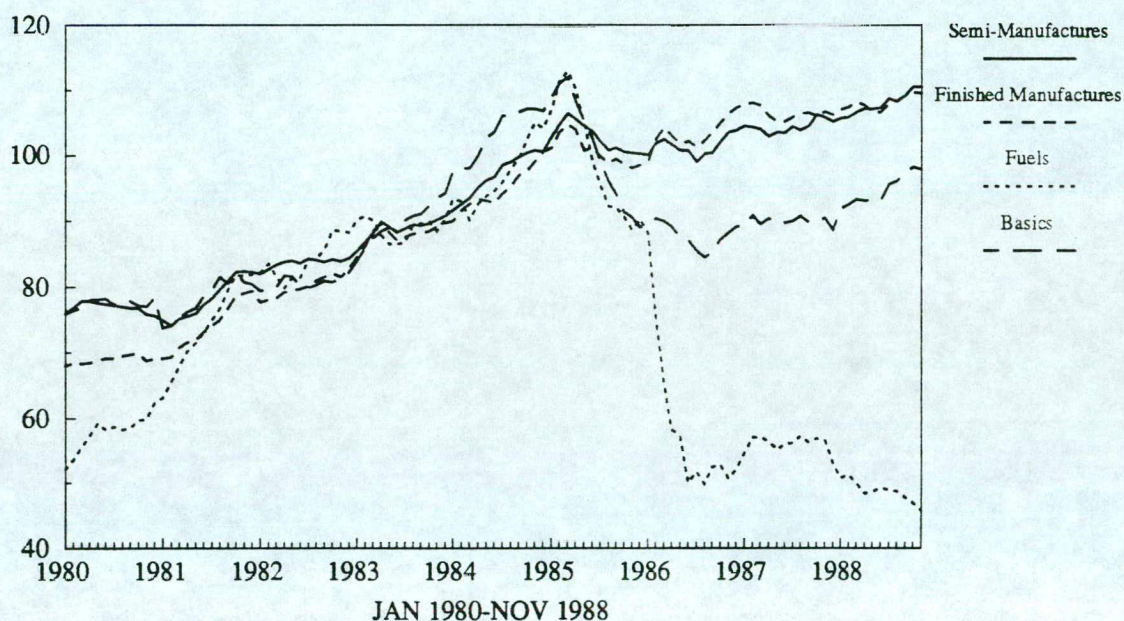
**ECONOMIST INDEX OF INDUSTRIAL COMMODITY
PRICES EXCLUDING OIL**
1985=100



12. The sterling unit value of imports* remained unchanged between October and November, and is now at a level 1.5 per cent higher than a year ago. The index for imports of basic materials fell by 0.5 per cent between October and November, but are now at a level 8.0 per cent higher than a year ago. The price of finished manufactures was unchanged between October and November, but is 2.5 per cent higher than the same time last year. The price of fuel imports fell by 19.0 per cent in the year to November, and by 2.5 per cent between October and November. This is despite the recent firming of the oil market, due to the OPEC production agreement of 28 November.

* All figures Overseas Trade Statistics basis, not seasonally adjusted

IMPORT UNIT VALUE INDICES 1985=100



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✓ MP

MONTHLY NOTE ON PAY AND PRICES - DECEMBER 1988

PRICES

- * The Retail Prices Index rose by 0.5 per cent between October and November. The twelve-month rate of change was unchanged at 6.4 per cent. The average rate of inflation for 1988Q3 was 5.5 per cent.
- * Outside forecasts (on average) expect RPI inflation to be 6.3 per cent in 1988Q4, and 5.3 per cent in 1989Q4.
- * Import prices in October were 2.5 per cent higher than a year ago.
- * Consumer price inflation in the six other main OECD industrial countries taken together was 3.2 per cent in the year to October.

EARNINGS

- * Private sector settlements in the 1987-88 payround averaged 6 per cent, about 3/4 per cent above the level of the previous payround. Settlements in the current payround are averaging 6 1/2 per cent at present.

[Settlements figures not for use]

- * The underlying twelve-month increase in average earnings for the whole economy was 9 per cent in October, down by 1/4 per cent from last month.

COSTS

- * In the three months ending October, manufacturing unit wage and salary costs were 0.8 per cent higher than in the same period last year.
- * The material and fuel inputs price index for manufacturing industry (excluding food, drink and tobacco) in November was 5.5 per cent higher than a year ago.
- * The prices of imported basic materials rose by 1.0 per cent in October, to a level 9.0 per cent higher than a year earlier.
- * Non-oil non-food commodity prices (measured in \$DRs) in November were 22.7 per cent higher than a year earlier.

