PREM 19/182

Public Sector Pay Policy.

Review of possible Industrial Disputes in the next Pay Round.

Part 2.

ECONOMIC POLICY

Part 1: July 1979

Part 2: June 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~30.6.80~~		29.10.80					
8.7.80		ends					
14.7.80							
~~16.7.80~~							
~~22.7.80~~							
~~24.7.80~~							
~~13.8.80~~							
~~22.8.80~~							
1-9-80.							
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~~25.9.80~~.							
~~7.10.80~~							
8.10.80							
~~15.10.80~~							
~~20.10.80~~							
~~22.10.80~~							
27.10.80							
~~29.10.80~~							

PART 2 ends:-

RTA to PM (A03388) 29.10.80

PART 3 begins:-

Ld. Pres. to Ch Ex 31.10.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (80) 22nd Meeting, Minute 3	26.6.80
E (80) 75	21.7.80
E (80) 27th Meeting, Minute 1	23.7.80
E (EA) (80) 48	2.9.80
E (EA) (80) 49	3.9.80
E (EA) (80) 18th Meeting, Minutes	4.9.80
E (80) 113	7.10.80
E (80) 118	13.10.80
E (80) 119	13.10.80
Limited Circulation Annex to E (80) 37th Meeting	
Minutes 1 and 2	16.10.80
E (80) 122	24.10.80

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

Signed DAWayland Date 16 February 2010

PREM Records Team

Original on: 4
ECON POL: Pt 11
Public Expenditure

Ref. A03388

PRIME MINISTER

The Economic Situation and Public Expenditure

(C(80) 58-61, 64 and 65)

On these papers the Cabinet has to address itself to decisions on a number of crucial questions for economic policy and public expenditure in 1981-82:

(1) The volume total of public expenditure: in other words, the total amount to be sought by way of reductions.

(2) The distribution of that amount among Departmental programmes.

(3) The percentage figure and the inflation factors for the RSG settlement.

(4) The cash limit factors for pay and prices.

BACKGROUND

2. The Chancellor of the Exchequer's paper on the economic prospect and implications for policy (C(80) 59) sets out the reasoning which leads the Treasury to propose the reductions set out in the Chief Secretary's paper (C(80) 58). The presentation is (as the Treasury are themselves now saying) a little confusing, because some of the figures are in 1980 Survey price terms and others in 1981-82 cash terms; I gather that the Chancellor may circulate at the meeting a page of figures which straightens out the confusion (and incidentally updates some of the numbers). But the gist is clear enough. In order to get the Public Sector Borrowing Requirement (PSBR) next year back to the current forecast of about £11,000 million, we need the full amount of the cuts in public expenditure proposed by the Chief Secretary; that will still leave a need for fiscal measures to bring the PSBR down further, in order to leave room for reductions of interest rates (and thus, it is to be hoped, the exchange rate).

3. Some of your colleagues may nonetheless want to argue that, because of the depth of the recession and the depressed state of industry (confirmed by the CBI figures announced today), there should now be a modification of the strategy which would permit smaller reductions in public expenditure and a higher PSBR next year. This line of argument requires them to accept that on that proposal:

<u>either</u> interest rates must go higher to enable the Government to finance the higher PSBR without an increase in money supply - which would intensify the present liquidity squeeze on industry, and thus reduce output

and increase unemployment in the short term;

<u>or</u> money supply is allowed to increase at a faster rate (printing more money), which could mean higher inflation, greater uncompetitiveness, lower output and higher unemployment two years out than can be expected if the present strategy is maintained.

There may be requests for more information about the possible effects on industry and employment of the Treasury's proposals. That would be for the Chancellor of the Exchequer to answer: I believe that the answer is in fact that the overall effects would not be very great, but that (depending on the distribution) there could be more serious consequences in particular industries or geographical areas.

4. If this sort of argument looks like emerging, I suggest that the right course is to have it out, and to re-establish the collective commitment of the Cabinet to the present strategy. That is the only way to provide a sound and secure basis for agreement on the total amount by which public expenditure in 1981-82 is to be reduced. Once that is established, then it becomes a question of distribution: the Chief Secretary's proposals provide a starting-point, from which discussion can proceed on the basis that, if one programme is to be cut by less than is proposed, that will have to be made good by larger reductions in other programmes.

5. The other line of argument which you might get - it surfaced in E last week from the Secretary of State for Social Services - is that it would in present circumstances be better to effect more of the required reduction in the PSBR by increasing taxation and less by reducing public expenditure. The Chancellor's argument in reply will presumably be that, even if the whole amount of the proposed reductions in public expenditure are agreed and put into effect, he will still be left with a substantial amount to recover by increased taxation. By tradition it is for the Chancellor - consulting only the Prime Minister - to decide what he can and should raise by way of taxation and by what means, and that has not usually been discussed in the Cabinet - for reasons of Budget security. But Ministers in charge of spending Departments are being asked to make very large and very painful cuts, and in order to convince them of the need to persist in them the Chancellor may need to expose rather more of his general thinking on the size and shape of his Budget.

6. Once you have established a collective commitment to the strategy, and to the size of the reductions required, the next question will be how to get them. In my judgment some discussion of that should precede the discussion of cash limit factors and the RSG, not least because there is a trade-off between the proposed 1 per cent volume cut in local authority current expenditure and the percentage figure for the RSG; if the 1 per cent volume cut can be made to stick, then it would be reasonable to accept a figure of 61 per cent for the RSG, whereas if the 1 per cent cut cannot go forward, that will strengthen the case for 60 per cent for the RSG.

7. The Chancellor will be reporting on the outcome of the enlarged bilaterals; but they have not produced very much by way of firm commitments, and there remain pockets of stout resistance. The Secretary of State for Defence has undertaken, without commitment, to look at a reduction of £188 million, on the understanding that there would be a commitment to return to 3 per cent a year real growth thereafter; he can probably be got that far, but in his present frame of mind no further. The Secretary of State for Education and Science considers that the 1 per cent cut in local authority current expenditure would mean not only abandoning the Manifesto commitment on standards of education but also at least a moratorium on teacher recruitment, if not making some teachers redundant. The Secretary of State for Scotland will go along with the Scottish share of whatever cuts are agreed on a Great Britain basis, but declines to go further. The Secretary of State for Employment will argue for much more than the Chief Secretary is prepared to allow on measures to tackle rising unemployment.

8. There is, I think, no possibility of agreement round the table tomorrow on reductions adding up to the total proposed by Treasury Ministers. Once the Cabinet agrees on the total, there will have to be a further process of "brokerage", which is bound to turn primarily on the large spenders: defence, education, health, and social security. At this meeting you might seek a second-reading sort of discussion, in which Ministers might comment in general terms on the shape and direction of the reductions, in the hope that it might be possible to extract from the discussion some generalisations to guide the process of identifying where cuts should fall.

9. You have yourself said that you would like to minimise cuts in capital programmes and equipment programmes which would bear especially hard on certain industries which are especially vulnerable. You may wish to see whether there is any disposition to accept this as a general proposition. If there is, the implication must be that greater reductions should fall on public service manpower and current expenditure, and on transfer payments. You will wish to see if there is general readiness to cut deeper into the area of social security benefits, which account for a sizeable proportion of total expenditure.

10. If the discussion does establish some degree of agreement about where the cuts should fall, the next step should presumably be for the Chancellor and the Chief Secretary, together with the Home Secretary and the Lord President, to have another go at the spending Ministers who are going to have to bear the main brunt of the reductions, supported by whatever general conclusions have emerged at this meeting.

11. The discussions on cash limit factors and on the RSG are separable from the main issues of strategy and public expenditure; but final decisions cannot be recorded until those issues have been resolved. If time permits, you could have some discussion of cash limit factors and the RSG settlement; but I am inclined to think that those could and should be held over for a later meeting.

Timing

12. Decisions on the whole range of issues need to be reached before the State Opening of Parliament on 20th November. Between then and now there are three further meetings of the Cabinet: on 6th, 13th and 19th November. I should think that the aim should be to complete the process not later than 13th November. We have provisionally allowed time for an extra meeting of Cabinet on Tuesday, 4th November; so you have this up your sleeve if you need it. We could use it to discuss cash limit factors and the RSG, so as to be able to revert to the public expenditure questions on 6th November; but that is very rushed, and I suspect that it may make better sense to take cash limit factors and the RSG on Thursday, 6th November, so as to leave a fortnight for the process of brokerage on public expenditure, and then hope to be able to confirm decisions on all the issues on Thursday, 13th November.

HANDLING AND CONCLUSIONS

13. It is more than usually difficult to make recommendations to you about how to handle this discussion, because of the uncertainties about how it may go. Clearly you should invite the Chancellor of the Exchequer to open the discussion with a "scene-setting" presentation of the economic background to and reasons for the Treasury's proposals on public expenditure and cash limits. You may like to ask the Secretary of State for Industry to come in behind the Chancellor, to support him on the case for freeing resources from the public sector for the private sector. Other Ministers who may want to enter the discussion at this stage are the Secretaries of State for Trade, Employment, the Environment, Social Services, and the Minister of Agriculture.

14. The objective in this phase of the discussion will be to rally the Cabinet round the strategy, and record a conclusion accordingly. That done, it should be possible to proceed to the public expenditure proposals. You could invite the Chancellor or the Chief Secretary to open this part of the discussion, reporting on the present state of the bilateral discussions. I have suggested that this might be a second-reading discussion, leading to general conclusions which could provide a framework and direction indications for a second round of bilaterals, with a view to reporting agreements and resolving outstanding differences on 13th November.

15. If there is time, you could then proceed to take the papers on cash limit factors, and a first go at the RSG; but that makes for a very large mouthful at this meeting, and you could let those two papers stand over either until Thursday, 6th November or, if you want to force the pace, until a special meeting of the Cabinet on Tuesday, 4th November.

ROBERT ARMSTRONG

(Robert Armstrong)

29th October, 1980

Original on:-
Econ Pol : Pt 11
Public Expenditure

CONFIDENTIAL

Ref. A03389

PRIME MINISTER

1981-82 Cash Limits and Votes: Pay and Price Factors
(C(80) 60 and 65)

BACKGROUND

In C(80) 60 the Chancellor is proposing a single cash limit uplift figure for new pay settlements in the public services in 1981-82 of 6 per cent and a single figure for prices of 11 per cent. In C(80) 65 he records certain technical recommendations on the staging and "over-hang" elements in cash limits - recommendations which were circulated to E Committee earlier this week (in E(80) 122) and which, though not discussed, appear generally to be acceptable. The one point on which his new paper goes beyond the proposals put to E this week (although it was put to them earlier and not resolved) is the suggestion in paragraph 6 of C(80) 65 that for settlements occurring towards the end of 1981-82 (in the pay round starting on 1st August 1981) the cash limit figure applicable to those settlements should provisionally be 2 percentage points below the figure agreed for the current pay round (ie. 4 per cent if Cabinet agrees to 6 per cent).

2. There are thus four issues to be resolved -

(a) The cash limit for 1981-82 for pay.

(b) The cash limit for 1981-82 for prices.

(c) The treatment of over-hang and staging in 1981-82.

(d) The "provisional" cash limit for pay in 1982-83.

3. E Committee has already had a general discussion of these matters (E(80) 37th Meeting, Item 1), and the 6 per cent figure was mentioned but not specifically endorsed in that discussion. The Chancellor has taken his cue from that figure, but (I am informed) might, if pushed, go to 7 per cent. In summing up the E meeting you recorded agreement to a single pay figure increase for the public services in 1981-82 and were able to conclude also that "provided that it was not unrealistically low, and was seen to apply fairly through the public services, ... there was a reasonable chance of securing satisfactory

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settlements without industrial action in the coming winter". You will want to check with the Lord President that this judgment has not been adversely affected by the subsequent announcement of the suspension of the pay agreement for the Civil Service. Colleagues are unlikely to demur from agreement on a single figure limit. But it will be in everybody's interests that they should be quite clear about the implications of their decision. A single figure of 6 per cent for the public services will mean 6 per cent not only for the Civil Service, local government and the National Health Service but also for the Armed Forces, the doctors and dentists, the nurses, the TSRB groups and, in due course, MPs and the police (indeed, if the Chancellor's proposals for a provisional limit for 1982-83 is accepted, the police increase next year could be only 4 per cent - a point also picked up specifically in C(80) 61 on the RSG to be considered later in the meeting). The Secretary of State for Defence will certainly seek an escape clause for the Servicemen. But, as you said at E, the policy will be at risk if it is not seen to be fair. It will be difficult to blur the consequences of the decision, because the interest groups concerned are bound to ask where they stand once the initial announcement has been made.

4. The proposed figure of 11 per cent for price increases reflects a slightly optimistic assumption by the Chancellor about the likely increase in the RPI over the coming year. Nevertheless, his stand with his colleagues has been that the price assumption is realistic and is not intended as an instrument for a further volume squeeze. Most are likely to accept this, though Mr. Pym will point to the differential increase in the price of defence equipment caused by growing sophistication of weaponry. He may not seek a special concession here, in order to reserve his fire for the discussion on defence expenditure as such; but it is possible that he will reserve his position on cash limits generally, pending resolution of the defence package as a whole.

5. As for the technical questions in C(80) 65, there is likely to be little argument about the Chancellor's proposals, other perhaps than on his suggestion for a provisional cash limit for 1982-83 to apply it to settlements reached late in the coming round (paragraph 6 of C(80) 65). Colleagues may accept this as being only a provisional stance which can be re-examined next year in the light of circumstances.

HANDLING

6. You will wish to ask the Chancellor of the Exchequer to introduce his two papers. It may then be possible to get quick agreement to the technical points in C(80) 65, especially those in paragraphs 2-5 of that paper (paragraph 6 being the "4 per cent point" discussed above). Thereafter you might move to the pay cash limit and ask each of the Ministers primarily concerned whether they accept 6 per cent and whether they are prepared to accept the consequences of this decision for the major groups of staff for which they are responsible, e.g. the overriding next year of the reports of the three review bodies - TSRB, DDRB and AFPRB. The Ministers primarily concerned are: the Lord President (for the Civil Service), the Secretary of State for Social Services (for the NHS, including the doctors and dentists), the Secretary of State for the Environment (for the local authorities), the Home Secretary (for the police), the Secretary of State for Defence (for the Armed Forces) and, possibly, the Chancellor of the Duchy (for MPs).

CONCLUSIONS

7. You will need to record conclusions on -

(i) The pay factor for 1981-82.

(ii) The price factor for 1981-82.

(iii) Whether any special provision has been agreed for particular groups.

(iv) Whether the technical recommendations in paragraphs 2, 3, 4 and 5 of C(80) 65 are accepted.

(v) Whether a provisional pay figure, below that for 1981-82, is acceptable for settlements reached after 1st August 1981, and if so what level for this should be set.

ROBERT ARMSTRONG

(Robert Armstrong)

29th October, 1980

CONFIDENTIAL

D59

File

cc: E. Ch~~e~~
HO
FCO
(HMT)
DOI

10 DOWNING STREET

From the Private Secretary

28 October 1980

+ MOD
SO
DHSS
DES
Paymaster-G.
CO

Ld Pres
D Emp.
MAFF
DOT
D Energy
CSO, HMT

The Prime Minister notes that, after further consideration following the E meeting on 15 October, the Chancellor has provisionally recommended that it would be preferable not to make a change in the method of cash limit calculation to abate the provision next year for groups who had staged settlements last year, nor to adjust 1980-81 cash limits downwards to reflect the reduced pay provision for settlements between now and the end of the financial year. It seems unlikely that any other Minister will take a different view, and the Prime Minister proposes therefore that a decision on the paper E(80)122 should be deferred until after Cabinet has taken the substantive decision on the pay assumption for the new cash limits. On that basis, the meeting of E arranged for this evening has been cancelled.

I am sending copies of this letter to the Private Secretaries to members of E Committee, and to the Private Secretaries to the Secretaries of State for Defence, Scotland, Social Services, Education and Science, the Paymaster General, and also to David Wright (Cabinet Office).

I.P. LANKESTER

John Wiggins, Esq.,
H.M. Treasury.

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RESTRICTED

cc ~~Mr. Lankester~~
Mr. Ingham

MR. DUGUID

P.a.

THE DIXON GROUP

The Dixon Group held its third meeting this morning, and went through the draft of its third Report to the Prime Minister. Few, if any, interesting new issues have been identified, although at my suggestion the Report will now include passages about Civil Service pay, since that is about to become rather more interesting, and a piece on the ambulancemen, who, because of their wish for a link with the policemen and firemen, could cause us trouble in the New Year.

I think the main point to which the Prime Minister's attention will need to be drawn is on the treatment of nationalised industries, and specifically the question of the extent to which sponsor Ministers should be twisting the arms of nationalised industry chairmen, after the EFLs are set, with a view to ensuring that opening offers are well below pay assumptions.

The action requested by the Prime Minister after the last Report has been taken: the Chancellor has written to the Home Secretary about the firemen's index linking, and to Mr. Carlisle about the university teachers.

John Vereker

27 October 1980

RESTRICTED

Econ Pol

Ref A03364

PRIME MINISTER

Public Services Pay in 1980-81: Transitional Problems
(E(80) 122)

BACKGROUND

1. This paper arises following discussion at the meeting on 16 October (E(80) 37th - item 1) and discusses two transitional problems in relating pay to cash limits.

Staging

2. In the past cash limits have been based on the salary level at the start of the financial year, with a provision for an addition for any pay settlements in that year. Thus managements - both central government and elsewhere in the public sector - have found it convenient, when faced with reconciling large pay rises with cash limits, to stage the payments, so that the average pay in the year concerned is kept within the cash limit provision, but leaving the full salary level to be paid near the end of the financial year, so that this higher level is carried into the base for the next year's cash limit. This means an increase in the paybill between the two financial years which can be well in excess of the cash limit provision. The staff who are affected by staging suffer a loss of salary in the first of the years, since their average pay is lower. But they have been willing to acquiesce in the arrangement, because what they believe to be the "right" salary is eventually paid. Clearly this arrangement dilutes the discipline of cash limits over pay settlements, and the Chancellor proposed in E(80) 118 that staging should not be used in the future. Instead the base for the new cash limits should be taken as the average, rather than the final, salary level in the preceding year.

3. The paper discusses three groups which had staged settlements last year, and questions whether it would be practicable to start the new system immediately, which would reduce the entitlement of these groups to any "standard" increase in pay provision in the new cash limits.

4. Annex A discusses possible options. The Chancellor has decided to recommend making a special provision above cash limits for these groups this year, and starting with a clean sheet from then on, (with the proviso that his colleagues accept that the general "new pay" factor will be the tight one of 6%).

5. The teachers are in some respects a special case, because of the "Clegg error". But as you will be discussing in the paper on the Rate Support Grant settlement at Cabinet on Thursday, any abatement of teachers' salary provision would have to be distributed through the Rate Support Grant differentially between education authorities - which include all the shire counties and Outer London boroughs - as against other local authorities. It could thus seriously upset the political balance of the proposed Rate Support Grant distribution package.

<u>Problems when pay year and cash limit year do not coincide</u>

6. There are a number of groups whose pay is settled in the autumn, and whose settlements are therefore influenced by cash limit assumptions made almost a year before. Last year the cash limit assumption for settlements in the second of the pay rounds affecting 1980-81, ie settlements between August 1980 and March 1981, was 13% - 14%. If groups settling this autumn do so in single figures, there will be some spare provision in the cash limit for their pay. Alternatively there is the risk that their negotiators will not feel under a tight cash constraint. In theory it would be possible to reduce all these cash limits, to allow for the new standard pay provision. This would be the converse of the process last year of increasing cash limits, when the previous Administration's 5% assumptions proved unreasonable. There are, however, serious objections to adjusting cash limits once they are set, and although there is some excess pay provision, the cash limits concerned will have been subject to a squeeze because price movements have exceeded the original provision. The Chancellor therefore recommends no retrospective alteration, but merely that the 1981-82 cash limit should allow only for the new pay provision, (and would therefore be lower than the provision assumed for the closing months of 1980-81).