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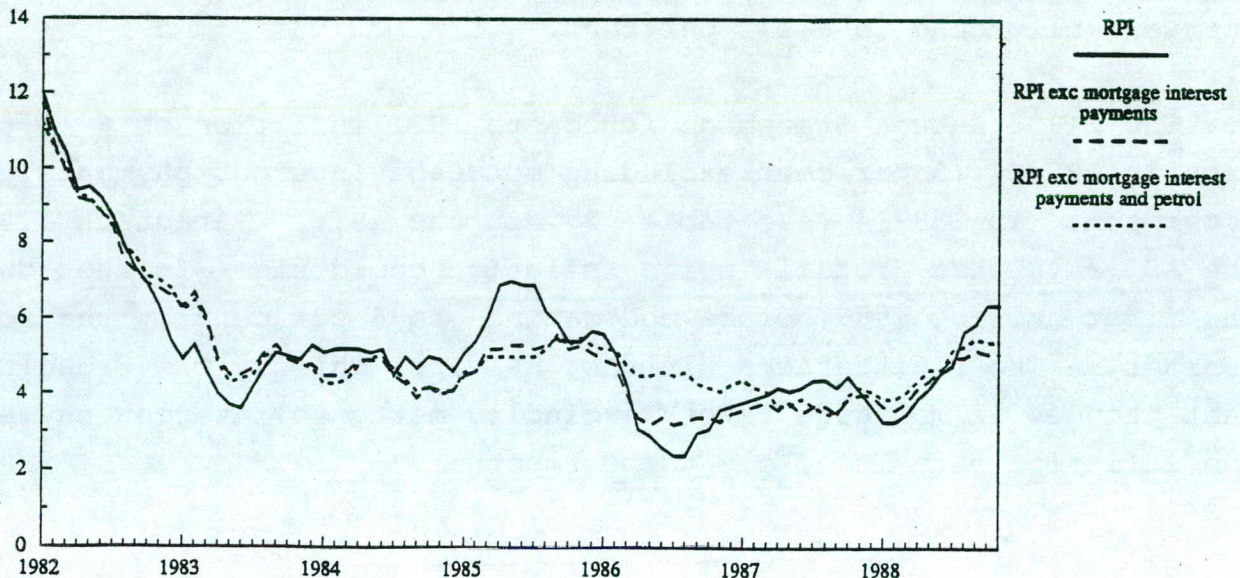
MAIN POINTS

1 . Annual retail price inflation remained unchanged from last month, but is still at its highest level since July 1985. Excluding mortgage interest payments, the annual rate of inflation also remained unchanged from last months' figure. Producer output price inflation (excluding food, drink and tobacco) rose slightly in November. Seasonally adjusted input prices also rose in November, after falling in each of the previous 3 months. The growth of earnings has fallen slightly from last month, partly due to the large local authority manuals' settlement of last year no longer affecting annual earnings growth. Private sector settlements have risen. However, increases in unit wage costs remain low, particularly in the manufacturing sector. Commodity prices, as measured by the Economist index, continue to show signs of weakening. Sterling import prices have risen slightly since this time last year.

PRICES

2 . The RPI rose by 0.5 per cent between October and November. The twelve-month rate of inflation was 6.4 per cent in November, unchanged from last month's figure. Excluding mortgage interest payments, the rate was also unchanged at 5.1 per cent. Prices of private sector goods and services (excluding food, housing and petrol) rose by 0.4 per cent between October and November. The RPI rose at an annual rate of 5.5 per cent in 1988Q3.

RPI, RPI EXCLUDING MORTGAGE INTEREST PAYMENTS AND RPI EXCLUDING MORTGAGE INTEREST PAYMENTS AND PETROL



3 . RPI Components

Percentage increase in year to:

	Weights ⁽¹⁾ (1988)	Nov 1987	Aug 1988	Sept 1988	Oct 1988	Nov 1988
Private sector						
less food, housing and petrol	(594)	4.3	5.0	5.0	4.9	4.8
Seasonal food	(24)	3.5	-1.1	0.6	0.3	0.0
Non-seasonal food	(139)	2.9	4.7	4.8	4.5	4.8
Housing	(160)	10.2	11.2	11.6	15.1	15.6
Nationalised						
Industries	(54)	2.3	6.9	7.5	7.6	7.3
Petrol	(36)	1.4	-0.4	-0.6	-0.2	-0.3
All items	(1000)	4.1	5.7	5.9	6.4	6.4
All items <u>less</u> MIPS*		4.0	5.0	5.2	5.1	5.1
All items <u>less</u> MIPS* and petrol		4.3	5.3	5.5	5.4	5.4

(1) Weights do not add to 1000 as water rates are included in both housing and nationalised industries.

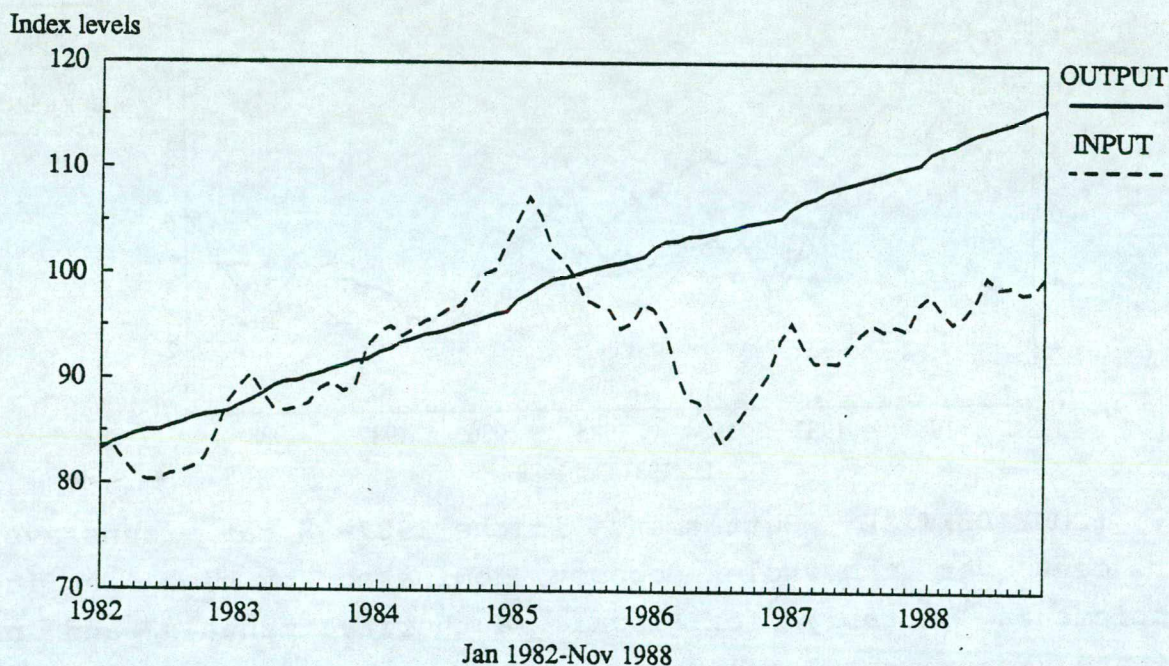
* mortgage interest payments

4 . The twelve-month change in the RPI to November did not fall from last month, despite the "error" of last year dropping out of the index. It now seems certain that the annual increase for the fourth quarter will round to 6 1/2 per cent.

5 . The 1988 Autumn Statement forecasts RPI inflation of 6 1/4 per cent in 1988Q4 (5 per cent excluding mortgage interest payments), and 5 per cent in 1989Q4 (see table 2.7 in the AS). Paragraph 2.42 of the AS says that "retail price inflation could rise further during the first half of 1989 before moderating to 5 per cent by the fourth quarter. The fluctuations in the RPI are chiefly the results of past changes in mortgage rates; excluding mortgage interest payments, the inflation path is likely to be smoother."

6 . The twelve-month increase in the producer price index for home sales of manufactured products (excluding food etc) was 4.8 per cent to November, up from 4.7 per cent last month. The index rose by 0.3 per cent between October and November. Twelve-month producer price inflation for manufacturing industry excluding food, drink and tobacco rose for the seventh consecutive month, to 5.1 per cent in November. This is consistent with the forecast of 4 3/4 per cent for 1988 as a whole, as contained in table 2.6 of the AS. Prices of imports of finished manufactures remained unchanged from last month, and have been broadly flat over the last year (see para 12). The December CBI Industrial Trends Survey shows the (seasonally adjusted) balance of firms expecting to raise prices in the next four months to be 32 per cent, lower than the November figure of 34 per cent. Input prices in the manufacturing sector (excluding food etc) were 1.4 per cent higher in November than in October, mainly as a result of the seasonal rise in industrial electricity prices. The annual increase to November was 5.5 per cent, which compares with an annual increase of 3.6 per cent to October. Seasonally adjusted input prices for manufacturing industry as a whole rose by 0.5 per cent between October and November. The index is 1.5 per cent lower than its July peak.