HANDLING

7. It seems unlikely that colleagues will disagree strongly with the Chancellor's recommendations (we already know that the Lord President of the Council and the Secretaries of State for Industry and Education will accept them). The main problem therefore is in bringing together the series of interlinked decisions which will be taken over the next few days. The Chancellor's recommendations today are conditional on a 6% new pay assumption, but you cannot reach a final decision on that until the full Cabinet consider his paper C(80) 60. As already noted above, the decisions on cash limit factors, and the treatment of staging, both interact with the Rate Support Grant distribution, which is also to be considered by Cabinet on Thursday.

8. You might ask the Chancellor of the Exchequer to introduce the paper, and then inquire whether any colleagues wish to dissent from his recommendation. If any wish to do so, it will probably be because they are worried about the "realism" of the 6% new pay figure. You will want to discourage such discussion - which is for Cabinet - and confine the present meeting to the principle of the way these anomalies should be handled, irrespective of the exact size of the new pay figure.

9. The Secretary of State for Defence has to leave the meeting early, and you might give him an early opportunity to speak. Apart from him, the main Ministers with an interest are the Lord President (who wrote to colleagues on the 22 October), the Secretary of State for Education and the Secretary of State for the Environment.

CONCLUSION

10. The conclusion will probably be that the Committee agree provisionally that the transitional problems should be handled in the manner recommended by the Chancellor in Option (a) of Annex A, and Option (b) of Annex B of the E(80) 122, subject to final confirmation when the "new pay" provision for cash limits is decided by Cabinet.

D J Wright

ROBERT ARMSTRONG

(approved by the Secretary of the Cabinet and signed on his behalf)

27 October 1980

Ref: A03365

CONFIDENTIAL

MR. LANKESTER

Prime Minister

The Cabinet Office are, in effect, recommending that we clear the Chancellor's proposals in correspondence after the Cabinet discussion on the pay assumption. This seems sensible.

Agree?

Yes not

We set up the E meeting tomorrow when it was not clear which course the Chancellor would recommend on Transitional Problems - and it was desirable to clear the decks as far as possible before the Cabinet discussion of pay factors on Thursday. In fact the Chancellor has now recommended no special transitional arrangements, but instead accommodating to the problems of "overhang" and making a fresh start with a new regime from now on. In view of the problems of doing otherwise it is most unlikely that any other Minister will wish to argue against that: in particular we know that the Lord President, the Secretary of State for Industry and the Secretary of State for Education and Science accept the Chancellor's view.

JL 27/10

2. The Chancellor has made his recommendation subject to the pay assumption decision in Cabinet. So unless the Prime Minister wishes to go over the various options herself, it would be possible - and might be preferable, given all the other pressures - to cancel this E meeting, and seek formal decisions on these technical points after the Cabinet discussion.

3. A draft minute is attached.

D.J. Wright

(D.J. Wright)

27th October 1980

CONFIDENTIAL

DRAFT MINUTE FROM THE PRIVATE SECRETARY TO THE PRIME MINISTER TO THE PRIVATE SECRETARY TO THE CHANCELLOR OF THE EXCHEQUER

The Prime Minister notes that, after further consideration following the E meeting on 15th October, the Chancellor has provisionally recommended that it would be preferable not to make a change in the method of cash limit calculation to abate the provision next year for groups who had staged settlements last year, nor to adjust 1980-81 cash limits downwards to reflect the reduced pay provision for settlements between now and the end of the financial year. ~~If the Chancellor is persuaded to these recommendations by his study of the options,~~ It ~~is~~ seems unlikely that any other Minister will take a different view, and the Prime Minister proposes therefore that a decision on the paper E(80) 122 should be deferred until after Cabinet has taken the substantive decision on the pay assumption for the new cash limits. On that basis, the meeting of E arranged for ~~tomorrow evening~~ this evening ~~could be~~ has been cancelled.

We don't need to say all of this!

TL.

24 October 1980

cc Mr Wolfson

MR LANKESTER

You asked for my comments on Jim Prior's note to the Prime Minister about "Earnings 1979-80".

We have just one brief and general comment. Jim seems to be mostly concerned (and by implication, Geoffrey Howe and Christopher Soames likewise) to "talk down" the New Earnings Survey because it contains such large figures.

This seems to be quite the wrong way round. If our objectives are to create a climate which is (a) conducive to low public sector settlements, and (b) which helps us to explain cause and effect to the public (these huge increases, including the private sector, have to be paid for in unemployment, high MLR, expenditure cuts, higher taxes), the high figures in the Survey strengthen our case. In any case, they are so horrendous, however we talk them down, compared with the realities of our situation, that we risk looking ridiculous if we appear to be investing great effort in making absurdly high figures look slightly less absurd. Better to say that we've all behaved like greedy idiots and are now paying the price, and it would be stupid and (in the public sector) wicked to sustain such behaviour for another year. And we're not going to let it happen.

JH

JOHN HOSKYNS

This should be explicitly used as a launching-pad for announcement of Cash limits & the 6% objective

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

Econ Pol

2

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

22 October 1980

cc Mr Hoskyns
Mr Walters

Prime Minister

MO

Dear Geoffrey,

PUBLIC SERVICE PAY: "OVERHANG"

At E Committee last week we discussed our approach to settling the pay factors for the cash limits of 1981-82. You will be making recommendations to Cabinet at its meeting next week.

One point in particular continues to concern me. This is the question of what you described in E(80)118 as "overhang". We must be clear about what is involved. The "overhang" does not represent an advantage which has been gained by some groups. On the contrary they were made to wait for the increases which it was agreed were due to them on a given date. If we now insist that they have lower increases than others in the new pay round then we shall be using a past penalty to justify a new one, and thereby deducting twice over the deferment or staging of the last pay round.

I do not see how we can justify such treatment on grounds of public expenditure control, public service pay policy, justice or commonsense.

As I said at E - and the Prime Minister endorsed this more generally in her summing up - providing we do not go unrealistically far down into single figures and apply the same treatment to all public services, there is a good chance of getting away without serious industrial trouble. This would be in spite of the fact that given the likely level of inflation there will be a marked reduction in real wages wherever the low cash limit is applied and held. But if on top of that we were to penalise some particular groups yet again because of last year's staging, we would provoke the unions to a degree of hostility of a much more serious order.

I am copying this letter to the Prime Minister and to those present at E Committee discussion.

Yours ever

Christopher

SOAMES

CONFIDENTIAL

CONFIDENTIAL

23 OCT 1980

CS

SECRETARY OF STATE FOR EMPLOYMENT

Original on:— ECON POL: Strategy: Pt 7

PRIME MINISTER

EARNINGS 1979-80

I have discussed with Geoffrey Howe and Christopher Soames the awkwardness w[e] face on the publication of the first results of the New Earnings Survey 1980 on 29 October. The Survey compares the earnings of a large sample of workers in April 1979 and April 1980; and the results are always widely awaited.

2. The Survey shows that average earnings for adult men in the public sector as a whole increased by 25½% and in the public services (central and local government) by nearly 29%. The increase in the private sector was 20½%.

3. There is a presentational problem about the increase for central government which was particularly high at 34½%. This includes both the civil service and the health service. For the major groups within the non-industrial civil service increases ranged from 29% to 42%. These civil service increases include the two staged payments of around 5% and 10% which were part of the April 1979 settlement but which were not paid until August 1979 and January this year. They also include approximately 19% for this year's April settlement implementation of which was in fact deferred until 7 May in order to bring the cost within the cash limit. This inevitably gives a distorted picture because it includes the bulk of two annual settlements in the one year period covered by the 1980 Survey.

4. The increase implemented on 7 May might have been excluded as falling outside the Survey period; but the statisticians thought it right to include it as the deferment of its implementation was exceptional and this settlement traditionally comes into payment in April. Its exclusion, which would have needed to be noted, could well have attracted adverse comment and would have meant that, in a year's time, the 1981 Survey would have shown a very much higher figure than that we mean to achieve. In any case, it is not now practical to re-run the Survey to exclude the 1980 settlement.

CONFIDENTIAL

SECRETARY OF STATE FOR EMPLOYMENT

5. Although Geoffrey Howe, Christopher Soames and I are agreed that we should have had the opportunity of giving political consideration to the option favoured by the statisticians before we reached this point, we are also agreed that the outcome has to be accepted and that we must now ensure that the figures are put in proper perspective on publication. This point has been taken into account in a short article on the Survey which will appear in the Department of Employment Gazette. I also attach a briefing note, prepared by our officials, which, if you agree, Angus Maude might circulate to all Ministers.

6. I am copying this minute to Geoffrey Howe, Christopher Soames and Angus Maude.

JP

23 OCTOBER 1980

BRIEFING NOTE FOR MINISTERS

EARNINGS 1979-80

Background

The first results of the New Earnings Survey (NES) 1980 will be published on 29 October in the form of a short article in the Department of Employment Gazette and the first part of the separately published report on the Survey. Each year the Survey compares the earnings in April of a large sample of workers with their earnings in April of the previous year.

2. The article will show that although the average earnings of all adult men increased by 22½%, there was a significantly higher increase in the public sector (25½%) than in the private sector (20½%). Moreover it will show that within the public sector the increase for public services (central and local government) was nearly 29%. Although the breakdown between central and local government will not be published until mid-November, in the second part of the Survey report, the 29% comprises 34½% for central government and 26% for local government.

3. In addition the first part of the survey report will contain, inter alia, separate figures for the major groups within the non-industrial civil service. These show increases for matched groups of staff ranging from 29% to 42%.

4. The publication of these figures might well prompt criticism that whilst the Government has exhorted pay restraint it has in fact allowed public service pay, and in particular pay in the non-industrial civil service, to increase excessively.

5. There are however some statistical oddities in the Survey and it is important that the figures are put in proper perspective when they appear. The article in the Gazette will do this.

6. In addition the following briefing notes are provided to help Ministers counter any ill-based criticisms and to explain the Government's views.

NOTES FOR USE

7. It should come as no surprise that earnings in the public services increased sharply over the 12 months to April 1980.

8. The last Administration's pay policies had the effect of holding down pay in these services more than elsewhere. Before the 1979 Election the pressures thus

created were beginning to be released, for example with the setting up of the Clegg Commission and the restoration or introduction of the concept of comparability more generally. This all provided for an inevitable catching up process; the Government and the tax-payer being left to meet a very expensive post-dated cheque.

9. In fact, taking the last four of five years together, to even out the discriminatory effects of those pay policies, pay in the public services has increased no faster than pay in the private sector. For example, between 1976-1980 the earnings of all non-manual workers increased by 72% and the earnings of the non-industrial civil service by 71%.

10. The way in which a number of public service settlements in the 1978-79 pay round came to be staged has also helped to swell the apparent increases between the 1979 and 1980 earnings surveys. The purpose was to reduce the short-term costs of the settlements. But the result was that the 1979 Survey earnings figures appear artifically low in comparison with the 1980 figures.

11. The increases in earnings between the survey dates do not always indicate the effect of a single annual pay settlement, whether staged or not. For example, in the case of the non-industrial civil service, the increases shown between the two latest surveys include staged payments from the 1979 settlement (only the initial payment of which is reflected in the 1979 survey) of around 5% and 10%, which were paid respectively in August 1979 and January 1980. And they also include the 1980 settlement which, although traditionally due in April, was this year not implemented until 7 May. The effects of much the greater part of two annual settlements are therefore evident in the earnings increase for the service.

12. The catching-up process is past history. The Comparability Commission is being wound up. Public services' pay increases are being held to tough cash limits. This is already apparent. In the last, 1979/80, pay round, settlements were well below the generality of settlements in the private sector and the level of inflation.

13. The Government has made it clear that public sector wage settlements in this round must be sharply lower than last time. Ministers have already referred to the need for public services pay rises to be in single figures. The Government will not finance more than the country can afford.

22 October 1980

CONFIDENTIAL

cc Vereker

JS

Econ Pol.

10 DOWNING STREET

From the Private Secretary

20 October 1980

BF 28 10 80 – b/f superceded by events. TL agrees. OC 4/11

The Prime Minister was grateful for your letter of 15 October and the enclosed note on pay negotiations in the public sector. She has noted that the Chancellor intends to take action on several of the issues raised. She, for her part, is concerned about the index linking of firemen's pay: she understands that the Chancellor is consulting the Home Secretary on the possibility of ending index linking and would be glad if he would keep her informed of developments. The Prime Minister is also concerned about the current university teachers' negotiations and the 13 per cent claim from Committee B which she regards as much too high: although this matter was raised in E Committee last Thursday, she suggests that the Chancellor should take it up directly with Mr. Carlisle.

TPL

Peter Jenkins, Esq.,
HM Treasury.

GB

CONFIDENTIAL

cc: Mr. Ingham
Mr. Duguid

MR. LANKESTER

Public Sector Pay: Fortnightly Monitoring Report

We spoke about the second Dixon Group Report, and I am submitting separately a note for the Prime Minister recommending two points you might make in your reply to the Chancellor's Private Secretary. The next meeting of the Dixon Group is on Monday afternoon, 20 October, so if at all possible your letter ought to issue before then - if you send me a copy, I can let the Group know what has been said.

You may have noticed an apparent discrepancy between the reference in the record of the Chancellor's meeting on 13 October on nationalised industries' pay to No. 10 preparing a general brief on the tactics to be employed in nationalised industry pay negotiations, and the reference at the end of Peter Jenkins' letter to you to the Prime Minister's agreement that the Treasury should act as the focal point in coordinating advice to sponsor Ministers about the negotiations. I have talked to both Peter Jenkins and Treasury officials about this, and we have agreed that I should prepare - on the basis of material which I hope the Treasury will send me - guidance on what Ministers should say in general terms about nationalised industry pay negotiations, while the Treasury will tell sponsor Ministers what they think the tactics should be on individual negotiations.

J M M VEREKER
16 October 1980

CONFIDENTIAL

CONFIDENTIAL

1

Original returned

PRIME MINISTER

Public Sector Pay: Fortnightly Monitoring Report

The second Report by the official Group monitoring pay negotiations is attached. The Chancellor has seen it, and his Private Secretary's covering letter indicates the action the Chancellor will be taking on some of the issues.

There are two important matters on which I think you should intervene:

i) The index linking of firemen's pay. The employers have decided not to try and change the formula for indexation; if it stands we will have a 20 per cent pay rise in the public sector early in the pay round (the settlement date is 1 November). The Report refers to the similar arrangement for police pay; but the firemen do not have to get the same special treatment already given to the policemen. The Chancellor is consulting the Home Secretary; you may want to indicate your own concern, and ask the Chancellor to keep you informed.

ii) University teachers. Here there is a danger of a 13 per cent settlement, again in the public sector and early in the pay round (the settlement date was 1 October). This is not mentioned in the covering letter. You may want to suggest that the Chancellor takes this up with Mr. Carlisle.

They came up during our Thursday discussions. But no harm in making 2 points in writing. MT

Would you be content for Tim to make these points in his reply to the Chancellor's Private Secretary?

Prime Minister.

I do not think that the Chancellor will need much prompting on university teachers' pay. He – and Mr Carlisle – knows your views. But there would be no harm in mentioning it in the reply to the Treasury.

[initials]
17x.

V.

J M M Vereker
16 October 1980

CONFIDENTIAL

cc Vaysker

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

15 October 1980

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

Dear Clive,

PUBLIC SECTOR PAY: FORTNIGHTLY MONITORING REPORT

... I attach a note by Treasury Officials on pay negotiations in the public sector. It identifies three important issues for which no arrangements have yet been made for Ministerial consideration in addition to a number or other important issues which Ministers will be considering collectively.

In order to ensure that outstanding settlements from the 1979-80 pay round are presented as favourably as possible, we propose to write at official level to the Departments concerned reminding them of the importance of careful presentation of the settlement in order to minimise their repercussive impact.

The Chancellor will be writing to Mr Heseltine about the negotiations with the water workers and local authority manuals, and asking his views on the timing of the settlements. The Chancellor will also be consulting the Home Secretary about firemen's pay. He is disappointed that the original prospect of breaking away from index-linking is not (apparently) to be taken further, particularly as it seems likely to lead to a very high settlement (22 per cent). He understood that the Home Secretary hoped to be able to overturn the index-linking arrangement for firemen, which was established two years ago as a result of the firemen's strike in 1977.

/As regards

As regards the nationalised industries, the Chancellor had a discussion with the sponsor Ministers on 13 October about the prospects for the nationalised industry pay round and the attitude and tactics to be adopted by sponsor Ministers towards it. He discussed this general question with the Prime Minister yesterday and it was agreed that the Treasury should act as the focal point in co-ordinating advice to sponsor Ministers about their negotiations and in monitoring developments.

Yours ever,

Peter

P.S. JENKINS
Private Secretary

PUBLIC SECTOR PAY: NEGOTIATIONS AND ISSUES

NOTE BY TREASURY OFFICIALS

Introduction

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

1. Issues for which no arrangements have yet been made for Ministerial consideration:

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

   Such settlements are likely to be significantly higher than Ministers intend to achieve in the current round. For example, in the case of local authority Administrative, Professional, Technical and Clerical grades, the settlement for which is still outstanding, will there be a role for the Government (as well as the local authorities) in seeking to minimise the repercussive impact? Probation Officers have taken the same route as the APT&C grades; but in this case the Home Secretary is legally bound either to authorise implementation of the award or withhold approval. Another problem, where the Government cannot avoid becoming involved, may arise with the outstanding Clegg references on three main groups.

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

   Should Ministers seek to influence the timing of the negotiations with the powerful waterworker so that it is after the settlements with the other two groups?

   (iii) Index linking

   Since the local authorities are most unlikely to do so on their own initiative, Ministers might wish to consider encouraging the employers to break the fireman's index-linking. This could of course lead to a firemen's strike, and also to questions about the Government's attitude to police index-linking. (This suggestion was not put forward at Mr Heseltine's recent meeting with LACSAB).

II. Issues which Ministers will be considering collectively:

(i) The impact of settlements in the public services early in the round (university teachers, Atomic Energy Authority, local authority manuals).

Should any greater pressure be put upon employers than that exerted by cash limits and the Rate Support Grant? Are Ministers prepared to allow employers to use flexibility within their cash limits to finance excessive pay settlements (as might happen in the case of, for example, the Atomic Energy Authority)? Decisions will be taken at the end of October.

(ii) The level of the pay factors to be included in cash limits for FY 1981-82

This will be coming up for decision at the end of October, with an announcement planned for November. It will cover most public services settlements in the 1980-81 pay round. Decisions will also be needed on External Financing Limits for nationalised industries. Some settlements in the 1980-81 pay round (university teachers, Atomic Energy Authority, local authority manuals, firemen and NHS ancillaries) are covered not only by the cash limits for FY 1981-82, but also the pay element in the FY 1980-81 cash limit, which was set at 14%.

(iii) Arbitration Agreements

In a number of areas in the public sector (eg local authority Administrative, Professional, Technical and Clerical Staff, University Teachers) there is provision for unilateral access to binding arbitration. Mr Prior has submitted a paper to E Committee for discussion on 16 October on the general issues, as to whether the Government should change arbitration agreements where they are directly involved and seek to persuade the other employers concerned to renegotiate their arbitration agreements.