PRODUCER PRICE OF OUTPUT AND INPUT
(excl. food, drink and tobacco)
1985=100

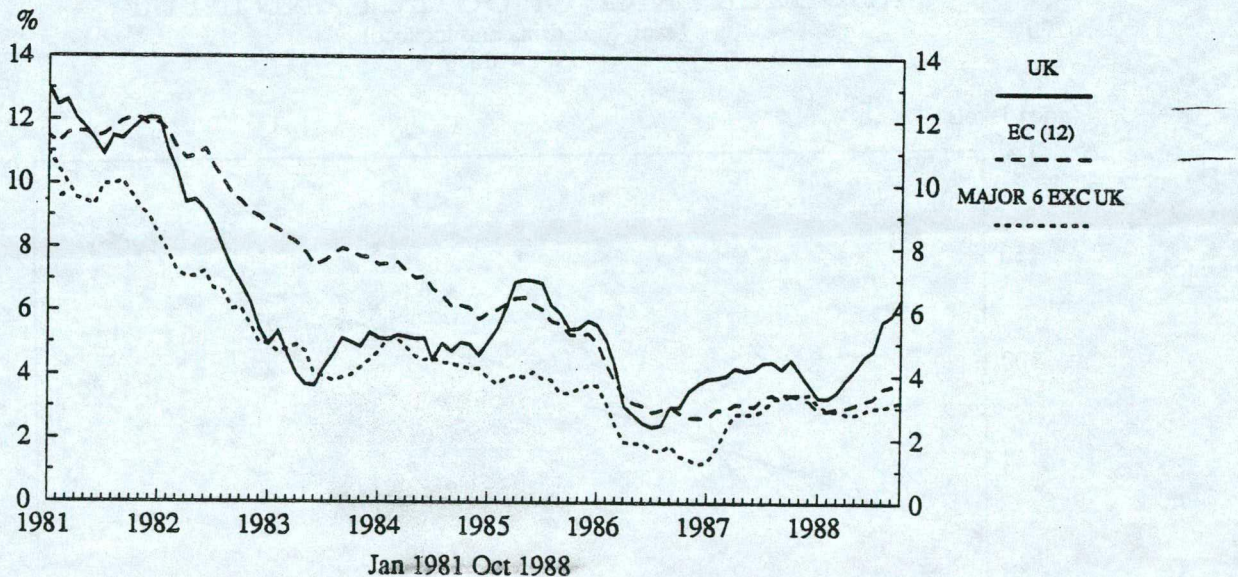


7 . Consumer (retail) price inflation in the other major six economies was 3.2 per cent for the twelve months to October. UK inflation in October was considerably higher than in any of the other major seven countries.

	Oct 1986	Oct 1987	Mar 1988	Apr	May	June	July	Aug	Sept	
US	1.4	4.6	3.9	3.9	3.9	4.0	4.1	4.0	4.2	4.2
Japan	-0.6	0.4	0.5	0.0	-0.1	0.0	0.5	0.6	0.5	1.0
W Germany	-0.9	0.9	1.0	0.9	1.1	1.1	1.0	1.2	1.4	1.3
France	2.2	3.2	2.5	2.5	2.5	2.6	2.7	2.8	3.0	3.0
Italy	5.1	5.3	4.9	5.0	4.9	5.1	5.0	5.0	4.8	4.7
Canada	4.4	4.3	4.1	4.0	4.1	3.9	3.8	4.0	4.1	4.2
<hr/>										
Major 6 (excl UK)	1.2	3.3	2.9	2.8	2.8	2.9	3.0	3.0	3.1	3.2
UK	3.1	4.4	3.5	3.9	4.2	4.6	4.8	5.7	5.9	6.4
<hr/>										
EC (12 countries)	3.0	3.4	3.0	3.0	3.1	3.2	3.3	3.6	3.7	3.7
OECD Europe	3.9	4.3	4.4	4.5	4.5	4.7	4.8	4.3	5.4	N/A
OECD Total	2.3	3.9	3.6	3.5	3.5	3.6	3.8	4.2	4.0	4.2

CONSUMER PRICE INFLATION

percentage increase on previous year



8 . [CONFIDENTIAL: Settlements in the 1987-88 pay round averaged 7 per cent over the whole economy, dominated by high public sector settlements (notably for local authority manuals and nurses). Private sector settlements averaged 6 per cent, 3/4 per cent above the 5.25 per cent outturn for the 1986-87 round. Settlements in the manufacturing sector have averaged 5.5 per cent. The whole economy settlements figure for the 1988-89 payround (with about 25% of employees covered so far) is actually down to 6.25 per cent. This is

entirely due to the public sector recording 6.5 per cent so far. In the private sector settlements are actually up 1/2 point to 6 1/2 per cent. This upward movement is confirmed by data from the CBI Databank, which shows a rise in manufacturing settlements, from about 6 per cent in 1988H1 to 6.3 per cent in 1988Q3.

NB All settlement figures are to the nearest quarter of a percent]

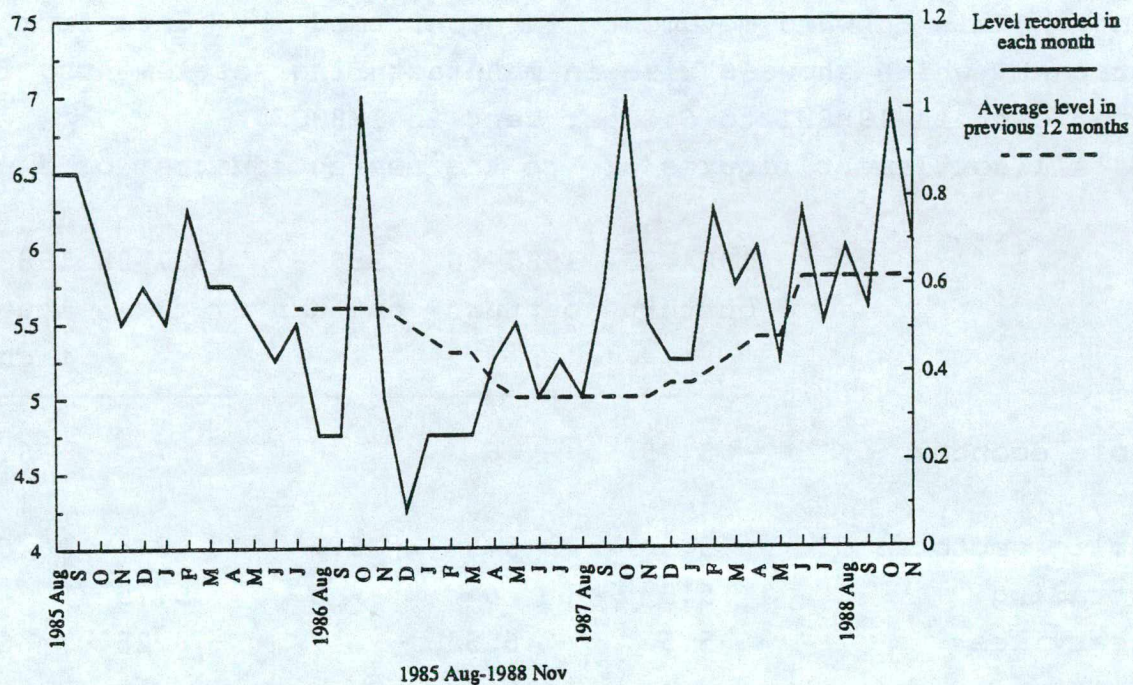
	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88	1988-89 latest figures
Whole economy	5.75	6	6	7	6.25
Public sector	5.5	6.5	6.75	8	6
trading	5.5	6	5	5.75	-
services	5.5	6.5	7	8.25	6
Private sector	6	5.5	5.25	6	6.5
manufacturing	6	5.5	4.75	5.5	6
non-manufacturing	6	5.5	5.5	6	6.75

9 . The underlying increase in whole economy average earnings fell slightly to 9 per cent in the year to October. The increase from 7 1/4 per cent in September 1987 is largely due to a few large public sector awards, and the main reason why the rate of increase has fallen this month is the large LA manual workers' rise of last year "falling out" of the index. However, there has also been an upward drift in private sector settlements over the last year.

The actual earnings index has risen by 8.7 per cent in the twelve months to October. (This figure is lower than the underlying increase due to timing and other adjustments. In particular, the nurses award of 17.9 per cent is recorded in the underlying increase, but only 4 per cent of this is included in the actual). The underlying increase in manufacturing earnings was 8 3/4 per cent in October, unchanged from last months' figure. Overtime worked per operative increased sharply in October, to a level 9 per cent higher than a year ago. This may be an erratic movement, but on the basis of this figure overtime is currently adding about 1/2 per cent to underlying earnings growth in manufacturing. In the medium term, the upward drift in the average level of settlements should be offset by a negative contribution from overtime, so whole economy earnings growth may fall further.

PRIVATE SECTOR SETTLEMENTS

Percentage increase on previous year



COSTS

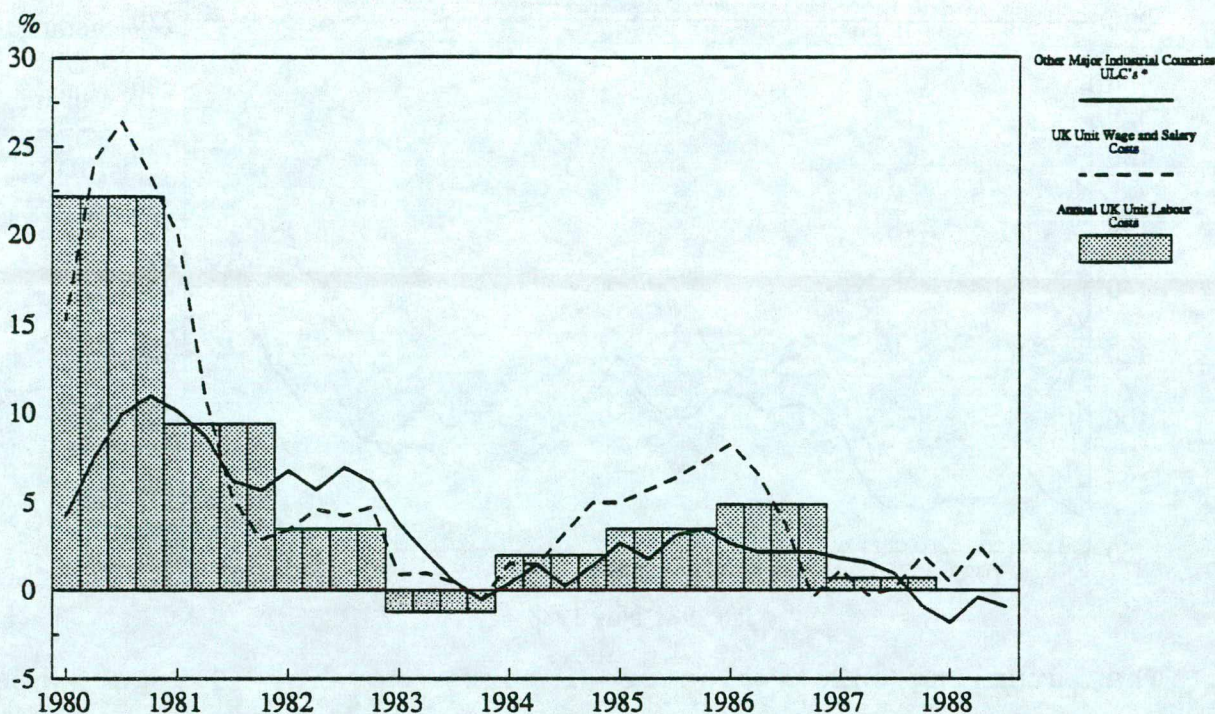
10. Manufacturing unit wage and salary costs in the three months to October were 0.8 per cent higher than in the corresponding period of 1987. Unit wage costs in the UK's main competitors increased by about 2.3 per cent on average in 1986 and by 0.3 per cent in 1987.