The situation in particular negotiations is discussed more fully in Annexes A and B as follows:

Annex A - Public Services

1. Local Authority Administrative, Professional, Technical and Clerical Grades.
2. Probation Service
3. University teachers
4. Fire Service
5. Local Authority Manuals

Annex B - Public Trading Sector

6. Water Manuals
7. Radiochemical Centre
8. Coal mining
9. UK Atomic Energy Authority Manuals.

ANNEX A

PUBLIC SERVICES

1. Local Authority Administrative, Professional, Technical and Clerical (APT&C) Grades (650,000)

*Settlement Date : 1 July
Unions involved : Mainly NALGO.

The employers have stood firm on an offer of 13% in response to a claim of over 21%. They have conceded arbitration to which they are bound by a written agreement. This allows for unilateral access to binding arbitration. The hearing will be on 21 October and the award may be made by end-October.

Comment:

This is the last major LA settlement still outstanding from the previous round. A LA settlement above 14% would be particularly embarrassing. The outcome of the arbitration report is awkwardly timed for the LA manuals negotiation.

Issues:

- the presentation of outstanding settlements;
- unilateral access to binding arbitration (E Committee will meet on 16 October to take a paper by the Secretary of State for Employment covering this subject.)

2. Probation Service (5,300)

Settlement Date : 12 July
Unions : NAPO

This group traditionally follows APTC settlements closely. But this year the union has rejected an offer of 12 per cent claim. The arbitration agreement is similar to that for the APT&C group. But the Home Secretary must formally approve the new scales before they can be implemented. The expenditure is not cash limited.

Comments:

The Home Secretary's role involves the Government directly in approving or rejecting the arbitration award.

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

Issues:

- what is the maximum award that the Home Secretary should approve?
- presentation of the award
- arbitration (see APT&C above).

3. University Teachers (38,000)

Settlement Date : 1 October
Unions : AUT

The university authorities and the dons (Committee A) have now submitted a proposal for a 13 per cent increase to the DES (Committee B) for consideration. The dons are likely to seek to restore their relativity with FE teachers, whose recent increases have exceeded theirs. This is an important settlement because it falls early in the pay round.

Comment:

It is important that the settlement is not reached before the cash limits for FY 1981-82 have been fixed.

Issues:

- there is a risk that cash limits for 1981-82 may not be settled in time to influence negotiations;
- the provision in the 1980-81 cash limit is sufficient to finance a higher award until the end of the financial year (DES officials are aware of the problems);
- it is for consideration whether the right of unilateral access to arbitration should be removed.

4. Fire Service (36,000)

Settlement Date : 1 November
Unions : FBU, NAFO

The employers' side of the joint council do not appear disposed to break a formula for indexation of pay agreed after a prolonged strike in 1977, which is likely to indicate an increase of about 22 per cent.

Comment:

An attempt to break the index link after 2 years of its operation would be likely to provoke industrial action. Any decision to try to break the link would also raise the question of the Police indexation agreement.

Issues:

- Index linking: Given that they show no indication of breaking the link on their own initiative, should Ministers seek to encourage the local authority employers to break the index link? If so, and the local authority employers were persuaded to break the link, what support would they give the employers if they faced a strike?

5. LA Manuals (1,100,000)*

Settlement date: 4 November

Unions: Mainly GMWU, NUPE, and TGWU

A formal claim will be submitted on 24 October. It is likely to seek substantial increases (about 20%) and improvements in conditions of service (particularly shorter working hours). Negotiations are likely to start before announcement of RSG settlement. This is the first major settlement (excluding the police) due in the public services.

Comment:

This is the key group in determining the tone of pay negotiations in local authorities and its influence is also felt elsewhere. Several important groups have settlement dates close to the LA manuals, and watch their negotiations closely - especially NHS Ancillaries (of whom there are more than 200,000) and LA craftsmen. It is important that negotiations for these 'followers' should not prejudice negotiations with LA manuals.

A relatively low increase last year may create pressure for a settlement close to the annual increase in the RPI. The RSG acts as a constraint on total expenditure but not on basic hourly rates, when hours are reduced.

Issues:

- co-ordination of the timing of negotiations for LA manuals, NHS ancillaries and water manuals' (see Annex B);
- the setting of the RSG and cash limits;
- reduction in working hours (this could be an important feature of public sector negotiations this winter).

ANNEX B

PUBLIC TRADING SECTOR

1. Water Service Manuals (33,000)

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

A GMWU delegate conference has voted for a claim of 30% plus extra holidays and shorter hours. The GMWU, which is the predominant union, will confer with the other unions to agree a joint claim. On 24 September the FT reported that GMWU delegates wanted nothing less than the miners and powerworkers.

The claim will be presented to the National Water Council on 23 October. DOE think that there is a strong probability of industrial action during negotiations. No confident prediction can be made of how much notice might be given.

Comment:

DOE are not certain how the employers will respond on 23 October. Although it is unlikely they will make an offer, the possibility cannot be ruled out. If matters follow their customary course, the NWC will have prepared papers showing a range of options. These will be studied by the employers' side before the NJIC meets and a decision taken as to what line to adopt.

Mr King will be meeting the Regional Water Industry Chairman on 15 October and pay is on the agenda.

The external financing limit above is not an effective constraint on pay, since charges can be raised. The Monopolies and Merger Commission is currently examining the second-largest water authority - Severn-Trent.

Issues:

- should Ministers try to influence the employers' side either (a) to achieve an early settlement (with the problem of isolating this) or (b) to await the LA manuals' settlement first, at some risk of industrial action?

- the probability is that the settlement will prove high;
  an early settlement could have a damaging influence if it proves too generous;

- presentation.

2. Radiochemical Centre Non-industrials and Industrials (1,200)

Settlement Date : 1 November 1980
Unions : GMWU, TGWU, IPCS, SCPS, CPSA

Although the unions have not submitted a formal claim, they rejected an offer of 9% at a meeting on 25 September. The response to union demands and the question of whether the Government should intervene is to be considered at E(EA) on 13 October.

3. Coal Mining (223,000)

Settlement to operate from 1 January 1981 to 31 October 1981
Union : NUM

The claim has now been delivered. The NUM Conference resolution called for £100 minimum rate (a 35% increase, equal to about 29%-30% on earnings to be paid "on a salary basis".) The October issue of the Financial Times (page 10) reports that in addition the claim will seek and extension of the voluntary retirement scheme, and a lowering of the age limit from 60 to 55, a reduction in the working week to 4 days, higher productivity payments and improvements in holiday arrangements.

The claim will require detailed study and the NCB is expected to take time over the negotiations, but the initial offer is unlikely to be delayed beyond mid-November. The crucial period is likely to be late November or early December, with the possibility of a ballot just before Christmas.

Comment:

The Department of Energy expects to hear from the Board as soon as they have decided on their initial offer. The tactical and policy questions arising from the likely NUM claim, and the financial implications are already the subject of Ministerial correspondence. The Chancellor has suggested to colleagues that the matter should be discussed.

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

Settlement Date : 1 October 1980
Unions : GMWU, AUEW, TGWU, EETPU

The claim is for about 30% of the pay bill. Following ministerial correspondence Department of Energy advised the Authority on the Government's position on the negotiations and the desirability of settlements within single figures. At the NJIC on 26 September the employers offered 8½% on basic rates. This the unions rejected. No date has been fixed for the next negotiating meeting.

Although UKAEA is a semi-autonomous public sector fringe body funded off the face of the Vote, in this context its budget can be regarded as central Government expenditure. The Secretary of State for Energy has told the UKAEA that they must reach a settlement within single figures. The standard provision in the FY 1980-81 cash limit is sufficient to enable UKAEA to finance a higher award until the end of the current financial year because their settlement falls early in the new pay round. It is therefore important that the cash limit for 1981-82 should be settled in time to influence the negotiations. The possibility of a reduction in the cash limit for 1980-81 is under consideration.

13 October 1980

a package worth

£100 million in

the last Budget

to help enterprise,

and encouraging

small firms.

15 OCT 1980

11 12 1 2 3 4 5 6 7 8 9 10

CONFIDENTIAL

Original on Comparability

Ref. A03236

PRIME MINISTER

Comparability and Cash Limits

(E(80) 115 and 119)

BACKGROUND

In his paper on public service pay in the summer (E(80) 71) the Chancellor pointed (in paragraph 11) to a range of options for settling Civil Service pay in the longer term. At the meeting which took his paper (E(80) 27th Meeting, Item 1) he was asked to arrange for officials to elaborate these options for further consideration by colleagues. The report attached to his present paper is the result. In addition the CPRS have circulated a paper (E(80) 119) commenting on the range of options now before the Committee. In his cover note to the officials' paper the Chancellor says that his own first impression is "that it does not deal sufficiently with the fundamental issues". He does not elaborate further than this, though the evidence in his other paper (E(80) 118) which will have been discussed at the outset of the present meeting suggests that he is really hankering after a system whereby public service pay is determined by the monetary targets for at least the next two years. It is likely that the main issue here - whether, and if so for how long, cash limits can lead pay settlements - will have been extensively discussed. If the view of the Committee has proved to be, as the Lord President puts it in his paper, that pay in the public services is to be determined by Government fiat, the options in the paper do not arise. If on the other hand the Committee feel that this approach is unrealistic and that, in reality, the choice is between agreement with the staff on how pay is to be determined or free collective bargaining (neither compatible with tough cash limits set in advance), then the choice of options rests on a judgment about which gives the best overall result (including in the balance sheet the costs of disruption). The CPRS clearly believe that the choice, if there is to be a structured system at all, lies between option B (improved comparability) and option E (topping up and periodic pay research).

If (at the end of what may be a long and difficult meeting) your colleagues are not inclined to come to a specific conclusion, it may be enough for present purposes to seek a collective view on whether your colleagues prefer straightforward bargaining or a structured agreement containing an element of comparability. If they prefer the latter, it would help (but is not essential) if they could narrow down the options to perhaps two alternatives which officials could be asked to study further. Such a study would usefully extend beyond the options themselves into the difficult areas of the NHS and local authority employees.

HANDLING

2. In introducing his paper you might ask the Chancellor to expand upon the doubts he refers to in his covering note. You might then invite your colleagues to consider the three basic questions:-

(a) Is it conceivable that the Government can impose pay settlements on the public services beyond next year unrelated to movements in pay in the rest of the economy?

(b) If not, do they prefer a system which is essentially one of free collective bargaining or a structured system with an element of comparability agreed with the staff?

(c) If the latter, can they narrow down the options for further consideration?

CONCLUSIONS

3. These might follow the three questions set out in the preceding paragraph coupled, if that is the view, with an invitation to the Chancellor of the Exchequer to arrange for the interdepartmental group of officials who produced the present report to bring forward a further report, taking account of the discussion, as quickly as possible.

ROBERT ARMSTRONG

(Robert Armstrong)

15th October, 1980

Seen by PM

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

DEPARTMENT OF EDUCATION AND SCIENCE

FROM THE SECRETARY OF STATE

Copied to: Clegg - Comparability

The Rt Hon Sir Geoffrey Howe MBE MP
Chancellor of the Exchequer
Parliament Street
London SW1P 3AL

15 October 1980

Dear Chancellor,

I have a direct interest in the proposal in paragraphs 6(a) and 11(c) of your paper E(80)118 and feel that it might be helpful if I set out the background more fully here before we discuss this with our colleagues on Thursday.

The staging of settlements resulting from comparability studies was not a device to circumvent cash limit control, but a requirement imposed by successive Governments. The objective was to reduce the cost of settlements in the short term and that was achieved. But there was a clear understanding that the full cost would ultimately be covered and indeed as you point out in your paper we met this obligation in 1980-81 for the various comparability settlements where staging was complete by the end of 1979-80.

I recognise that you wish to avoid a repetition in the future. But if our policy on pay and cash limits is to succeed, it must be seen to be fair and reasonable. I can see no logic in singling out for special treatment in the determination of cash limits for 1981-82 only those whose final staging of "comparability" settlements fell during 1980-81 (that is school, further education and university teachers). In other words, we would be accused of deliberately penalising those whose comparability studies and settlements were either delayed for one reason or another outside their control or who accepted longer periods of staging for the payment of their award.

Hence while I entirely agree that we must set rules for the operation of cash limits in 1981-82 which seek to avoid further difficulties for us in the future, I do not think we should apply new rules retrospectively to settlements in the 1979/80 pay round.

I believe this to be important as a matter of principle in the operation of cash limits.

I am copying this letter to the Prime Minister, each member of E Committee and Sir Robert Armstrong.

Yours sincerely

PA Shaw

for MARK CARLISLE

Dictated by the Secretary of State and signed in his absence

CONFIDENTIAL

15 October 1980
Policy Unit

Original returned

PRIME MINISTER

ARBITRATION IN THE PUBLIC SECTOR

This very important topic comes to E on Thursday:

1. THE PRINCIPLE

1.1 The concept of unilateral access to binding arbitration makes a nonsense of free collective bargaining. Especially when combined with strong bargaining leverage, it puts the unions in a "heads I win, tails you lose" position: they can bargain as hard as they like, threatening industrial action, including selective action (against which management are powerless to lay off those affected). Then when they have extracted the maximum possible offer from the management side, they can insist on arbitration in the hope that it will split the difference between the already unrealistic offer and their still more unreasonable demands. There should be no question of tolerating arrangements like this. Jim Prior accepts that the " balance of the argument .... is generally .... against unilateral access ".

2. PUBLIC SERVICES : TIMING

2.1 There are eight cases in the public services sector (excluding the police) that need looking at - set out in E(80)113. Inevitably, sponsor Departments will be less than vigorous in overturning the status quo. We think it very important that each sponsor Minister leaves the meeting determined to get the procedures changed, with a firm deadline for reporting back.

2.2 If at all possible, we should be aiming to change these arrangements in time to affect the outcome of the coming pay round. We do not know how much notice is required, nor does the paper give any indication. Legislation would be needed in the case of the teachers and water workers. How long would this take? Another argument for urgency is that, as you yourself have said "recession is the time to put your house in order".

3. NATIONALISED INDUSTRIES

3.1 We do not agree with Jim's view that "we are too distant from negotiations in the public trading sector to wish, or to be able, to change arbitration arrangements there". Nationalised industries pay is the most intractable aspect of a very difficult problem. The more one thinks about it, the more one is driven to the conclusion that:

(a) the best solution is to denationalise wherever possible and to introduce the healthy influence of competition, whether from imports, ending monopolies, decentralising etc, etc. But this is not practicable in all cases - or even in many cases in the short term.

(b) The second best solution to the problem is quite different: it is to increase the strictness of the regime under which these monopolies operate.

3.2 EFLs are part of the system, but experience so far shows they are an insufficient discipline in themselves. We do not know the answers yet, but we cannot believe that the right approach to a matter like the arbitration arrangements is not even to study them! You will recall that recently you received a note from Keith advocating that the Post Office should be allowed to increase postal charges by 19% after only 11 months. The same note referred to a moral obligation to accept the outcome of arbitration. This is a charter for one large and unproductive group to place a massive burden on the rest of the community. It cannot be right. Difficult as it may be, we think sponsor Departments should be required to look at the arbitration arrangements in the public trading sector, as a matter of urgency.

4. OTHER CHANGES

4.1 Finally, in the public services, it is not only arbitration arrangements that need to be looked at - though these should have priority. Several other changes should be considered:

CONFIDENTIAL

a) In some cases, the bargaining structures are wrong. For example, the university teachers' arrangements, where the two sides of the negotiating table at committee A become one side in committee B, seem to us to be designed to produce excessive awards.

(b) We also believe (we have made this point before and I know there are counter-arguments) that the lack of synchronisation between public service pay dates and the annual cash limits which are supposed to provide the constraints within which negotiations take place is very confusing.

(c) Last, but not least, is the over-centralisation of pay bargaining structures in the public service. There are pros and cons, but we strongly believe that, as our Manifesto said, the present arrangements tend to be unresponsive to local market conditions - meaning that we are paying more than necessary for many public service workers in areas of higher than average unemployment. When Ministers discussed this in February they decided against a comprehensive review. But there has been precious little response in the few areas in which further work was to be done. For example, CSD were originally supposed to report on the scope for regional pay differences within 3 months.

4.2 We are increasingly concerned that colleagues seem much too reluctant to make important changes in arrangements which affect unions. We do not, I hope, underestimate the very real difficulties. But the rules we have inherited reflect past weaknesses and, if left unchanged, practically guarantee that we shall not be able to bring public sector pay under control. Controlling it is crucial if our economic strategy is to have a chance - as recent discussions have emphasised all too clearly. Similarly in the private sector, the unions' position is temporarily weakened by high unemployment. But we must lay the foundations soon for a workable system for the next upturn. The Green Paper exercise will be critical.

4.3 I am copying this minute to Geoffrey Howe, Robin Ibbs and Sir Robert Armstrong.

JOHN HOSKYNS

Copied to
Civil Service Pay

Econ Pol

Ref. A03235

PRIME MINISTER

Arbitration Arrangements in the Public Sector

(E(80) 113)

BACKGROUND

The Secretary of State for Employment's paper provides a useful summary of the nature and extent of the arbitration arrangements which exist in the public services. The paper is expressly presented as a "progress report" and does not seek to draw conclusions. Nevertheless it is clear that the central issue is whether the Government, or in appropriate cases the management, should seek to withdraw the right, where it exists, for arbitration proceedings to be triggered without their consent - and thus seek to avoid binding arbitration awards which are incompatible with cash limits. Mr. Prior suggests (and colleagues will perhaps readily accept) that, if this subject is to be further pursued, each sponsor Minister should consider the arbitration arrangements for the groups for which he is responsible and submit his conclusions separately to the Committee. There are however broader issues which will figure in the E Committee discussion.

2. The first - and this will be highlighted by the Committee's discussion of the paper on comparability and cash limits which the Chancellor will be bringing to the same meeting of E - is whether cash limits can continue to be used, and if so for how long, as an independent determinant of the level of pay settlements in the public services or whether they should be set, as they were before last year, with an eye on the likely outcome of wage bargaining. If the Committee envisages a prolonged period in which public sector pay will be determined by fiat, the staffs concerned can be expected to fight hard to retain their rights - whether by agreement or statute - to arbitration in an attempt to defend their standards of living. And conversely it will be in the Government's interest to whittle these rights away. On the other hand if your colleagues envisage a fairly early return

to public sector pay settlements broadly related to market forces, then major recourse to arbitration becomes less likely and reforming the system may not be worth the expenditure of much negotiating effort or political capital.

3. The second - and some of your colleagues may well argue for this - is that whatever the merits of arbitration as a principle, the nature of the arbitration processes should be changed so as to weight the outcome more in favour of the management. Sir Keith Joseph's recent minute to you of 2nd October (on which Mr. Prior commented in a letter of 13th October) is an indication of this line of thought. If the point does surface the sensible course might be to have the possibilities further studied either generically or as part of the consideration which individual Ministers will be giving to the arrangements in their own spheres.

4. The third issue which is almost certain to arise is that touched on in paragraph 15 of Mr. Prior's paper, namely the compatibility of a more restricted approach to arbitration - going beyond the letter of existing agreements - with the Government's general view that both sides of industry should be encouraged to honour agreements they have made. Mr. Prior is particularly sensitive on the point both because he has been a prominent public advocate of the Government's view and also because he is currently facing a legal action in which one of the main Civil Service unions will be arguing that the Government is reneging on its arbitration agreement with its own staff. The circumstances of the particular case are unusual and it is by no means certain that the staff will win at law. Nevertheless, the possibility of political embarrassment is real and Mr. Prior can be expected to voice it.

5. The fourth issue is that, while the main concern has been, and will no doubt be in this discussion, the difficulty which can be created, for cash limits and for comparability, by over-generous arbitration awards, we should not lose sight of the value of arbitration as a safety valve which could be useful to Government as well as unions. If this winter produces damaging industrial action (e.g. in sensitive parts of the Civil Service or the NHS), it may be convenient to keep some form of mutually acceptable arbitration available as a possible way out.