Productivity and Costs in Manufacturing Industry percentage change on same period a year earlier

	Output	Employ-	Output	Output	Average	Unit Wage
		ment	per head	per hour	Earnings	Costs
1986	1.0	-2.0	3.0	3.3	7.7	4.5
1987	5.7	-1.4	7.2	6.7	8.1	0.8
1987 Q1	3.9	-2.5	6.5	6.7	7.8	1.2
Q2	6.3	-1.6	8.0	7.4	7.7	-0.3
Q3	7.4	-0.8	8.3	7.6	8.5	0.1
Q4	5.5	-0.6	6.1	4.8	8.3	2.1
1988 Q1	7.5	-0.1	7.6	6.4	8.1	0.5
Q2	6.0	-0.3	6.4	5.8	8.7	2.2
Q3	7.1	-0.3	7.6	7.0	8.2	0.6
3 months to October	6.8	-0.5	7.3	6.8	8.2	0.8

UNIT LABOUR COST IN MANUFACTURING

percentage change on previous year



* Trade weighted average

11. Non-oil commodity prices, as measured by the Economist index*, fell slightly last month. The rapid rises of the last year now seem to have halted. The index has moved erratically recently due to large fluctuations in metals prices. In November the SDR all items index was 0.1 per cent lower than in the previous month, but 22.7 per cent higher than a year earlier. Industrial prices have risen rapidly since their last trough in the summer of 1986. Although prices in SDR terms trended downwards between July and September, they have risen again recently, with the index rising by 4.1 per cent between October and November. Food prices fell by 2.4 per cent over the last month. However, they are now 16.7 per cent higher than a year ago, largely as a result of the drought in North America.

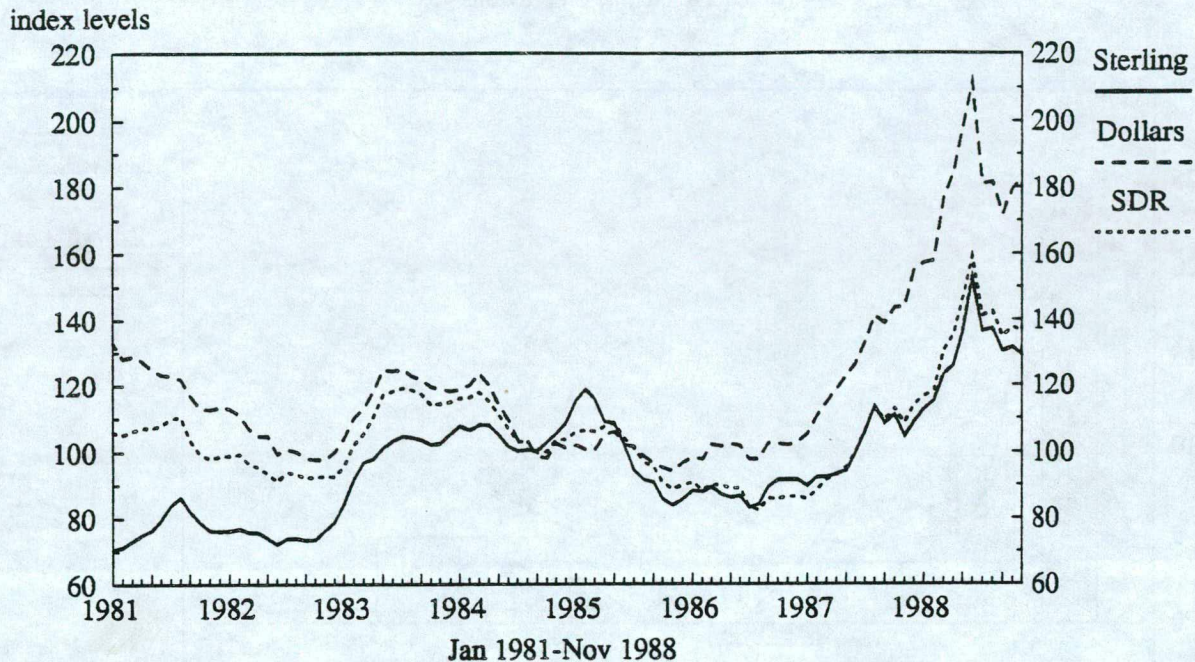
Economist index of Industrial Materials prices*

Index in	% change on one month ago	% change on one year ago
Sterling	5.6	19.8
Dollars	1.8	27.1
SDR's	4.1	31.2

* all figures are average of weekly observations recorded in October.

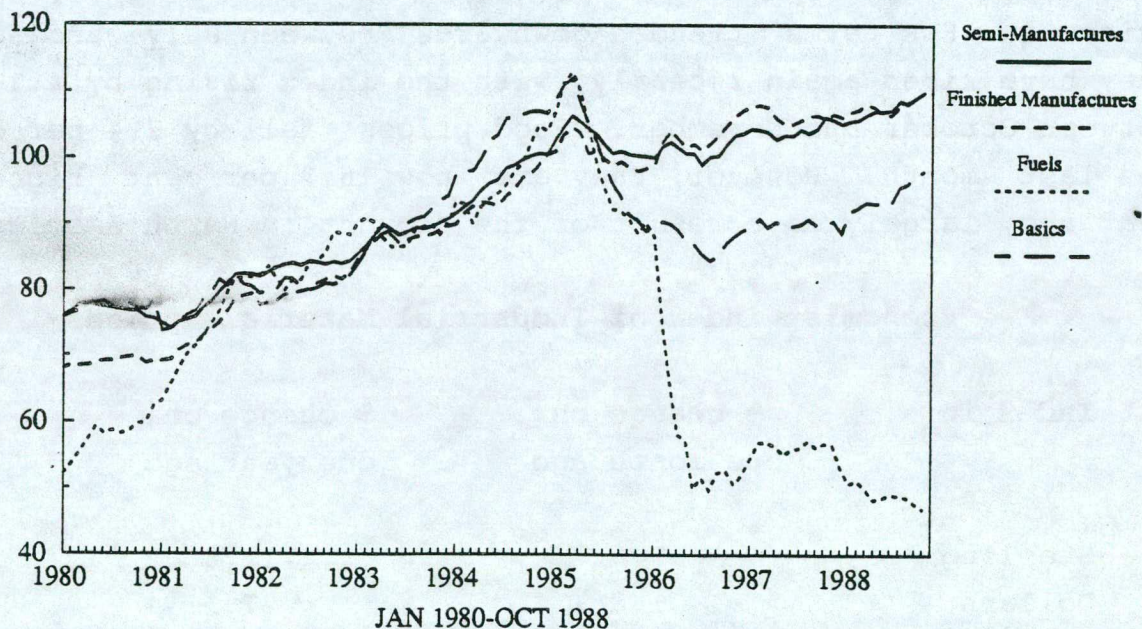
ECONOMIST INDEX OF INDUSTRIAL COMMODITY PRICES EXCLUDING OIL

1985=100



12. The sterling unit value of imports* rose by 0.5 per cent in October to a level 2.5 per cent higher than a year ago. The index for imports of basic materials rose by 1.0 per cent to a level 9.0 per cent higher than a year ago. The price of finished manufactures was unchanged between September and October, but is 3.5 per cent higher than the same time last year. The price of fuel imports fell by 18.0 per cent in the year to October. The oil market has firmed recently due to the OPEC production agreement of 28 November.

IMPORT UNIT VALUE INDICES 1985=100



* All figures Overseas Trade Statistics basis, not seasonally adjusted.



CH/EXCHEQUER	
REC.	- 5 DEC 1988
ACTION	CST
COPIES TO	

QUEEN ANNE'S GATE LONDON SW1H 9AT

✓ S/12

5 December 1988

MP

Dear John,

POLICE PAY: REVIEW OF ALLOWANCES

At a meeting of the Police Negotiating Board (PNB) on 29 November, agreement was finally reached on the terms of reference for arbitration on the rent allowance issue. The hearing will now be arranged but no date has yet been fixed. If it takes place before the end of the year, which I understand is a possibility, then the decision might be with us by the end of January.

As expected, the Official Side dropped their proposal to replace the London allowance by a new allowance payable only to officers with five years' service or more in one of the London forces. They rejected the Staff Side's claim that the London allowance should be increased by 8.5%, in line with pay, and the Staff Side decided not to refer their claim to arbitration. This was a satisfactory outcome in the circumstances.

The two sides invited the independent Chairman to rule on the Staff Side's contention that the reimbursement of NHS charges was not a matter for negotiation in the PNB and so could not be referred to arbitration. He came down firmly in favour of the Official Side's view that the issue was arbitrable. However, his ruling is not binding on the two sides and it seems likely to be some time before the issue goes to arbitration.

I am copying this letter to the Prime Minister, other members of E(PSP), Malcolm Rifkind, Tom King and Sir Robin Butler.