HANDLING

6. You will want to ask the Secretary of State for Employment to introduce his paper and then to open the subject to wider discussion. The Lord President of the Council, for the Civil Service, will no doubt wish to contribute as will the Chancellor of the Exchequer, in the context of his wider problems, the Secretaries of State for Education and Science and Scotland, for the teachers, the Secretary of State for the Environment, for local authorities, and possibly also the Secretary of State for Social Services, for the NHS.

7. After the general discussion you will want to concentrate attention on the specific conclusions in paragraphs 19 and 20 of E(80) 113.

CONCLUSIONS

8. Subject to discussion, you will want to record conclusions on:-

(i) Whether sponsor Ministers should consider further the problems which arbitration poses in the areas for which they are responsible and to report to the Committee at an early date.

(ii) The future of the arbitration arrangements for the non-industrial Civil Service. The Committee may well feel that they need fuller information about these before reaching a specific conclusion. If so the Lord President could be asked to bring forward a separate paper quickly, making specific proposals in the light of the Committee's discussion.

RtA

ROBERT ARMSTRONG

15th October, 1980

Copied to Civil Service Pay

Ref. A03237

PRIME MINISTER

Public Service Pay in the 1980-81 Pay Round

(E(80) 118)

BACKGROUND

Without suggesting actual numbers at this stage - they are for Cabinet on 30th October - the Chancellor of the Exchequer is seeking in this paper to obtain assent in principle to the main elements which will determine the negotiation, and the financing, of public service pay settlements in the next 12 months. The style is bland, the objectives are unexceptionable, and there are no figures; but the subject matter is potentially explosive. Colleagues are not likely to be prepared to give the Chancellor assent in principle to most of his propositions without further and more specific consideration of their implications. Nevertheless it will be salutary, as a ground-clearing operation, to work through the conclusions set out in paragraph 11 of his paper and collect comments on them. Points which might arise on each are:-

11(a): Cash limits "well down into single figures". Colleagues are unlikely to object to "single figures" but will want to see the colour of the Chancellor's money before assenting to "well down". Some (e.g. the Lord President) are likely to be concerned at the base-line from which the percentage applies (conclusions 11(b) and (c)) and others will remember that the report of the Scott Committee on public services pension contributions is imminent. Taken together it is not inconceivable that these two factors might reduce say an 8 per cent cash limit to a 4 per cent increase in take-home pay - and thus imply a cut in real wages approaching 10 per cent when set against the likely movement in the RPI.

11(b): Staging to be dealt with as proposed in E(80) 71 and avoided from now on. Colleagues may not object to this proposal in principle - it reflects the battering the Chancellor had this year at the hands of the

'Average'

Treasury and Civil Service Select Committee over Civil Service pay - but it would remove from the negotiating armoury one means by which a pay settlement above the cash limit guidelines can be reconciled with those limits. Some colleagues might also ask about the implications of such a principle on the pay settlement for MPs and Ministers due next June.

11(c): The overhang of staging from the 1979-80 pay round. This is a specific facet of the principle in 11(b). The Chancellor suggests in paragraph 6(a) of his paper that some flexibility may be needed. He must be right, not only because of the difficulty of negotiating against tight cash limits further constrained in this way but also because, strictly applied, university teachers would presumably get no pay increase at all next year. He might be asked to make specific proposals so that the Committee can properly judge the implications of the proposal.

11(d): Impact of this year's pay settlements on next year's cash limits. This proposal reflects the awkwardness that individual pay years and financial years do not always coincide. The Home Secretary might well ask about the implications of the Chancellor's dictum for the financing of the police pay settlement reached this September. The answer may be that police expenditure is covered as to 50 per cent by specific Exchequer grants not subject to cash limits; but another 11 per cent is covered by RSG, and local authorities have to find the balance out of rate revenue. Are local authorities next year supposed to finance this September's pay award to the police at the expense of other services? And will it be necessary next year to abandon the present arrangements for indexing police pay?

11(e): Adopt provisional pay assumptions relating to the 1981-82 pay round, i.e. for FY 1982-83. This proposal goes to the heart of the argument which will emerge under Items 3 and 4 of the agenda. The Chancellor is in effect saying that for at least the next two years public service pay must be determined by financial needs rather than by market forces. The Lord President and others will challenge this. The basis of the challenge will be that unless pay in the private commercial and service sectors falls in a parallel way - and there is no reason to suppose that it will - there will be a growing disparity between the pay of public servants and that of their peers. In this situation there could well be industrial action and a major catching-up exercise in two or three years' time. Moreover, it will be argued, the Chancellor's concept here of a declining cash limit for public service pay over the years ahead is incompatible with the options for longer-term arrangements for Civil Service pay set out in E(80) 115 which themselves derive from the Chancellor's own options in his July paper E(80) 71. And in that paper the Chancellor argued against seeking to establish public service pay simply by reference to tough cash limits (it would, he said, play into the hands of the militants and lead to demands that the unions should "participate in the decisions about the level of the pay element in cash limits which is where the crucial decisions would lie"). This does not mean that the Government cannot get away with a tough cash-limited settlement next year (though something will depend upon what promises they are able to make for the future), but the Lord President and others will argue that the usefulness of the cash limit as a determinant of pay is almost played out, that keeping the lid on will become increasingly difficult, and that after next year pay settlements will inevitably, by one means or another, determine cash limits.

In Folder 4

11(f): Changes in the arrangements for arbitration. This issue will be discussed in greater detail under the next item on the agenda. Colleagues can be expected to point to the difficulties. The Chancellor will no doubt argue that the prize is large - as he says in the first paragraph of his paper, each 1 per cent off public services pay would save nearly £300 million in FY 1981-82. But a glance at the annex to his paper shows that that prize will be very difficult to attain. Half of the public servants concerned are local government employees with either negotiated or statutory rights to arbitration (plus, in the case of the police, specific Government pledges). And of the Government's direct employees, half again are in the National Health Service and a substantial number in the Armed Forces. With the exception of the Doctors and Dentists Review Body, most of the National Health Service employees do not have a right to arbitration but, in the case of the nurses, enjoy both public sympathy and the benefit of promises of protection against the erosion of their pay. The Armed Forces have the protection both of the Review Body and of Government pledges. The residue, the Civil Service proper, have an arbitration agreement with the Government which in form guarantees unilateral access to binding arbitration - though the Government has frequently ignored it. Thus the Chancellor's £300 million could turn out to be a mirage unless the Government is prepared and able to be very tough indeed.

11(g): Override the Review Bodies. The Government successfully overrode the TSRB recommendations this year and could no doubt continue to do so, except perhaps in the case of MPs. But overriding the Armed Forces and Doctors and Dentists Review Body recommendations presents political problems of a wholly different order.

11(h): Announcements "relating to the above" should be made on 19th November. No problem is likely to arise here unless the Chancellor envisages the announcement extending beyond the cash limit factors into the areas of Review Bodies, arbitration and future pay determination in the public services generally. He should be asked about his intentions.

HANDLING

2. You might call on the Chancellor of the Exchequer to introduce his paper and then take the Committee seriatim through the conclusions in paragraph 11.

CONCLUSIONS

3. If the Chancellor's paper arouses strong opposition, the sensible main conclusion may be simply to note it and agree to return to the issues at a subsequent meeting. Additionally it may be possible to record specific agreement on some points, for or against the Chancellor's proposals, and, where appropriate, to ask for further papers (e.g. the Chancellor could be asked to bring forward specific proposals for dealing with the "overhang of staging" referred to in conclusion 11(c)).

RtA

ROBERT ARMSTRONG

15th October, 1980

CONFIDENTIAL

Copied to Civil Service Pay

Ref. A03234

PRIME MINISTER

E: Public Services' Pay

At its meeting before Cabinet on Thursday E Committee will be starting on the road to a series of decisions of crucial importance to the Government's strategy over the next 12 months. The five papers before the Committee are interrelated; this note attempts to draw the threads together.

2. The papers before the Committee stem from two discussions which took place in E before the Recess: that on 23rd July (E(80) 27th Meeting) and that on 7th August (E(80) 31st Meeting). The discussion on 23rd July largely revolved around a paper by the Chancellor of the Exchequer (E(80) 71). The discussion then was not conclusive over the whole range of the Chancellor's proposals in his paper. But in essence the Committee agreed that cash limits should be the overriding determinant of public sector pay in the coming year; that for the Civil Service the collection of pay research evidence should continue; that the Lord President should negotiate with the Civil Service unions on improvements in the PRU system; and that the Chancellor should arrange for officials to examine further the longer-term options for pay research which he had identified in his paper (specifically in paragraph 11 of E(80) 71). The Committee also agreed that the Review Bodies for the Armed Forces, the Doctors and Dentists and Top Salaries should continue with unchanged terms of reference; and that the Secretary of State for Social Services should pursue further, without commitment, options for devising a more satisfactory method of settling nurses' pay designed to protect them against relative pay erosion. Mr. Jenkin was authorised to announce his intention to consult on the options for nurses' pay. The meeting of the Committee held on 7th August resulted in a remit to the Secretary of State for Employment to put in hand a review of the arbitration arrangements in the public sector and the scope for amending them.

3. Since that time a great deal of effort has been spent in "talking down" expectations for public sector pay settlements in the coming year and, on the narrow front of Civil Service pay, the Lord President of the Council has told the

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Civil Service unions that the main determinant of next year's pay settlement for them will be the cash limits set in advance of the settlement. Also since then, however, the police have had a 21 per cent pay settlement (in September) and there are indications that the local authorities are reluctant to upset the pay indexing arrangements they have with the firemen.

4. In addition you have had (though your colleagues have not) the Chancellor's Secret minute to you of 10th October foreshadowing the very difficult decisions on public expenditure with which Cabinet will be faced later this month. In the light of this there can be no doubt that a major effort to restrain public sector pay increases in the coming year is a financial as well as a political imperative.

5. Although the papers before the Committee cover a great deal of ground they do not, for the most part, call for operational decisions - e.g. the actual level of the pay cash limits is for Cabinet to decide on 30th October, more work is needed on arbitration and on the longer-term options for Civil Service pay, and some of the issues touched upon in the Chancellor's paper E(80) 118 involve major political decisions (e.g. abandoning the pledges made to the Armed Forces, the financial provision for police pay next year and the treatment to be accorded to the nurses) which will merit substantial discussion in their own right - probably by Cabinet - before a final view can be taken.

6. In short, I think your aim at this meeting should be to ensure that all of the necessary work is put in hand and as much ground-clearing done as subject matter will allow. But, even if the present discussion must inevitably be of a second reading character, the remaining stages of decision-taking cannot be long delayed. The moment of truth on many of these issues will be the Cabinet discussion on cash limits on 30th October. Given the importance, and the difficulty, of the issues, you may think it prudent to aim for a further meeting of E, devoted to pay, before these Cabinet discussions, with the object of reducing the complexity of the issues to be taken then to manageable proportions.

RtA

ROBERT ARMSTRONG

14th October, 1980

Ref: A03233

CONFIDENTIAL

Original on Civil Service Pay

PRIME MINISTER

Civil Service Pay
(E(80) 114)

BACKGROUND

Although the Lord President's paper is in the form of a progress on his negotiations with the Civil Service unions on reforms to the PRU system, it also conveys his judgments that the Civil Service pay cash limit for 1981 should not be set "unrealistically low"; that the cash limits for the public sector should be applied in an even-handed way so that the Civil Service are not seen to be singled out for discriminatory treatment; and that in the longer run Civil Service pay must be settled by "an improved system of comparability", acceptable to both sides, and not by Government fiat. The Lord President will no doubt be able to expand orally to the Committee on the progress so far made in the negotiations with the Civil Service unions on PRU. But the main thrust of his paper is directed to the longer term and links closely to the options for the future of pay determination set out in the Chancellor's paper E(80) 115 and due to be discussed as the next item on the agenda.

HANDLING

2. In asking the Lord President to speak to his paper you might particularly invite him to report on the progress made in his negotiations so far and - because it will be an important element in discussion of the later options paper - ask whether he can hazard any assessment of the financial benefits which might flow if the staff were to accept the various proposals he has made to them for improvements in the PRU system. You might also ask him for his assessment of the state of morale - and of militancy - among the Government's employees. There is no doubt - as the Chancellor's first paper E(80) 118 shows - that whatever arrangements are made for Civil Service pay in the coming year will involve a substantial cut in the real value of pay - perhaps compounded by the implementation of whatever recommendations the Scott Committee comes to on the contribution for pensions and the impact of job loss and possible redundancy. Given that the Civil Service

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unions undoubtedly have the power, if pushed too far, to cause very serious disruption to the Government's activities, a judgment from the responsible Minister on the threshold between acquiescence and defiance will be a critical input to the decisions as a whole.

3. When the Lord President has given his views there is probably no need for specific discussion of them outside the context of the next item on the agenda.

CONCLUSION

4. The only conclusion needed will be to invite the Lord President to report further on the progress of his negotiations.

ROBERT ARMSTRONG

(Robert Armstrong)

14th October 1980

CONFIDENTIAL

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Telephone Direct Line 01-213 6400

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GTN 213

to Mr Hodges
Mr Duguid

Local Govt

Original on
Local Govt : July 79
L.A. pay.

13/10

Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

13 October 1980

Dear Michael

ARBITRATION ON PUBLIC SERVICE PAY

You wrote to me on 2 October about your concerns on the use of arbitration for the pay of local authority employees and more generally. In replying, I also comment on some ideas Keith Joseph put forward in a minute to the Prime Minister of the same date.

The only sure way by which employers can avoid the risk of an arbitrator coming to an award beyond their ability to pay is to stand on their final offer and refuse to accept that an independent third party should be invited to determine their pay bill. If employers accept arbitration, on any practical test they are committed to accept the outcome. Uniquely in the public sector there are procedural agreements which provide unilateral access to arbitration and I readily agree that, provided with this option, unions might well choose to discover whether an arbitrator might make an award above the employer's last offer rather than conclude a negotiated settlement.

The immediate issue with which you are concerned clearly illustrates the point. The local authority employers, under their freely negotiated arbitration agreement, have agreed - albeit reluctantly - that the union can put the pay claim of white collar employees to arbitration. Should they not be urgently considering, given the extent of their concerns, changing their agreements so that arbitration can only take place with their agreement? This is the main issue to which the paper which I have put to E Committee on aribtration in the public services is addressed. It is important to note that S.3 of the Employment Protection Act 1975 prevents ACAS from referring any dispute to arbitration without the consent of all the parties to that dispute.

As to your suggestions, I entirely agree that an arbitrator should take fully into account an employer's ability to pay, although the concept of what that might be does not always afford an absolute test. Even where the arbitrator's terms of reference do not specifically include this consideration, there is nothing to prevent employers arguing it forcefully before the arbitrator. Indeed, it must be expected that they would do so. And an arbitrator is most unlikely to ignore evidence from either party or ever likely to dismiss so important a consideration.

You also suggest that existing arbitration arrangements and practices might be modified in some way to ensure that arbitrators always took into account the wider national interest. An arbitrator is of course anyone appointed by the parties (or whose appointment they have agreed) to resolve an issue between them. A good many arbitrations are arranged privately and without recourse to ACAS. I find it difficult to see how arbitrators could be required by statute, as Keith Joseph suggests, to take account of some general national interest in reaching their recommendations. At the very most, such provision would be simply declaratory. If directed to arbitrators appointed by ACAS alone, the result would be that more arbitrations would be arranged privately and ad hoc. There are also objections in principle. Our system of arbitration is essentially voluntary. It is (or should be) an optional extension of free collective bargaining. It would be illogical and inconsistent to seek to impose specific restraints on arbitrators which we would not contemplate imposing on negotiating parties, eg a norm under a pay policy.

Moreover, the "national interest" is a generalised concept. To be taken into account, it would need to be particularised. If the national interest were accounted as coinciding with the employer's last offer, the independence of the arbitrator would appear diminished and unions would be less inclined to accept the outcome of any arbitration, on pay as well as other issues. Lastly only the Government could give evidence as to the national interest. The provision of such evidence would I fear drag us into disputes to which we were not a party and this I am sure should be avoided. To the extent that our evidence might appear not to have been accepted by the arbitrator, a set-back for the employer could be portrayed as a defeat for the Government. The experience we had in 1970 of providing evidence on the national interest in the dispute in the electricity industry needs to be remembered.

As to Keith Joseph's suggestion that arbitrators should be required to award only on either the claim or the offer ("flip-flop" arbitration), employers and unions are at present free to adopt this approach by agreement. But this must be a matter forthem. They have never seen it in their interests to do so in this country and although the concept from time to time emerges in academic discussion it has rarely been used anywhere,even in the USA where the concept - but not its practice - was fashionable in the 1960s. I do not consider that it would be realistic to seek to impose one particular type of arbitration or indeed practical to do so.

On major wage issues arbitrators commonly specify the cost of their awards, but would their views be welcomed on how any additional cost might be met? This could inhibit managements' discretion and might well encourage reflections on priorities for public expenditure, pricing policies, etc which would be unwelcome.

I am copying this letter to the Prime Minister, Keith Joseph, the other members of E Committee, Robert Armstrong and John Hoskyns.

Yours

G

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

PRIME MINISTER

MF

PUBLIC SERVICE PAY IN THE 1980-81 PAY ROUND

1. I attach a draft of a paper which I would propose to put to E Committee for discussion on 16th October about the announcement we must make about pay in the public services. I think you will want to see this as part of the background to our discussions on Monday about monetary matters.

2. I have considered whether there would be advantage in making an announcement of figures for pay assumptions relating to cash limits earlier than 19th November, which is the present plan, but I feel the balance of argument is against this. Accordingly I have omitted any concrete recommendation of figures in the paper for E; this will be for Cabinet. But we can and must make some progress meanwhile.

3. I should be glad to know if you have any comments before I circulate this paper.

(G. H.)

10 October 1980

PUBLIC SERVICE PAY IN THE 1980-81 PAY ROUND

1. From two points of view we need to go for the lowest practicable level of pay increases in the public service in 1980-81:

(i) the need to hold back public spending - every 1% off public services pay would save nearly £300 million in FY 1981-82 (see Annex); and

(ii) the need to help the private sector arrive at settlements which will ease the financial pressure on companies and contribute to the restoration of balance in the economy.

2. When we settle the cash limits for public expenditure, we therefore need to do so on the lowest practicable assumptions about public service pay. The present plan is that cash limits (including the pay and inflation assumptions underlying them) should be announced on 19th November; the volume of spending plans and cash limits will be considered by Cabinet on 30th October. Meanwhile I shall be re-emphasizing in public our determination to hold increases in public service pay down.

3. It is not possible yet to decide on precise figures. But we can start to establish the framework for our decisions.

4. The prospect for earnings outside the public services during the current round is relevant. Of course there is much uncertainty about this; but there are signs that much of the manufacturing sector will be settling in single figures. On the other hand, one must expect that in the economy as a whole the average level of settlements will be higher because other areas are not under the same degree of pressure as manufacturing. But for the purpose of selecting a figure for the public services, it must be right to focus on the lower end of the range in the rest of the economy. And we have already indicated that we intend to go for something less than 10%.

5. The target for monetary growth (in spite of difficulties in achieving it) can also be taken as a rough guide: for the present financial year that points to a range of 7%-11% (centred on 9%); the medium-term financial strategy envisaged that for the financial year 1981-82 the range would be 6%-10% (centred on 8%). I would be guided by the bottom ends of these ranges.

6. There are two particular problems which need to be borne in mind:

(a) We have to remember there are certain groups for whom the cost of pay will be greater in the next pay round than in the current one, even without any new pay increases, because their last settlements were staged. Thus the non-industrial civil service will be up by 2% before we start, the teachers by 4% and the university teachers by 11%. In E(80)71 I argued that increases of this kind should come out of the allowance for new pay increases in the following year's cash limits. There would be criticism if we applied this approach to existing settlements. But I think we should follow this course since not to do so would mean that FY 1981-82 cash limits would once again finance increases in earnings higher than announced pay factors; we may have to soften the impact somewhat in the light of the figures we choose for pay assumptions generally.

(b) The amount of money available within cash limits for pay settlements in the new round but within this financial year is based on factors of 13%-14% - more than enough for increases of the kind we have in mind. The main announcement should make it clear that the cash limits for 1981-82 will correct for this so that all settlements in the new round are subject to the same degree of constraint. To prevent this problem recurring in future, we need to adopt provisional assumptions for pay in the 1981-82 pay round lower than those we are discussing for 1980-81.

7. The lower the actual level of pay settlements, the less we shall have to rely on reductions in the volume of public expenditure to achieve our aims. It is therefore important that the pay factors we adopt should actually be reflected in the average levels of settlements. Having set the limits, therefore, we must follow through and deal with all the difficulties of pay negotiation.

8. Beyond that, some particular aspects of negotiating machinery need to be changed if the ground is not to be cut from under our feet. Arbitration is the most important of these. The Secretary of State for Employment is putting a paper to E Committee on this. It is clear that where arbitration, on broad terms of reference, is automatically available to the demand of only one of the parties, any normal management responsibility for what can be afforded by way of pay is undermined. Legislation may be the only way of ensuring that such arrangements are changed.

9. We shall also have to be prepared if necessary to override other constraints such as the reports of the review bodies for the armed forces, doctors and dentists and top salaries.

10. I accept that there are limits to how far the approach I am suggesting can be pressed. In particular the lower the figure one goes for, the greater the risk of not achieving it, or doing so only at the cost of industrial action. Furthermore a very wide disparity in earnings between public services and the rest of the economy would create pressure for catching up. The third factor is how far we can go is what is happening to prices. Although the annual figure for the RPI is likely to have declined further by April 1981, when many public service settlements take place, it is still likely to be significantly above 10%: settlements, as I propose, well down into single figures will imply a significant cut in real incomes. If it were not for factors such as these I would be arguing for an even stronger approach.

Conclusions

11. (a) We should base cash limits on factors for pay increases in the public services well down into single figures.

(b) In future, staging should be dealt with as I proposed in E(80)71 and we should avoid staging from now on.

(c) We need to decide exactly how to deal with the overhang of staging from the 1979-80 pay round for the non-industrial civil service, teachers and university teachers; so far as possible I should prefer that it be included (without extra allowance) within whatever pay factors we think appropriate more generally.

(d) When setting cash limits for FY 1981-82 we will need to recognise that some cash limits in the current financial year are too generous in their provision for pay increases in the new pay round.

(e) To prevent the problem of over-provision recurring, we shall need to adopt at this stage provisional pay assumptions relating to the 1981-82 pay round, lower than what we decide for 1980-81.

(f) We should also decide on changes in arrangements for arbitration, possibly by legislation.

(g) We shall also have to consider whether, if necessary, we shall be prepared to override other constraints such as the recommendations of review bodies.

(h) I should make announcements relating to the above on 19th November.

Econ. Pol

MR. VEREKER

c.c. Mr. Duguid

The Dixon Group

Thank you for your note of 7 October.

I will of course let the Treasury know if the Prime Minister reacts to future reports.

I am sure it is right that Sir Keith Joseph should receive a copy of the reports.

I am slightly puzzled by your paragraph 3. I had understood that the reports would not recommend action on particular pay issues, but that the Treasury would make sure that either the Financial Secretary or the Chancellor was "brought in to bat" when they thought that intervention was desirable. Now it seems that in some cases, recommendations for action are to be made; while in others, Ministers are going to be asked if they want to intervene.

It may well be that, if the reports are to be useful, they need to make suggestions for action. But I do not think it should be left to the Prime Minister to have to apply her mind as to whether or not to intervene in particular cases. Of course, in major cases, she will no doubt want to take a view. But I think that the responsibility for thinking about particular cases should rest, at least initially, with Treasury Ministers. Otherwise, we will find ourselves with a repeat of the last pay round, when nobody knew who was responsible for monitoring and thinking about public sector pay.

T. P. LANKESTER

8 October, 1980.

CONFIDENTIAL

cc Mr. Duguid

TL.

MR. LANKESTER

The Dixon Group

The Treasury Monitoring Group on public sector pay, under Mr. Dixon's chairmanship, met again this morning and in due course a second report by officials will be put to the Prime Minister identifying the current issues. In the meantime you may wish to be aware of three procedural points which arose this morning:

1. I explained that the Prime Minister had seen the first report, and that, as you had mentioned to me, she had not reacted adversely, so that the Group could take it that the structure of the report is along the right lines. I think the Treasury would be glad to have a note from you if the Prime Minister reacts to any subsequent reports.

2. The Group feels that the list of Ministers to whom the reports are sent should be expanded to include Sir Keith Joseph, as Chairman of E(EA). I said that this seemed to me to be right, but that I would want to check it with you since it is an expansion of the limited list of Ministers identified in the Chancellor's Private Secretary's letter of 11 August to Mike Pattison.

3. The Group was concerned, as I am, that they have been identifying issues without taking any steps to see that the issues are addressed. The next report, which will follow broadly the same format as the earlier report, will usually indicate who is now addressing the issues identified, or what action ought to be taken. But there may well be cases where the issue is in terms of whether the Prime Minister or one of her senior colleagues wishes to intervene. I think it would be useful if I and the Policy Unit were invited to indicate if we think it would be appropriate for the Prime Minister to intervene on one of the issues.

I am minuting separately to Andrew Duguid about some of the current issues.

J.V.

7 October 1980

CONFIDENTIAL

Loc Govt

CF. For E when arbitration comes up.

Econ Pol: Pt 2
Public Sector Pay Policy

PRIME MINISTER

PUBLIC SERVICE PAY

See Local Govt :
Local Authy pay : July '79

1 John Hoskyns sent me a copy of his minute of 18 September commenting on Michael Heseltine's minute of 16 September about the arbitration exercise affecting the local authority Administrative, Professional, Technical and Celerical (APTC) grades. I think this provides an opportunity to consider a general short-coming in our existing arbitration arrangements.

2 At present there appears to have been a tendency for arbitrators to "split the difference" between the claim by the unions and the offer by the management. This pays no regard to ability to pay and provides a positive encouragement to the unions to increase their wage bids.

3 My own idea would be to ensure that all arbitrators should be required to take account of the general interest when reaching their recommendations. An alternative would be to require arbitrators to decide in favour of either the management offer or the unions' claim without giving them scope for chosing any intermediate amount. In either case arbitrators should be obliged to specify the cost of implementing their proposals and should make recommendations on how the money should be raised.

4 I am not sure how such a change could be implemented. One

/possibility ...

possibility might be to amend the legislation regulating the activities of ACAS to require this kind of approach. Another possibility might be to include a suitable passage in the Green Paper on trades union immunities etc which Jim Prior is about to circulate.

5 I am copying this minute to John Hoskyns and to the recipients of his minute.

KJ

K J
2 October 1980

Department of Industry
Ashdown House
123 Victoria Street

7

CONFIDENTIAL

Econ, P.S.

Mr Duguid
Mr Vereker

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000 25 September 1980

Prime Minister

A useful first report. It does not attempt to provide answers to the issues raised as the group was set up to monitor. But I am assured by the Treasury that they will be following them up - through their Ministers as necessary.

TL 26/9

T Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Tim,

PUBLIC SECTOR PAY

I attach the first fortnightly monitoring report produced by a group of officials under Treasury chairmanship dealing with current and prospective pay negotiations, and issues arising from them. The issues identified are spelt out in the covering note. The details of the current state of negotiations are set out in the Annexes, and the issues are cross-referenced to the appropriate negotiations. As agreed in previous correspondence, the report confines itself to a purely monitoring role, and does not attempt to stray into areas of policy by attempting to indicate how any of the issues raised might be handled.

As you know, circulation of this report is to be very restricted. Accordingly I am sending a copy only to Richard Dykes: Terry Mathews has already received a copy internally. (and R. Armstrong, CSD, CPRS).

Yours ever,
Peter

P S JENKINS
Private Secretary

CONFIDENTIAL

HM TREASURY

PUBLIC SECTOR PAY: NEGOTIATIONS AND ISSUES

Introduction

This is the first in a series of reports prepared with the assistance of officials in the Department of Employment, Civil Service Department, Cabinet Office, CPRS and No 10.

2. The report identifies those current or immediately prospective pay negotiations in the public sector which, in the opinion of officials, are important enough, either in themselves or in terms of the issues they raise, for Ministers to consider them. We have described the issues which seem to arise, but as instructed by Ministers, we have not ourselves considered them or made recommendations.

Background

3. In the pay round which effectively ended on 31 July 1980, most public services, except those with independent pay reviews, settled for about 14% increases; the delayed settlement and implementation of previous round increases and wage drift raised average earnings for public service workers by a further 12% (making 26% in all) compared with the previous year; the year on year earnings comparison was higher then in the private sector even though the level of new settlements was lower. The public trading sector had increases in the 1979/80 pay round averaging 18%, about the same level as in the private sector.

Issues arising from negotiations

4. We deal in separate sections (Annexes A and B) with negotiations in the public services and the public trading sector. The policy issues raised by these negotiations overlap, however, and they are therefore described in this general section of the report, with cross-referencing between it and the Annexes.

5. The important issues which we see arising are as follows:

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

Such settlements are likely to be at a higher rate than

/Ministers

Ministers intend to achieve in the current round. In the case of the local authority Administrative, Professional, Technical and Clerical grades will there be a role for the Government (as well as the local authorities) in seeking to minimise the repercussive impact? (A similar problem, where the Government cannot avoid becoming involved, will arise with the outstanding Clegg references, for example on New Town Staff.)

(ii) Ministers will shortly need to decide on the pay element to be included in cash limits for FY 1981-82

This will be coming up for decision in the course of October, with announcement planned for November. It will apply to most public service settlements in the 1980-81 pay round. Decisions will also be needed on External Financing Limits for nationalised industries.

(iii) Some settlements in the 1980/81 pay round (university teachers, Atomic Energy Authority, local authority manuals, firemen and NHS ancillaries) are covered not only by the cash limits for FY 1981-82, but also the pay element in the FY 1980-81 cash limit, which was set at 14%; should adjustment be made to bring the total cash available in the pay year into line with Ministers' decisions on the pay element in cash limits for FY 1981-82?

(iv) Ministers attach importance to low settlements early in the round in the public services (university teachers, Atomic Energy Authority, local authority manuals)

Does this involve any greater pressure being put upon employers than that exerted by cash limits? Are Ministers prepared to allow employers to use flexibility within their cash limits to finance excessive pay settlements (as might happen with the Atomic Energy Authority)?

(v) Binding arbitration with unilateral access is a problem in a number of areas in the public sector (eg local authority Administrative, Professional, Technical and Clerical Staff, University Teachers).

Mr Prior has a remit to report to E Committee on the general issues. Should the Government seek to persuade the employers concerned to renegotiate their arbitration agreements? Is there any other action the Government can take?

(vi) Should Ministers seek to encourage the local authority employers to break the firemen's index-linking

This could lead to a firemen's strike, and also to

/questions

questions about the Government's attitude to police index-linking. If the employers themselves decide to break the link, what should the Government attitude be on supporting them (in public if necessary)?

6. The situation in particular negotiations is discussed more fully in Annexes A & B as follows:

<u>Annex A</u> - <u>Public Services</u>

1. Local Authority Administrative, Professional, Technical and Clerical Grades
2. University Teachers
3. Fire Services
4. (a) Local Authority Manuals
   (b) Water Manuals
   (c) NHS Ancillaries
5. Civil Service non-industrials

<u>Annex B</u> - <u>Public Trading Sector</u>

6. UK Atomic Energy Authority Manuals
7. Coal Mining

IP GROUP
HM TREASURY

<u>24 September 1980</u>

PUBLIC SERVICES

1. **Local Authority Administrative, Professional, Technical and Clerical Grades** (650,000)

*Settlement date: 1 July 1980
Unions involved: predominantly NALGO

Management has stood firm on an offer of 13 per cent in response to a claim of over 21 per cent. The employers' agreement with the unions provides for unilateral access to binding arbitration, and the unions have taken the claim to arbitration, which the employers were unable to prevent.

Issues

(i) Presentational problem - tail end of previous round

(v) Binding arbitration with unilateral access.

2. **University Teachers** (38,000)

Settlement date: 1 October 1980
Main Union: Association of University Teachers

The union are pressing for negotiations to start in September. The cash limit for FY 1980-81 contains a pay element of 14 per cent; that for FY 1981-82 has still to be decided. University teachers normally aim to keep their relativity with further education teachers, whose settlement date is 1 April, and whose recent increases have exceeded theirs. On the other hand, university teachers will receive from 1 October the second stage of their recent 17.0 per cent increase.

Issues

(ii) This settlement depends on cash limits for 1981-82 which may not be settled in time to influence negotiation.

(iii) The settlement will reflect also the cash limit for 1980-81 which may now be thought too generous.

(iv) It is an important settlement in the new round.

(v) The employers can be taken to binding arbitration.

---

*Settlement date means date of normal implementation; negotiations may not always be concluded by then.

3. <u>Fire Services</u> (36,000)

Settlement date: 1 November 1980
Unions: Fire Brigades Union, National Association of Fire Officers

After a prolonged strike in 1977, an indexation agreement was made which, if adhered to, is likely to lead to an increase of around 20 per cent. There were earlier signs that the local authority employers might seek to break this agreement, but following the recent employers' meeting, this now seems unlikely.

<u>Issues</u>

(vi) Index-linking.

4(a). Local Authority Manuals (1,100,000)
Settlement date: 4 November 1980
Unions: GMWU, NUPE, TGWU

4(b). Water Manuals (33,000)
Settlement date: 7 December 1980
Unions: NUPE, TGWU, GMWU, NUAAW

4(c). NHS Ancillaries (210,000)
Settlement date: 13 December 1980
Unions: NUPE, GMWU, TGWU, COHSE

LA manuals are the key public service group which sets the tune for all LA groups and many other manual groups. Relatively low increases last year may create pressure for a settlement little below the RPI. Mr Heseltine and other Ministers are meeting employers on 25 September for preliminary discussion of the prospects. The water manuals and NHS ancillaries settle in December. NHS ancillaries traditionally follow the LA manuals. The water manuals have in recent years seen themselves as closer to gas and electricity. But they are represented by the same unions as the LA manuals and, indeed, in Scotland are local authority employees.

Issues

There may be an issue (not an immediate one) in relation to timing, whether to take the water negotiations early (where a high settlement is likely - the National Water Council have a poor negotiating record and industrial action would present grave problems), and then seek to isolate this from the other manual negotiations by stressing the relationship to gas and electricity? Or, as last year, should the water negotiations be held back, at the risk of industrial action, until the LA manuals have settled?

5. Civil Service non-industrials

Although the settlement date is not until 1 April, the Lord President is currently negotiating changes to pay research with the unions, and is due to report to E Committee in mid-October. The Chancellor's paper on the longer-term options for Civil Service pay will be taken at the same time. The Lord President has already indicated to the unions that cash limits will be the major determinant of the 1981 settlement, and a letter is to be sent to the unions to make this absolutely clear.

ANNEX B

PUBLIC TRADING SECTOR

6. UK Atomic Energy Authority Manuals (4,700)

Settlement date: 1 October 1980
Unions: GMWU, AUEW, TGWU, EETPU

The claim is for about 30 per cent on the pay bill. Management were proposing to make an initial offer of 11 per cent on the pay bill, but E(EA) decided that this was too high. It would be consistent with cash limits as currently set, because the cash limit for FY 1980-81 contains a pay element of 14 per cent. The Chancellor's letter to Mr Howell of 12 September pointed out that the AEA could not assume that their 1980-81 cash limit would remain unchanged so far as the pay element was concerned.

Issues

(ii) This settlement depends on cash limits for 1981-82 which may not be settled in time to influence negotiation.

(iii) The settlement will reflect also the cash limit for 1980-81 which may now be thought too generous.

(iv) It is an important settlement in the new round.

7. Coal Mining (223,000)

Settlement to operate from 1 January - 31 October 1981
Union: National Union of Mine Workers

The claim is expected to be presented on 23 October. The conference resolution called for a £100 minimum rate (35 per cent increase) equal to about 29-30 per cent on earnings to be paid "on a salary basis". The formal claim is likely to clarify these objectives, and may revive other items, such as the 4-day week. The National Coal Board is expected to take time over negotiations, but the initial offer is unlikely to be delayed beyond mid-November. The crucial period is likely to be late November or early December, with a ballot (if needed) just before Christmas.

Comment

Although the start of the miners' negotiations is now likely to be later than expected, they will, as always, have an important effect on the pay round, particularly in relation to such major

/groups

groups as gas, electricity and rail. It seems clear that the shortened time-table for negotiations leaves little scope for further delaying offers to the miners, even if this were thought desirable. The claim is not sufficiently well formulated to identify specific issues yet.

CONFIDENTIAL

Econ Pol.

cc: Mr. Ingham
Mr. Duguid

MR. LANKESTER

P. 3/79

Monitoring Group on Public Sector Pay

You may wish to know how the new Monitoring Group on Public Sector Pay, chaired by Mr. Dixon in the Treasury, is progressing.

The Group met for the first time yesterday afternoon. Apart from the Treasury team there were representatives from the Cabinet Office, the CPRS, the CSD and the Department of Employment; I represented No. 10.

There was considerable uncertainty around the table as to the limitations of its role and the way in which it was to operate. The Department of Employment representative was consistently helpful in offering to coordinate the collation of information about public sector pay and circulate it in suitable form; but some, led by the CSD, felt that the Group could do its work (a) by excluding Civil Service pay issues, and (b) without actually meeting. I and the CPRS representative scotched both of these suggestions, and it has now been broadly agreed, subject to the approval of the Financial Secretary who has - in accordance with the Prime Minister's wishes - overall supervision of the Group, that:

1) The Group will meet fortnightly; will prepare a factual paper appropriate for circulation if necessary to all the sponsor departments contributing to the exercise; and will prepare for Ministers only a covering note identifying issues requiring ministerial attention and recording any particularly sensitive information, such as forthcoming pay offers. The Group recognised the importance of not prejudicing the relationship between sponsor departments and industries by becoming a source of leaks.

2) The material put to Ministers will include Civil Service pay issues, both in terms of the general issue of suspension of the pay agreements and the specific issues of timing of announcements on cash limits.

CONFIDENTIAL

/ 3) Mr. Dixon

3) Mr. Dixon will consult Mr. Ryrie and the Financial Secretary as to the Ministers who should be kept informed by the Group; there was a disposition to restrict the list to the Prime Minister, Treasury Ministers, and the Secretaries of State for Employment and Industry.

4) The information for Ministers would at infrequent - perhaps monthly - intervals include a brief summary of the pay scene in the private sector, not for the purposes of monitoring but in order to provide comparisons.

5) The Group will consider at its next meeting whether it would be appropriate for it to include in the issues to which it draws Ministers' attention a cross reference to the assessment that has been made by the Cabinet Office of the effectiveness of industrial action in the industry concerned.

J.

J M M Vereker
18 September 1980

CONFIDENTIAL

Econ 11.

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

12 September 1980

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

TL 29/9

Dear Secretary of State,

PUBLIC SECTOR PAY 1980-81

, with TL (?).