Yours,

John

CONFIDENTIAL

PP A1

FROM: M LAWSON

DATE: 12 December 1988

PS/CHANCELLOR
PS/CHIEF SECRETARY
PS/PAYMASTER GENERAL
PS/SIR P MIDDLETON
PS/SIR T BURNS
MR ANSON
DAME ANNE MUELLER
MR PHILLIPS
MR MONCK
MR KELLY
MR ODLING-SMEE
MR SEDGWICK
MR GIEVE
MS SEAMMEN
MR HIBBERD
MRS BROWN
MR CHIVERS
MR PICKFORD
MR STRACHAN
MR RICHARDSON
MR FELLGETT
MR de BERKER
MR FLITTON *90/2*
MR PRICE
MR CORRY
MR BELL
MR GRAHAM
MRS HARROP
MR BASI
MR LENISTON

M

PAY SUMMARY NOTE

This note updates that circulated on 30 September. Revised areas have been side-lined.


M LAWSON

CONFIDENTIAL

I. PUBLIC SERVICES

1987-88 PAY ROUND

Settled:

Civil Service: IRSF grades 6.5% (first year) Grades 5-7 5.75% (11% in full year) and others 4-5%, LA Builders 6.8%; Teachers: (E+W) 4.75% Scotland 6%; Review Bodies (Averages): Nurses 17.9%, PAMs 8.8%, Doctors and Dentists 7.9%, Armed Forces 6.4%, TSRB-senior CS and Military 5.4%, Judiciary 7.4%. (4% from 1 April balance from 1 Oct); University technicians 5.1% and non-clinical academics 7.4%; NHS maintenance 5.0%; LA Engineering Craftsmen 4% and electricians 6.8%; NHS Admin, Clerical and Secretarial 5%; Ambulancemen 5.4% NHS Builders 5.5%; NHS Ancillaries 5.4%; Civil Service industrials 4.5%; LA APT&C 5.6%.

University Manuals:

Joint review of grading currently in process following last year's award. Interim award of £4 per week accepted pending outcome of review.

1988-89 PAY ROUND

Settled:

Police (Federated Ranks and Chief Officers) 8.5%; LA Manual 5.6%; Firemen 8.6%.

Teachers:

IAC remit announced on 14 September stipulates that total cost of recommendations should not exceed £385 million - equivalent to about 5% on paybill - for year beginning 1 April 1989. Report due mid January 1989.

Review Bodies:

Revised Review Body timetable means that they are required to report to the Prime Minister in time for decisions to be announced by the end of January, or at the latest mid-February.

Written evidence presented to Review Bodies.

Police:

Changes in allowances have been referred to arbitration.

II. PUBLIC TRADING SECTOR

1987-88 PAY ROUND

Settled:

Electricity 7%; Shipbuilding 5.7% (4.8% on average); Coal Deputies 7.5%; Steel; 2 year deal 5 per cent and 4.5 per cent; Water (manuals) 5.9% staff 6.5%; British Rail 5.5%; Post Office 5.5%; BNFL 5.5% Remploy manuals 5.0% CAA 5.6%; London Buses Ltd 5%; UKAEA 5.9%; LUL 5.2%.

CONFIDENTIAL

Lloyds Bank: 7% offer rejected after ballot:
conciliation at ACAS.

OTHER INFORMATION

Average earnings (whole economy) September increasing 9¼% underlying rate, 8¾% manufacturing. Unit wage costs in manufacturing in 3 months ending September 1988 were 0.8% higher than in the corresponding period last year.

RPI 6.4% in 12 months to October 1988. TPI 4.5% in 12 months to October 1988.

The average level of settlements is:

	<u>1987-88</u>	<u>1988-89 (so far)</u>
Whole economy	7 %	6 %
Public Sector	8¼%	5¾%
Public Services	8¼%	5¾%
Public Trading Sector	5¾%	5¾%
Private Sector	6 %	6½%

DIARY AT 1.12.88

- 16-17 December - NUM vote on overtime ban
- mid-December - GCHQ ballot results on recommendation to accept offer expected.
- Beginning to mid-January - Review Body Reports due to be submitted to Prime Minister.
- mid-January - Teachers IAC Report expected.
- End-January to mid-February - Review Body awards due to be announced.

CONFIDENTIAL


FROM: MS D J SEAMMEN

DATE: 12 December 1988

MR HUDSON

cc Nr Sedgwick
Mr Odling-Smee
Mr Pickford
Mr de BerkerEARNINGS

I hear that the latest figure, for Thursday, is down to 9 per cent (from $9\frac{1}{4}$ per cent). I have told DE I assume our line will be low-key welcome. DE think the figure will stick at 9 per cent for a few months. But clearly a difference of $\frac{1}{4}$ per cent is nothing to get excited about, especially since we are downplaying the earnings series.


MS D J SEAMMENMs Seammen

cc as above

Thanks. I agree. I also got a sneak preview, from Mr Fowler's office, on Friday, and passed the news on to the Chancellor, who didn't comment. I think the main point is your last one: we think it silly for the markets to panic over a $\frac{1}{4}$ per cent rise; so it would be wrong for us to enthuse over a $\frac{1}{4}$ per cent fall.



12.12