I have seen your minute of 8 September to the Prime Minister.

I have every sympathy with your wish to avoid appearing to intervene in public sector pay negotiations on grounds which are not supported by cash limit considerations. However, I do not think that the E(EA) decision requires you to do so. The problem is one of timing. Until we reach our decisions on cash limits, and in particular the pay elements in cash limits, on 30 October, we cannot give clear indications to pay negotiators on what the cash limit provision will be. Further, we must remember that though the pay element in cash limits for FY 1980-81 is 14 per cent, even for settlements which fall in the 1980-81 "pay round", we may wish to adjust this element, as we did last year, to conform with whatever decisions we take on 30 October (though this year the adjustment would be downwards rather than upwards). This means that if the UK AEA were to go ahead and negotiate on the basis indicated in your E(EA) paper, they might well end up with a settlement in excess of our final decisions on cash limits for this financial year and next.

I do not see why you should not be fairly open with the UK AEA on this problem. It would be up to them to decide whether or not to seek to delay negotiations until our final decisions are reached. But if they do not, then I think you must tell them that the only reasonable assumption on which they can proceed is that the final cash limit provision is likely to mean that they will need to settle within single figures. They should negotiate accordingly.

/I think the

CONFIDENTIAL

I think the above indicates why I doubt whether a discussion such as you suggest would be helpful in advance of our decisions on cash limits in October. I do not think we can progress further at this stage. But I think you are right to indicate that our intervention in pay settlements should be on cash limit grounds. The difficulty in this case is not over a change of policy, but because we have not yet taken the critical decisions on cash limits.

I do think however, that it would be useful to have an early discussion amongst those directly concerned about how we are going to handle nationlised industry pay matters, in practical terms. This is a separate question from the AEA matters we have been discussing. I propose to arrange a meeting next week.

I am copying this letter to the recipients of yours.

Yours sincerely,

P. S. Jenkins.

GEOFFREY HOWE

Approved by the Chancellor and signed in his absence.

With the Compliments

of

The Permanent Under Secretary of State

Scottish Office

[redacted]

SIR WILLIAM FRASER, KCB

Dover House
Whitehall
London SW1A 2AU
01-233 8229 or 7602

New St. Andrew's House
Edinburgh EH1 3SX
031-556 8400

Sir William Fraser KCB
Permanent Under-Secretary of State

Scottish Office
Whitehall
London SW1A 2AU
01-233 8229 or 7602

10 September 1980

CONFIDENTIAL

W S Ryrie Esq CB
HM Treasury
Parliament Street
London SW1P 3AG

R.

11/9

Dear Bill,

PUBLIC SECTOR PAY

Thank you for your letter of 14 August about the new arrangements for providing Ministers with regular information about developments on public sector pay. We will certainly cooperate: the initial contact point should be our Liaison Division in London (Gordon Murray on 233 8350).

The Scottish Office has a substantial interest not only in the pay negotiations for a considerable number of groups in Scotland, but also, because of repercussive effects, in at least an equal number of pay negotiations in England and Wales. I am sure that my Secretary of State would find the reports of the new group of very considerable value; and I therefore support Jim Hamilton's suggestion that these reports should be circulated to interested Departments.

Copies of this letter go to the recipients of yours.

Yours,
Kenneth Fraser

CONFIDENTIAL

Econ Pol

cc J. Vereker

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 3785
SWITCHBOARD 01 215 7877

From the Permanent Secretary
Sir Kenneth Clucas, K.C.B.

9 September 1980

W S Ryrie Esq CB
HM Treasury
Parliament Street
LONDON SW1P 3AG

R 15/9

Dear Bill,

PUBLIC SECTOR PAY

Thank you for your letter of 14 August. You may count on this Department's help. The co-ordinating point in this Department for nationalised industries is Denis Gildea at Assistant Secretary level. His telephone number is 215-3083.

I note your intention that IP and PE groups in the Treasury should be in regular touch with Departments sponsoring the nationalised industries to obtain information from them. I trust that, in the interests of economy, it will in practice be one or other of these groups but not both.

I am copying this letter to those who received yours.

Yours ever,

Ken.

KENNETH CLUCAS

10 SEP 1980

TL 10/9/80

With the Compliments of

G. S. DOWNEY

CENTRAL POLICY REVIEW
STAFF

Cabinet Office
Whitehall London
SW1A 2AS

Telephone 01-233 3000

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233-7798

R

Qc.02525 8 September 1980

Dear Bill,

Public Sector Pay

Having just returned from leave I have seen your letter of 14 August to Ken Barnes proposing the setting up of a small group under Peter Dixon to keep relevant Ministers informed of developments on public sector pay.

2. If you agree, we should like to be associated with this group, though not at the expense of the Cabinet Office Secretariat. We should not necessarily want to be represented at every meeting but we should certainly like to be supplied with all the papers and have an opportunity to attend when this seems desirable. If this is agreeable to you, our representative would be John Rickard.

3. I am sending a copy of this letter to the recipients of yours.

Yours ever,

Gordon

G S DOWNEY

W S Ryrie Esq CB
Treasury
London SW1

Prime Minister

Mr Howell does not want to discuss this case in E, but before intervening as agreed in E(EA) he wants there to be a general discussion on public sector pay in E. The Chancellor is planning to put a general paper to E on 29 Sept, and the AEA negotiations set for 26 Sept can apparently be put off. Shall we proceed on that basis?

TL
9/9

cc Mr Hoskyns
Mr Wolfson

PRIME MINISTER

PUBLIC SECTOR PAY 1980/81

I have seen Keith Joseph's minute reporting the discussion at Thursday's E(EA) Meeting on negotiations with the AEA's industrial staff. I have noted the Committee's conclusions.

While the Committee were right to assume that the immediate economic consequences of industrial action at AEA sites would not be significant, I fear that they may have under-estimated the other consequences, particularly the embarrassment to the Government's nuclear policy and the fact that prolonged strike action might jeopardise safety.

I need not trouble E Committee with this specific negotiation. I am however concerned at the wider implications of the decision which colleagues have reached in this case. My intervention in the negotiations is bound to become known, and will be seen as a significant departure from our policies hitherto, under which management have been free, within the constraints of cash limits, to decide for themselves how to conduct negotiations.

Before I commit colleagues to a new course by this action, I believe we should have an early discussion in E Committee, not necessarily on Wednesday, on the basis of a paper by Geoffrey Howe on pay policy in the public sector. A discussion of the general issue at this stage is, I believe, necessary if we are not to run the risk of evolving a public sector pay policy by a series of ad hoc decisions on particular cases.

Yes nr / overtaken by Chancellor's letter of 12 Sept. ~~[illegible]~~

TL
29/9

The stance we adopt must be capable of being reconciled with the assurance, which Geoffrey Howe's letter of 4 September to Keith Joseph invited nationalised industry sponsor Ministers to re-affirm to their industries, that it is not our intention to take over pay negotiations, which must remain the responsibility of the industries' managements. We shall in particular need to clarify the nature of the responses we intend to make if the warning system which Geoffrey is instituting gives notice of offers which appear inconsistent with our intentions.

I am copying this minute to the recipients of Keith Joseph's.

DA.

SECRETARY OF STATE FOR ENERGY

8 SEPTEMBER 1980

8 SEP 1980

Prime Minister 1.

1. Content that this pay issue should now come to E?
2. We will need to watch this when you go to Harwell.

MAP 26/IX

Yes MT.

PRIME MINISTER

UKAEA INDUSTRIAL PAY SETTLEMENT

1 E(EA) Sub-Committee today considered papers from the Secretary of State for Energy (E(EA)(80)48) and the CPRS (E(EA)(80)49) discussing the line that the Government should adopt in relation to the wage negotiations which the UKAEA will be conducting with their industrial employees.

2 This would be the first public sector settlement in the new pay round, and in helping to set the tone for the round colleagues were all agreed that a low settlement, probably well into single figures, was desirable.

3 But the staff concerned have traditionally looked over their shoulders to the civil service and BNFL settlements at the end of the previous pay round. BNFL industrials, who work alongside UKAEA industrials, recently obtained 15%. The UKAEA were therefore thinking originally in terms of a settlement at about the 14% level. As a result of pressure by Department of Energy they have revised this to the idea of a 11% settlement - but then envisage that this would run for only 8 months, with a further settlement in June next year. Such a change of settlement date would have some possible advantages, since it would put them near the end of the wage round and closer to other comparable groups, and would coincide better with the "cash-limit year". But it would obviously have serious disadvantages too.

/4 ...

4 Unfortunately David Howell was unable to attend E(EA) personally because of a prior engagement, but was represented by John Moore. The Sub-Committee agreed (with John Moore reserving his position) that the UKAEA proposals were not acceptable, and that every effort should be made to persuade them to a different course. The change in settlement date by bringing it forward to June would set a very damaging precedent, and should not be proceeded with. A longer term settlement, for say 18 months, would result in a very high percentage figure and so would be presentationally difficult. The UKAEA should therefore be told that this was not the right time to consider a change in settlement date.

5 The percentage increase that the UKAEA envisage is conditioned partly by the fact that for the next six months they would have the benefit of the 14% increase in salary levels included when cash limits were set in the different economic circumstances of last year. Although they expect that a lower figure will be included when cash limits are set for next year, they believe that by taking half of the current year and half of next year they can afford a double figure offer now. The Sub-Committee were agreed that the UKAEA, and through them the unions, should be told that the cash limits represent a ceiling rather than an entitled level of expenditure, and that they include many elements as well as wages, which must be set to reflect current economic reality. The UKAEA should be strongly exhorted to seek a settlement in line with the Government's intentions for the public sector as a whole in the new wage round. Since there would be the danger of industrial action, any initial offer should of course be set rather lower than an acceptable settlement level.

/6 ...

6. It seems that industrial action by these staff would not impinge directly on the public or on vital areas of the economy or defence. Although it would reduce income to UKAEA, and so have cash-limit repercussions, the Sub-Committee felt that these were outweighed by the presentational advantage of obtaining a low settlement in this case.

7 Although the Sub-Committee were thus in agreement on the action required, they felt that in the absence of David Howell, and in view of the wider presentational aspects if Government is seen to intervene even indirectly, it would be desirable to look at the case again in E Committee, and I undertook to recommend that to you.

8 I am copying this to members of E Committee, Francis Pym, George Younger, Nicholas Edwards and Sir Robert Armstrong.

KJ

K J
5 September 1980

Department of Industry
Ashdown House
123 Victoria Street

cc Mr Vereker

Econ Pol

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ
01 233 4987

3 September 1980

W S Ryrie Esq CB
HM Treasury
Parliament Street
London SW1 P3AG

AW

4/x

Dear Bill

PUBLIC SECTOR PAY

Thank you for your letter of 14 August to Sir Kenneth Stowe (who is currently on leave) about the new arrangements for providing Ministers with regular information about public sector developments. The NIO and NI Departments will cooperate as necessary. The initial contact point for your people should be our ESL Division here in London (Assistant Secretary, R B Spence; Principal, A Ray). Depending upon how things develop it may be convenient to rely on someone in the Department of the Civil Service in Northern Ireland who will be responsible for collating NI information.

2. I would point out that the public sector in Northern Ireland are not the prime movers in pay. Whilst there are a few exceptions like Ulster Bus, City Bus and Northern Ireland Railways who negotiate separately, practically all the public sector in Northern Ireland follow pay awards in Great Britain.

3. I have sent copies of this letter to recipients of yours.

Yours sincerely

Joan Kelley

J KELLEY

CONFIDENTIAL

✓MAP
cc J Vereker
Econ Pol

2 pps

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6904
SWITCHBOARD 01-212 7676

1 September 1980

W S Ryrie Esq CB
Second Permanent Secretary
Domestic Economy
HM Treasury
Parliament Street
London SW1P 3AG

Dear Bill,

PUBLIC SECTOR PAY

In Peter Carey's absence on holiday I am replying to your letter of 14 August outlining your arrangements for collecting information on public sector pay. This Department will of course co-operate fully in them.

As far as nationalised industries are concerned, the co-ordinating point in this Department for those industries for which we are responsible will be Rodney Shirley, a Principal in our Post and Telecommunications Division. His telephone number is 212-6294.

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

Yours ever,
Gordon Manzie.

A G MANZIE

CONFIDENTIAL

cc J. Vereker MA

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

SIR BRIAN CUBBON KCB
PERMANENT UNDER-SECRETARY OF STATE

1 September 1980

Dear Bill,

Thank you for your letter of 14 August about the new group you are setting up to enable you to collect and provide Ministers with regular information about developments on public sector pay.

We shall be glad to co-operate. The central point for pay matters in the Home Office is Police Department and Jean Goose (213 3256) would be the contact at Assistant Secretary level.

I note that the group will confine itself to collecting information and that it is not proposed that it should discuss policy or make recommendations. I am rather sceptical how long it will be able to exercise this self-denying ordinance and I agree with Pat Nairne in hoping the group will not find itself examining details of individual offers in search of potentially repercussive effects. If by any chance the group begins to comment on the merits of prospective settlements and so to consider policy issues, we should expect to be invited to be present when questions of Home Office interest are being considered.

I am copying this letter to those who received your letter.

Yours ever

Brian

W S Ryrie Esq CB.

CAW – ECON POL to see these exchanges o/R 8/IX

cc J. Vereker

MAP 22/8.

CONFIDENTIAL

CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

TELEPHONE 01-273 3434

Sir John Herbecq K.C.B

Second Permanent Secretary

22 August 1980

W S Ryrie Esq CB
HM Treasury
Parliament Street
LONDON SW1P 3AG

Dear Bill

PUBLIC SECTOR PAY

Thank you for sending me copies of your letters of 14 August to Ken Barnes and Brian Hayes.

2. I am not sure how you propose to deal with the point raised in Jim Hamilton's letter of 20 August. But on the supposition that your aim is to establish a very much smaller and less time consuming a body than PY - an aim I would cordially support - we shall be pleased to be represented on it. Our nomination is John Beastall of Pay 3 Division.

3. I am copying this note to Robert Armstrong, Ken Barnes and Clive Whitmore.

Yours ever

John

John Herbecq

CONFIDENTIAL

LJN1

cc J. Vereker

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522 ext 6981

From the Permanent Secretary

Sir Patrick Nairne KCB MC

W S Ryrie Esq CB
HM Treasury
Parliament Street
LONDON
SW1P 3AG

21 August 1980

Dear Bill,

PUBLIC SECTOR PAY

Thank you for letting me know, in your letter of 14 August, about the new arrangements for providing Ministers with regular information about developments on public sector pay.

I confirm that this Department stands ready to co-operate; your colleagues are, I believe, already in touch with our focal point (Branch P2B, Assistant Secretary, D White; Principal, R Trant).

The emphasis of the new series of reports will evidently be on prospective developments and will, I assume, complement the monthly, retrospective, reports by DE. Perhaps I may add the hope that Ministers will wish to be advised only about the broader relationships between negotiations in various parts of the public sector and essentially in terms of overall cost; and that Peter Dixon's group will not be expected to examine in detail the entrails of individual offers in search of potentially repercussive elements. Otherwise
?! the exercise could consume a good deal of Whitehall time.

I am copying this letter to recipients of yours.

Yours ever,

Pat

PATRICK NAIRNE

cy J. Vereker

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 4391

SIR DONALD MAITLAND GCMG OBE
PERMANENT UNDER SECRETARY OF STATE

21st August 1980.

CONFIDENTIAL

Dear Bill,

PUBLIC SECTOR PAY

Thank you for your letter of 14th August. You can count on this Department's full co-operation in your arrangements for the collection, and provision to Ministers, of regular information about developments on public sector pay.

I share your view that, for the purposes you have in mind, a small group such as you propose will be more appropriate than a Whitehall-wide committee.

You mention the focal points which exist in Departments responsible for the public services. In this Department we already have a similar central point (our Finance and Nationalised Industries Division) for co-ordinating information on pay in the nationalised energy industries. It may be helpful for Peter Dixon's group to have a contact here; at Assistant Secretary level this would be John Whaley (on 211 6692).

It is certainly true that, in the absence of general guidance, the form and extent of information provided by different industries to their sponsor Departments over the past pay round have varied widely. However, we are following up with our industries at official level the Chancellor's meeting on 28th July with the representatives of the Nationalised Industries Chairmen's Group, at which he made clear the importance which Ministers attach to sponsor Departments being informed of the approach to be taken in the next round of pay negotiations. Indeed, as you will know, we are already in close touch with the AEA in connection with their industrials' negotiations and with the NCB in preparation for those with the miners.

I am copying this to all who received your letter.

Yours ever,

Donald

W.S. Ryrie Esq., CB,
HM Treasury,
Parliament Street,
London SW1P 3AG.

with compliments

Sir James Hamilton KCB MBE
The Permanent Secretary

DEPARTMENT OF EDUCATION & SCIENCE

CONFIDENTIAL

cc J Vereker

DEPARTMENT OF EDUCATION AND SCIENCE

Elizabeth House, York Road, London SE1 7PH

Telephone: 01-928 9222

The Permanent Secretary

Sir James Hamilton KCB MBE

W S Ryrie Esq CB
Second Permanent Secretary
Domestic Economy
HM Treasury
Parliament Street
London SW1P 3AG

22 August 1980

Dear Bill,

PUBLIC SECTOR PAY

I am a little puzzled as to the no doubt impeccably pure motives behind the arrangements outlined in your letter of 14 August. You say the Treasury intend to establish new arrangements for "collecting and providing Ministers with regular information about developments on public sector pay". But there is already an official committee on pay negotiations (PY) whose terms of reference are "To co-ordinate the work of departments in relation to pay negotiations; and to report to Ministers as appropriate".

requested Again 26/8/80

Moreover PY produces a monthly pay brief on pay settlements and prospects which seems to cover exactly the same ground as that intended for the Treasury group. PY has not met since December of last year; in the interests of that efficiency which we are constantly being adjured to pursue, would it not be better to try and make the existing arrangements work more effectively than to set up a new group? Or is the intention that the existing arrangements should be dismantled? If so, will someone please tell us.

CONFIDENTIAL

Then again, your letter talks about "Ministers concerned". Who are these Ministers? I hope they include the Ministers of the Departments given in paragraph 3 of your letter.

As always, this Department will willingly provide all the information on public sector pay that you may require; but it would be helpful to know a little bit more about the background.

I am copying this letter to those who received yours.

Yours ever,

J.

J A HAMILTON

21 AUG [illegible]

With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

Treasury Chambers,
Parliament Street,
S.W.1.

cc J Vocke

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 ....

W S Ryrie CB
Second Permanent Secretary
Domestic Economy

14-8-80

PUBLIC SECTOR PAY

I should be grateful for the co-operation of your Department in enabling us to collect and provide Ministers with regular information about developments on public sector pay. We intend to establish new arrangements for this purpose but they will be informal and will not take the form of a Whitehall-wide committee which would be unnecessarily cumbersome.

What we have in mind is that a small group chaired by the Treasury Under Secretary who is concerned with pay questions, Peter Dixon, and consisting of representatives of the CSD, Department of Employment, Cabinet Office and No 10 only should be established. Their job will be to ensure that Ministers concerned are provided regularly with information about public sector pay cases, that is information about events as they occur and about prospective developments such as offers and negotiations, looking about a month ahead at all times. The group will meet as often as is necessary to carry out this task. The group will not discuss policy or make recommendations: its function will be purely the provision and co-ordination of information so that Ministers are given due warning of issues as they come up and so that relationships between cases in various parts of the public sector are not missed.

The collection of this information should not be difficult so far as public services are concerned. I believe that there are focal points in the DHSS, Departments of Education and the Environment, the Home Office and the Scottish Office through whom we should be able to get the information we need on virtually the whole of the public services.

The nationalised industries are another matter. To the best of my knowledge there is no similar point of co-ordination in most sponsoring Departments which are concerned with more than one nationalised industry. And there is equally no regular mechanism for information to be provided by the industries to sponsor Departments.

The Government's concern in this area is recognised to be different, but Ministers will wish to be closely informed of significant developments in good time. This will of course require the co-operation of the Chairmen of the corporations. The Chancellor has asked me to say that he will be writing to sponsor Ministers as soon as he gets back from holiday to ask them to speak or write to their Chairmen to ask for their co-operation in this matter.

Meanwhile, we shall arrange for the group under Dixon to monitor the nationalised industries also. IP group in the Treasury, which is concerned with pay questions, and PE group, which is concerned with the nationalised industries, will be in touch regularly with those concerned in the sponsoring Departments to obtain information from them.

I am writing in similar terms to the Permanent Secretaries of all Departments directly affected by this exercise (list attached) and am copying the letter to Clive Whitmore, Robert Armstrong, Robin Ibbs, John Herbecq and Ken Barnes.

Yours ever

(Dictated by Mr Ryrie
and signed in his absence)

Letter sent to:

Sir Patrick Nairne KCB CM	- DHSS
Sir James Hamilton KCB	- Education
Sir John Garlick KCB	- DoE
Sir Brian Cubbon KCB	- Home Office
Sir William Fraser KCB	- Scottish Office
Sir Hywel Evans KCB	- Welsh Office
Sir Peter Baldwin KCB	- Transport
Sir Kenneth Clucas KCB	- Trade
Sir Donald Maitland GCMG OBE	- Energy
Sir Peter Carey KCB	- Industry

Copies sent to:

C. Whitmore Esq	- No 10
Sir Robert Armstrong KCB CVO	- Cabinet Office
R. Ibbs Esq	- CPRS
Sir Kenneth Barnes KCB	- Employment
Sir John Herbecq KCB	- CSD

CONFIDENTIAL

cc J. Vereker

cc CO

Econ Pol

JS

10 DOWNING STREET

From the Private Secretary

13 August 1980

Thank you for your letter of 11 August, about co-ordination of information on public service pay.

The Prime Minister is broadly content with the arrangements proposed. As I told you on the telphone, she is pleased to learn that the Financial Secretary will have general oversight of this work. She has also noted your view that the fortnightly note would probably not cover the nationalised industries, but that the Chairmen might be asked by their sponsor Minister to forewarn them at least three days in advance of making any pay offer. The Prime Minister hopes that nationalised industries' pay can be covered as far as possible under the new arrangements. She would therefore hope that the fortnightly note would include all available information on their pay negotiatons. She would also much prefer to see Ministers having about 7 days' notice of the intention to make a claim.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. A. PATTISON

Martin Hall, Esq., MVO,
HM Treasury.

cc J. Vesteos

PRIME MINISTER

Nigel Lawson will have general oversight of this Committee. You had questions about the treatment of nationalised industries. The Chancellor would be happy to bring them into this system as much as possible, and to extend Ministers' advance notice of their offers: but Ministers' relationships with the nationalised industry chairmen on these matters are governed entirely by persuasion, and some of the chairmen tend to take a restricted view of Ministers' role in these matters.

Would you like me to say that you hope as much nationalised industry information as possible can be included in the fortnightly note, and tht you hope that wherever possible Ministers will get more than three days advance notice of pay offers in the nationalised industries, but that you are content to leave the Chancellor to finalise the details of the arrangement.

MAP

12 August 1980

cc J. Vereker

I hope Nigel Lawson can have general oversight of this committee. MP

Prime Minister

Content with these monitoring arrangements?

MAP 11/8

See comments overpage. MP

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

11 August 1980

M. Pattison, Esq.,
Private Secretary,
10, Downing Street

Dear Mike,

CO-ORDINATION OF INFORMATION ON PUBLIC SERVICE PAY

At a meeting last week the Prime Minister said she would like some arrangements to be set up in Whitehall to make sure that she and some other Ministers are kept properly informed of developments on pay in the public services. Before he went on holiday, Tim Lankester said that the Prime Minister would like to know exactly what was intended before the arrangements are put into effect.

The purpose of these arrangements will be purely the gathering and co-ordination of information. There is no intention that they should be used to discuss policy. The aim will be to let the Prime Minister, the Chancellor, the Secretary of State for Employment and possibly one or two other Ministers have a regular note (we suggest fortnightly) setting out the facts about recent developments in public service pay cases and events expected in the month ahead. This will enable Ministers to intervene in good time if they wish to do so and make sure that relationships between events in various parts of the public services are not missed.

We understand that the Prime Minister would prefer the arrangements to be informal and not managed by the Cabinet Office, partly because of the danger of misinterpretation if their existence was leaked. What we propose is that the relevant Treasury Under Secretary should convene a group which would consist of the Under Secretary or Assistant Secretary concerned in the Department of Employment, CSD and Cabinet Office, together with someone from No.10. The Treasury would chair this group and provide the secretary.

For this purpose we assume that the public services cover all employees of the central government including the NHS and local government. The group would establish contacts with the appropriate people in the DHSS, the Department of the Environment, the Department of Education, the Scottish Office and the Home Office. This group will have access to information on pay developments in virtually the whole of the public services.

/The nationalised

CONFIDENTIAL

why not?

The nationalised industries are a different matter. We would not suggest that the fortnightly note should cover them, but it is obviously important that the Government should be kept adequately informed here also. The Chancellor has already told the Chairmen, at his meeting with them on 20 July, that the Government wanted Departments to be kept in touch with the precise approach towards pay bargaining being adopted in each industry. The Chancellor feels that it would be useful if sponsor Ministers were to reinforce this by asking the Chairmen of each of the industries for which they are responsible to inform him of any intention to make an offer at least three days in advance and preferably more and also to keep sponsor Ministers and Departments informed of the progress of negotiations. We do not believe that it will be possible to handle the flow of information about nationalised industry pay developments in the same systematic way as we propose for the public services. But the Treasury will make it its business to maintain contact with the sponsor Departments and the Department of Employment to make sure that adequate information is available to the Ministers concerned.

7 days?

If the Prime Minister agrees that these proposals are on the right lines, we envisage that Bill Ryrie should write round to all Permanent Secretaries concerned explaining that and seeking the co-operation of their Departments in them.

I am copying this letter to David Wright.

Yrs ever,

MH

M.A. HALL

Econ. Pol.

10 DOWNING STREET

Mr Hoskyns.

You should be aware of this: I have been unable to persuade the PM that we do need some formal machinery.

T.

24/7/80.

CONFIDENTIAL

FILE

Bth

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Public Sector Pay

You minuted the Prime Minister on 18 July (reference A02664).

I have already told Mr Wright that the Prime Minister was content for the factual note prepared in the Cabinet Office to be circulated to E Committee, and also that there should be an official group under Treasury chairmanship to work out in detail some of the proposals in the Chancellor's paper to E Committee.

I have discussed the question of an official group under Cabinet Office chairmanship to co-ordinate our approach to public sector pay matters with the Prime Minister, and she is quite clear that she does not wish such a group to be established.

T. P. LANKESTER

24 July, 1980

CONFIDENTIAL

GB

Econ Pol.

Ref: A02694

CONFIDENTIAL

Subject file
Comparability - Pt 2

PRU to be for pattern

PRIME MINISTER

Comparability and Cash Limits
(E(80) 71, E(80) 75 and the minute from
Mr. Hoskyns dated 18th July also relevant)

BACKGROUND

The Chancellor's paper (E(80) 71) covers a lot of ground and overlaps at the margin with the Lord President's paper on the Review Bodies (E(80) 59) - to be taken as Item 2 on the agenda - and the proposals on nurses' pay (E(80) 74) to be taken under Item 3 of the agenda. The Committee will also have before it Mr. Hoskyns' minute to you of 18th July and, as background, the note by officials (E(80) 75) listing the decisions which have already been taken and those which have to be taken over the months ahead on public sector pay issues.

2. The Chancellor's paper is a logical development of the arguments he put forward at earlier E discussions on public service pay. You will recall that the basic division of opinion then was between the Lord President of the Council who believed that Civil Service pay should continue to be based on comparability - improved as necessary and with the Government bargaining toughly for the lowest outcome - and the Chancellor of the Exchequer who wanted to set cash limits in advance and stick to them irrespective of the findings of Pay Research. The issue of principle was not resolved, and indeed, as the Chief Secretary pointed out, the two approaches are not necessarily in conflict - everything depends on the size of the cash limit actually set. The logic of the Chief Secretary's position is that the Government should hold its hand until nearer the time when the cash limit has to be set.

3. What the Chancellor of the Exchequer is now saying is that he wants a cash limit figure below 10 per cent, if at all possible, and that this is likely to be irreconcilable with any conceivable PRU outcome. It follows, he suggests, that Pay Research should be suspended and an announcement made to this

effect before the summer Recess. The mechanism would be to suspend the Civil Service Pay Agreement and (although the Chancellor does not say so) the Arbitration Agreement which is an integral part of the Government's present agreements on pay with its staff.

4. The main weakness of the Chancellor's approach is that he barely considers the question of whether, in the absence of agreed procedures for settling pay, the Government's employees would simply take what they were being offered or would fight for more - and what the outcome of such a fight might be. This is the point at which Mr. Hoskyns' approach is most relevant. He argues for further analytical work on the alternatives before the Government goes out on a limb. It is also the point at which the Committee will need an assessment from the Lord President and Departmental Ministers most closely in touch with their staffs as to their likely reaction to the suspension of the Pay Agreement and at attempts to impose a single-figure settlement next year.

5. Some of your colleagues may also wish to probe the apparent inconsistencies in the Chancellor's paper. Thus, in paragraph 6 he says that the Government should make it clear that suspension of the Pay Agreements "does not imply any intention to discriminate against the Civil Service as compared with the rest of the public services". How will the Civil Service reconcile that statement with decisions already taken on the Armed Forces (where the Government has decided to implement next year's comparability exercise irrespective of cash limits), the police (where index-linking is about to be implemented), the teachers (where the statutory right to arbitration exists) and the nurses (where the Government is contemplating introducing a new comparability system)? In addition, paragraph 11(iv) of the Chancellor's paper expressly holds out the possibility that the Government might adopt a "topping-up" scheme based on the CPRS ideas considered at an earlier meeting. Whatever its other merits - and they are real - such a scheme would mean that, if the topping-up mechanism was activated, cash limits would have to be adjusted from the figure first set. This would weaken the impact of cash limits but might be preferable to setting a cash limit too low and being forced to adjust it because of a pay increase that broke it.

6. There is a major question of tactics and timing: does it make sense to announce the suspension of the Civil Service Pay Agreements before the Recess, or should a final decision be held over until the Chancellor's proposal for a study of the options for the future of comparability has been completed, and until the Lord President has had time to try to negotiate changes in the agreements to improve the pay research system: failure to negotiate such changes could help to justify a subsequent decision to suspend the agreements.

7. I doubt whether your colleagues will want to discuss Mr. Hoskyns paper in any depth. In effect it argues for a good deal more study, case by case, of the public sector pay cases which will have to be decided in the next six months to a year as a preliminary to deciding whether the Government should decide upon a formula - which would inevitably be very like a "norm". The case for "looking before you leap" is strong (you will remember Mr. Hoskyns' earlier report to you on the events leading up to last winter's steel strike); but ideas of a "norm" are unlikely to attract your colleagues, and are of course vulnerable to destruction if they are extended to the main nationalised industries.

8. The background paper by officials (E(80) 75) does not call for decisions, but may serve to remind the Committee of the substantial range of practical issues which they will have to resolve as the months pass.

HANDLING

9. You will no doubt want to begin by asking the Chancellor of the Exchequer to introduce his paper. Thereafter, while some general discussion is inevitable - and the Lord President and the Secretary of State for Employment will want to contribute to this - you will probably find it easiest to handle the discussion by concentrating on the specific recommendations in paragraph 33 of the Chancellor's paper (E(80) 71). The questions which arise from these conclusions are:-

(a) (33a) Whether it is necessary or sensible to make an announcement about the future of Civil Service pay before the end of this month: this is the immediate operational decision.

(b) (33a(i)) What the content of such an announcement should be: the Chancellor comes down in favour of the possibility in paragraph 9(b) (not 6(b) as his paper says), but other options are displayed in paragraph 9 and one of them (9(c)) would require further work to be done before anything could be said.

(c) (33a(ii)) The abolition of the Clegg Commission: no problem for Ministers and a presentational plus point.

(d) (33a(iii)) The Review Bodies: a decision here could be left until the discussion, later in the meeting, of the Lord President's paper on the subject.

(e) (33b) A remit to officials to study the options in paragraph 11: a sensible and necessary piece of work: I have made proposals to you on this.

(f) (33c) Final decisions on cash limits and EFLs to be taken in November: obviously some decisions will be needed by then. There is however no need for the Committee to commit itself now to taking all of the relevant decisions on this timetable.

(g) (33d) Adjusting cash limits to avoid carrying through the effects of staging to the base figures for the following year: this is really a reaction to last year's problem - because of the main staging process is now behind us - but is still relevant to the main Civil Service settlement where the Government saved $2\frac{1}{2}$ per cent of the cost of this year's settlement by delaying the implementation of the settlement by 5 weeks. The $2\frac{1}{2}$ per cent of the wage bill involved could be important next year if the Government is s triving for a settlement in single figures. Retention of a little flexibility could be useful in the e vent.

(h) (33e) Provisionally, the pay element in cash limits and EFLs should be in single figures subject to review "for realism" in the autumn: the proviso invalidates the conclusion and colleagues may not want to go this far this quickly.

(j) (33f) Ministers should explain the Government's policies to their staff: this will clearly be necessary when decisions have been taken because the acquiescence of staff is essential if the policy is to work. Moreover, Civil Service morale is poor and the militants are ready to exploit grievances. Your colleagues may feel that they would prefer to know the answers to the questions which will be asked before facing their employees. If so, this would point to a deferred announcement until further work has been done.

CONCLUSIONS

10. Subject to discussion, you will wish to record specific conclusions on each of the points set out in paragraph 33 of the Chancellor's paper.

ROBERT ARMSTRONG

(Robert Armstrong)

22nd July 1980

18 July 1980
Policy Unit

PRIME MINISTER

PUBLIC SECTOR PAY

1. E Committee will be discussing public sector pay Wednesday, 23 July. I attach a paper suggesting the work that we believe has to be done if these problems are to be solved.

2. I am copying this minute, and the paper, to members of E Committee, other Ministers attending the meeting, Sir Robert Armstrong and Robin Ibbs.

JOHN HOSKYNS

18 July 1980
Policy Unit

PRIME MINISTER

PUBLIC SECTOR PAY

1. WE HAVE A VAGUE OBJECTIVE AND NO STRATEGY

1.1 Although we have reached some decisions in principle, our cash limit and pay outturn objectives have still not been specified. If we exhort the private sector to settle for increases within the target range of monetary growth, should the public sector pay objective - where there is less risk of redundancy - be at the lower end of the 7-11% range?

1.2 The Chancellor's paper at the outset of the last round provides a sobering reminder of how much easier it is to express determination than to achieve results:

> "Our main and most immediate contribution will be a vigorous and sustained and publicly-understood toughness on the part of the public service employers in all pay bargaining. . . . From the outset, we must take every opportunity of ramming home our intentions clearly and forcefully; to those on both sides of the negotiating tables, and to the public at large. But it will be at least equally important that we are seen to act in accordance with those intentions, particularly and promptly if in the early stages any potential difficulties arise."

1.3 The paper (E(79)39) went on to propose that all public sector employers should notify Ministers in good time of the developing pay situation in their field and of the pay offers they were likely to make. In the event, these procedures were not rigorously adhered to. Nor did we have a plan, or even a mechanism, for handling each case - still less anticipating it.

1.4 Our fear is that if the Government approaches the next round armed only with a determination to "do the best we can", the result will be the same. We need a clearly thought out strategy, against which performance can be constantly checked.

2. DO WE REALLY KNOW WHAT IS INVOLVED?

2.1 If public expenditure is to adapt to the MTFS, do we know what is the maximum by which we can allow public services pay in aggregate to increase? Remember that large chunks of public expenditure are effectively indexed either by policy or commitment. This includes Defence spending, most transfer payments, etc. And some EFL breaches seem inevitable.

2.2 Once we have some idea of the objective, we can look at the alternative approaches for public service pay and judge whether they have the remotest chance of success. It makes no sense to decide the policies before the objectives.

3. ALTERNATIVE STRATEGIES

3.1 We have to try the different approaches for size first before deciding which one is worth serious effort.

3.2 The choice, roughly speaking, is between case-by-case persuasion and negotiation on the one hand, and the imposition of a more or less uniform formula on the other. We also need to decide how widely the approach is to be applied (see 3.4.2 below).

3.3 The case-by-case approach

3.3.1 To assess this approach on its merits requires careful analysis (as set out in Section 4.4.1 below). We only have to look at Annex A to see what we're up against; the great variety of different bargaining groups, with their negotiations spread right out through the year giving maximum opportunity for each group to search for "upward comparators"; improve its own negotiating technique; make the best use of its disruptive powers. In each case we have to decide whether the employers can really help us much: What's in it for them? Why should they put up a fight? Can we make them any more effective in doing so?

3.4 Alternative formulae

3.4.1 All formula approaches would mean abandoning - to one degree or another - our "fear of norms". Remember that our real objection is to a private sector norm - where, in reality, circumstances differ and norms really can paralyse the market function. In the public sector - or at least in the public services - circumstances do not differ so much. No-one can go bust; widespread redundancies are unlikely. The approach could take one of several forms:

(1) A flat rate, eg 8%, with variations strictly to reflect supply and demand - and perhaps productivity.

(2) A formula along the lines of "comparability minus 5%" - which is one way of presenting the MPs' decision.

(3) A de-indexing formula based on "inflation minus X%" - providing an upper limit to the size of the real cut in living standards. This could be combined with some variations to reflect supply and demand - by varying X.

3.4.2 It would obviously be unrealistic to attempt to apply indiscriminately a formula which meant large cuts in real living standards to the monopoly nationalised industries and the lame ducks. This could only be contemplated through an across-the-board incomes policy or freeze, whose damaging side effects the Government is determined to avoid. As the PO Telecoms case shows, the power of the unions in the monopolies is a problem which is so far insoluble - except where the monopoly "box" can be dismantled.

3.5 Timing

3.5.1 If we adopt a formula, there is a strong case for doing it early in order to allow maximum "protest time" so that the ensuing debate can expose the moral and intellectual bankruptcy of the union position, the very real conflict of interest between public sector and private sector union members, the absurdity of self-fulfilling inflationary wage claims when inflation is beginning to fall. As before, you won't get new behaviour unless you have new attitudes. And you won't get new attitudes without new information and enough elapsed time for it to be put across, explained by the media and understood by the public.

3.5.2 An early announcement of the approach to public services pay would have much more impact on private sector behaviour than exhortation.

Colleagues recognised this when they decided to cut the two TSRB recommendations. But this needs to be followed through with a clear statement about the policy to much larger groups - which are more closely comparable to private sector union members.

4. WHO IS GOING TO MAKE IT HAPPEN?

4.1 Initial tasks

4.1.1 We need a systematic look at Annex A, categorising the different groups by their degree of Government control, their militancy, their disruptive power, numbers, effect as comparators for other groups, etc.

4.1.2 Throughout the pay round, there will be several factors influencing behaviour: low settlements in the parts of the private sector exposed to overseas competition; higher settlements in profitable companies and the service sector; high and increasing unemployment; falling inflation; opposition by militants to Government's policies in general; the outcome of previous strikes.

4.1.3 The opening phase. Inevitably, the course of the first few settlements in the public sector will influence those that follow. They are thus particularly important:

(1) The police, where there is a commitment to index in September - ie around 18%.

(2) University teachers, with absolute security of tenure and an excess of supply over demand. A strong case for a very low settlement.

(3) Nationalised industries facing tough trading conditions and contraction - BL and BSC.

(4) Nationalised industries with strong monopoly unions (miners and water manuals). Unions will be aiming for settlements at or above the rate of inflation.

(5) Local authority manuals and firemen.

(6) NHS ancillaries, craftsmen and ambulancemen.

4.1.4 Expectations in the last two groups are bound to be well above what we can afford. The sooner they know this, the better - so that they also know that groups which come later will be getting the same treatment.

4.2 Decide the approach

4.2.1 Do the employers at present have any idea what is at stake, any understanding of the aggregate objective to which their efforts must contribute? Presumably not, because we don't yet have a clear view of the necessary outturn for public services pay, once all the indexing in public expenditure is allowed for. The Chancellor plans to see the nationalised industry chairmen shortly, but what sanctions does he have? And how do we influence the negotiators - on both sides - in the public services? Even if we go for a case-by-case approach, we need to introduce maximum consistency (not the same as uniformity) and this will take careful preparation. Without it, last year's experience will be repeated.

4.2.2 Alternatively, we might decide that "case-by-case" is most unlikely to produce anything like the right results. This would mean one of the formulae discussed at 3.4.1 above.

4.3 Preparatory moves

4.3.1 Whichever route we take, there are several preparatory moves to be considered quickly:

(1) The Employment Act 1980 and the decision on SB for strikers may be put to the test. We may need to go further if the remedies against secondary blacking - eg NUR refusing to move imported coal - prove ineffective. We think that legislation to allow management to lay off white collar workers during a dispute is a necessary precaution to head off selective action. How quickly could this be done?

(2) What rehearsals or training should we undertake ourselves - or encourage the nationalised industries to undertake?

(3) What further action do we need to take to ensure that the costs of strikes are high, and seen to be high?

(4) What are we prepared to say about future pay rounds - and the principle of comparability? Do we believe it could be made to work once inflation is beaten?

(5) Should we be moving some of the settlement dates so as to concentrate them at one point in the year? Eventually the public sector dates could be aligned with the fiscal year in order to make the connection between pay, cash limits and EFLs.

4.4 Team approach

4.4.1 Public services pay, together with proper control of monopoly nationalised industries and a coherent approach to the lame ducks, is the key to getting a grip on public expenditure. Failure here means that the whole battle against inflation will have been fought simply to build a Britain safe for the public sector to live in.

4.4.2 In our view, nothing will happen, no thinking will be done, no proper preparation will be made unless a (small) team is assembled, probably under a Minister, whose job it is to succeed in achieving a clearly-specified result. It won't even be possible to say what a realistically achievable result is, until that team has done the sort of thinking suggested in this paper. This team could report to E, but E itself is not a problem-solving team in this sense.

5. CONCLUSION

5.1 It is virtually impossible to overstate the public expenditure problem; all too easy to underrate it. This is particularly true at the moment, when there are the first signs that the Government's economic strategy is working. But we should see these chinks of light in perspective. We have had booms and recessions in the past, but they have all been part of the same downhill switchback. Each rosy dawn has been no more than a temporary remission in a steady decline. The last Government brought a higher inflation down, faster, than our plans promise to do - and yet the whole economy was back in serious trouble within months of that success. We're now doing the same process, from a far weaker base. We are not yet cutting public expenditure fast enough for the monetary deceleration to work properly (ie without doing unnecessary damage to the private sector). Public expenditure has grown relentlessly for 30 years. It won't change course unless policies change. A handful of people around the Cabinet table resolving to try harder is not enough.

ANNEX A

CENTRAL GOVERNMENT	
1/4	C.S.non-Indus-trials
1/4	Armed Forces
1/4	TSRB
June	MPs
1/7	C.S. Indus-trials

NATIONAL PUBLIC SERVICES	
1/9	Police
1/10	University Teachers
13/12	NHS Ancil-laries
1/1	NHS Craft-smen
1/1	NHS Ambu-lancemen
1/4	NHS Admin Admin & Clerical
1/4	NHS Nurses & Midwives
1/4	Drs. & Dentists
1/4	BBC

LOCAL PUBLIC SERVICES	
1/11	Firemen
4/11	L.A Manuals
1/4	Teachers
1/7	L.A. Non-Manuals

NATIONALISED INDUSTRIES (inc. BL)	
1/11	BL
7/12	Water Manuals
1/1	British Airways
1/1	Miners
1/1	BSC
1/1	Gas Manuals
1/2	Elect. Engineers
17/3	Elect. Manuals
1/4	P.O. UPW
1/4	British Rail
1/4	BS
1/5	Elect. Clericals
1/7	P.O. Engineers
1/7	Gas Staff
1/7	Water Non-Manuals

Prime Minister

1. Content that attached note be circulated to E for Wednesday's meeting? Yes

2. Agree that a group of officials should be established as at X? No

3. Agree to separate official group to work on Chancellor's proposals, as at Y? Yes MAP 18/7

CONFIDENTIAL

Ref. A02664

PRIME MINISTER

MB

Public Sector Pay

Mr. Lankester's minute of 30th June recorded your agreement to the production of a note which would recapitulate the conclusions reached and the specific decisions made so far on public sector pay, and your request that the note should consider whether there should be a Government statement, or other pronouncement, at some stage.

2. I attach a factual note, prepared in consultation with officials of the Departments most closely concerned, about the decisions which have been taken on public sector pay issues, and the decisions which will have to be taken in the months to come. If you agree, I will circulate this as background material for next Wednesday's meeting of E Committee.

3. As to the possibility of a statement, the Chancellor of the Exchequer has dealt with the possibilities here in the paper which he is preparing for next week's E meeting; I understand that you have had an advance copy of that. Decisions can be taken at the meeting.

X No

4. You decided not to establish a separate Ministerial Committee to deal with public sector pay matters. But I think that it will be useful over the coming months to have a group of officials, at a suitably high level, from the Departments concerned, to co-ordinate the approach to public sector pay matters and to report to Ministers, both in general terms and on specific cases as they arise. Those concerned already find it helpful to meet informally from time to time to co-ordinate advice, and we could gain by putting these arrangements on a more regular footing. If you agree, therefore, I propose to arrange for a Committee of this kind to be established, under Cabinet Office chairmanship.

5. The proposals which the Chancellor of the Exchequer has put forward in his memorandum for E Committee next week will need to be worked out in detail if the Committee agrees them. That will be a "one off" job rather than a continuing exercise, and I think that it would make best sense to have a

separate group for that, under Treasury chairmanship. We will provide a Secretariat, and I shall ask Mr. Le Cheminant to serve on the group so that we know what is going on and can make sure that there is no overlap.

RA

(Robert Armstrong)

18th July, 1980

PUBLIC SECTOR PAY

NOTE BY OFFICIALS

Introduction

The purpose of this note is to list in a convenient form the decisions which Ministers have taken in recent months about public sector pay, and to list the decisions which will have to be taken in the months ahead.

DECISIONS ALREADY TAKEN

2. The non-industrial Civil Service: A settlement for 1980 was reached in April with the bulk of the non-industrial Civil Service grades covered by PRU. The settlement, averaging about $18\frac{1}{2}$ per cent, was reconciled with a 14 per cent cash limit by taking credit for a $2\frac{1}{2}$ per cent reduction in staff numbers and by deferring implementation of the award for five weeks. The settlement was based on PRU evidence. A decision on the pay of the most senior grades covered by PRU - Assistant Secretaries and Senior Principals

and their equivalents - was deferred pending receipt of the report of the Top Salaries Review Body (TSRB) on the pay of the higher Civil Service.

3. In July after the TSRB Report had been received Ministers decided to cut the recommended increases for the higher Civil Service by more than half. The average increase allowed was $12\frac{1}{2}$ per cent. This decision caused unacceptable compression of
without special action there would have been *
differentials with the PRU grades;/ In consequence a settlement had to be imposed on the Assistant Secretaries and Senior Principals which, in the case of the Assistant Secretaries, was substantially below that indicated by the PRU evidence. Arbitration under the Civil Service Pay Agreements was refused.

*overtaking of the bottom TSRB grade.

4. <u>The scientific Civil Service</u>: The PRU evidence indicated a low average level of settlement for 1980 (about $12\frac{1}{4}$ per cent) and a negotiated settlement proved impossible. Both sides have now agreed that the dispute should go to arbitration.

5. <u>The industrial Civil Service</u>: The settlement date for the

industrial Civil Service is 1 July. Ministers decided that the settlement should be contained within ~~a~~ the ~~14 per cent~~ cash limit on Civil Service manpower costs. Negotiations are still in progress.

6. Armed Forces: Ministers accepted the recommendations in the 1980 Report of the Armed Forces Pay Review Body (AFPRB) and they were implemented in full from 1 April. Cash limits were adjusted ex post to accommodate the new rates of pay. The senior ranks covered by the TSRB, except for the medical major generals, were dealt with in the same way as the senior ranks of the Civil Service. Ministers have agreed to abide by their commitment to maintain Armed Forces' pay (interpreted as pay for the ranks covered by the AFPRB) at levels comparable with their civilian counterparts.

7. Members of Parliament and Ministers: Ministers have decided that the outstanding stages of the payment of the rates for MPs and Ministers proposed by the TSRB in 1979 should be paid on the due dates. The House of Commons has been invited to accept a one-third reduction on the 1980 'updating' increases recommended by TSRB in their most recent report.

8. <u>National Health Service</u>: Ministers authorised a 1980 settlement with the nurses, nominally on the basis of a 14 per cent cash limit but with a full cost over and above Clegg in the financial year 1980/81 of around 20 per cent. Negotiations with NHS administrative and clerical staff for their 1980 settlement are still in train. Ministers have agreed that a settlement here must be reached within cash limits and on the same lines as that for the non-industrial Civil Service.

Ministers agreed in May that the recommended pay scales for 1980 (an increase of some 19 per cent) put forward by the Doctors and Dentists Review Body (DDRB) should be implemented in full from 1 April.

9. <u>Police</u>: Ministers remitted the commitment to update police pay in September in line with the general movement in earnings to separate discussions between the Home Secretary and the Chancellor of the Exchequer. They have agreed that the commitment should continue to be implemented this year.

10. Prison officers: The pay of prison officers is linked to the average levels of settlement in the Civil Service. Ministers have agreed to leave the linkage unchanged.

11. Fire Service: The Local Authorities are committed to index-link the pay of firemen. Ministers have decided that they would not intervene if the Local Authorities - who are the firemen's employers - decided to break the linkage.

12. Nationalised industries: Ministers have decided that the pay of nationalised industry chairmen and board members should be taken out of the remit of the TSRB. The rates for 1980 recommended by TSRB have been reduced in line with the reductions imposed on the other TSRB groups. But new appointments in the coming year and the level of settlements from 1 April 1981 onwards are for individual negotiation by sponsoring Ministers in consultation with the CSD.

13. Cash limits and EFLs: Ministers have agreed in principle that public sector pay settlements in 1981 should be subject to cash limits (or in the case of nationalised industries EFLs)

set in advance. The nationalised industries' EFLs are to be supplemented in each case by performance targets related to unit costs.

14. Pay Research: Ministers have authorised the Lord President to seek to negotiate various detailed improvements in the PRU system with the Civil Service unions. Although the Lord President has indicated to the unions the areas in which improvements are required no substantive progress has been made.

15. Review Bodies: Ministers have decided to review the terms of reference and membership of all three Review Bodies (TSRB, DDRB and AFPRB).

16. The 'Clegg' Commission: Ministers have decided that the Clegg Commission should receive no new remits and should be wound up once its present remits have been completed. This decision has not yet been announced.

DECISIONS TO BE TAKEN

17. A considerable number of specific decisions relating to public sector pay will have to be taken in the months ahead. These include loose ends from the decisions already taken. The main ones, and their timing, are set out in the following paragraphs.

18. Pay research: Three basic decisions will be needed:-

(a) Whether to maintain the PRU system in being? Continuation of the PRU system is not incompatible with "the primacy of cash limits" though reconciliation becomes more difficult the wider the gap between the cash limits and the levels of settlement indicated by the PRU evidence. Moreover the PRU evidence is helpful in determining pay relativities and differentials as this year's experience with Government scientists has shown. A decision to abandon, or suspend, PRU would be a decision in favou r of conducting next year's Civil Service pay negotiations by "free collective bargaining" whose outcome would be uncertain. The Civil Service unions may take the decision out of the Government's hands by deciding that* straightforward bargaining would give them a better result for their members than pay research constrained by cash limits. If PRU is excluded,*

*temporarily or otherwise from the system, Ministers will need to decide whether there is any halfway house (eg on the lines of the CPRS suggestion in E(80) 54) which might diminish the likelihood of damaging disputes with the Civil Service unions.

(b) Whether to refuse arbitration to the Civil Service unions? The existing Arbitration Agreement establishes the right of unilateral access to the Civil Service Arbitration Tribunal for both management and unions. Whether or not the PRU system is to remain, separate decisions will be needed on whether to refuse arbitration in particular cases (not unprecedented but refusal is a breach of the Agreement) or to withdraw altogether from the Agreement.

(c) Whether to continue to press for improvements in the PRU system? It is already clear that the Civil Service unions' price for negotiated improvements in the PRU system is likely to include a Government commitment to honour the findings of pay research.

19. The Review Bodies: In addition to decisions on the terms of reference and membership of the three Pay Review Bodies the Government will have to decide, because they are bound to be asked, whether they are prepared to commit themselves to implement next year's report from the DDRB and, by extension, those of the TSRB. A key element here will be the nature of any commitment which is given to Members of Parliament about the future determination of their pay. If, for whatever reason, the DDRB and TSRB were to cease to function a whole range of new decisions would be required, eg on salary linkage for MPs, new negotiating arrangements for doctors and dentists and alternative solutions for the TSRB groups.

20. Cash limits: Decisions on cash limits (and External Financing Limits for nationalised industries) will be needed as follows:-

(a) Local Authorities: The pay element in the RSG settlement for Local Authorities needs to be decided in mid-October to fit in with the normal timing of the RSG announcement.

(b) Nationalised Industries: The pay assumptions underlying the EFL decisions for nationalised industries need to be determined by mid-October. The Government will also need to decide whether to set a common pay assumption in these decisions or, as in the past, to allow variations between industries at the latters' choice. A separate and somewhat earlier decision about the pay assumption for the EFL of the National Coal Board may be required to fit in with the NCB's negotiating timetable. In addition, and given their potential importance, Ministers may wish to consider collectively the proposed performance indicators for each nationalised industry.

(c) The NHS: Negotiations over the pay of a major group of NHS staff (the ancillaries) begin in November and the cash limit for the NHS needs to be set before then. It will effectively determine the upper limit of the pay settlement which can be accepted for the nurses next April.

(d) Civil Service: Two basic decisions are needed: when to decide on the sums to be allocated in cash limits for next year's pay settlements (the effective choice is between November 1980 and February 1981); and the size of the adjustment as a per centage of the wage bill. As with the NHS, and given the decisions already taken on Civil Service manpower, the cash limit decisions this year will virtually determine the acceptable upper limit of pay settlement for the Civil Service next year.

21. Armed Forces: Given the decision to maintain the commitment to the armed forces it will be necessary to make special provision to accommodate next year's AFPRB recommendations within whatever cash limits have been set.

22. Pensions: The report of the committee evaluating index-linked pensions will be available in the autumn. The specific decisions to be taken will depend on the nature of the report.

23. Other matters: Other decisions which will, or may, be

required include:-

(a) Whether the outcome of the current arbitration on teachers' pay is acceptable and if not whether the necessary Parliamentary procedures should be used to set aside the result?

(b) Whether the present statutory arrangements governing teachers' pay should be repealed or replaced?

(c) How the problem of the determination of nurses' pay should be examined and whether any resulting system should be implemented bearing in mind the twin traps of indexation and comparability?

(d) When the abolition of the 'Clegg' Comparability Commission should be announced?

(e) Related to (d) whether, and if so what, new fact-finding body might be created to provide basic data for wag[e] negotiations?

Cabinet Office
15 July 1980

BJ2

File

10 DOWNING STREET

From the Private Secretary

14 July 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 11 July.

I will of course place it before her at once and you will be sent a reply as soon as possible.

N. J. SANDERS

The Rt. Hon. Terence Higgins, M.P.

BK.

cc: Miss Stephens

1

BF 21.7.80

Econ Pol

10 DOWNING STREET

PRIME MINISTER

This letter from Terence Higgins asks for a meeting to discuss public sector pay policy. He says that the Government's line should be more determined and better coordinated.

Are you prepared to see him before the recess?

MS

Yes mt

Arranged for Tuesday 22 July at 1530 at HC.

14 July 1980

15/7.

Top copy on
Econ Pol July 1980
PM's luncheon at Chequers on Sunday 13 July 80 for a group of academic economists

Extract of a discussion PM/Academic economists. Chequers 13 July '80

all too easily be an increase in Government spending. Sir Douglas Wass said that it was important for the Government to develop better tests of performance, and to insist that management achieved them. This was probably a better approach than setting up a regulatory commission.

Finally, there was some discussion of public sector pay. Mr. Foster said that, if private sector employers saw the public sector standing up to pay demands, they were much more likely to do so themselves. In his view there was a strong case for a public sector pay freeze to help speed the transition to lower inflation. Professor Minford said a freeze would be a disaster. He went on to suggest that cash limits next year should be set within the money supply target range and the Government should try to settle the pay of its employees within this range, too. If the Government expected the private sector to settle within the monetary target range in order to prevent jobs from being lost, it should adopt the same approach with public service employees. The Chief Secretary said that the Government would need to set tough cash limits, but they must also be realistic. Professor Matthews said that there were inherent difficulties in improving the productivity of the public services. There was greater accountability in the public service than in the private sector; public servants had to be more even-handed; and they had to guard against charges of corruption. Each of these factors militated against better productivity. Mr. Foster said that somehow greater financial discipline must be instilled at local government level. The best way would be to reduce the proportion of Government grant to local authority expenditure, and replace it with a widely spread tax at local level. This would make the local authorities more accountable to their electorates. Even with the present arrangements, there was evidence from the recent local authority elections that those authorities which had increased rates the most had performed relatively poorly.

/Professor Minford

Professor Minford suggested that, to help set public service rates of pay at appropriate levels, the Government should do more to monitor the supply and demand of particular categories of employees: the Clegg Commission had failed to do this in their reports.

R.

HOME SECRETARY

QUEEN ANNE'S GATE
LONDON SW1H 9AT

MANAGEMENT IN CONFIDENCE

12 July 1980

Dear Geoffrey,

I have seen a copy of Christopher Soames' letter of 8 July about cash limits on Civil Service pay.

I should like you to know how much I agree with him. It seems to me that we already have a number of difficulties ahead of us in the implementation of our policies on the Civil Service. This proposal would add to them. It seems to me that it is likely to be open to a good number of objections of the kind that Christopher has set out.

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

Yours
Willie

The Rt Hon Sir Geoffrey Howe QC MP

TL 15/7

The Rt. Hon. Terence Higgins, M.P.

cc IG

HOUSE OF COMMONS
LONDON SWIA OAA

July 11, 1980

Dear Margaret,

As you know I have argued throughout the series of articles I have sent you over the last three years or so that a monetary policy can only be effective if the Government takes a firm and coherent line over public sector pay. Otherwise, since pay is almost 50% of the expenditure covered by cash limits, the PSBR will rise and the money supply can then only be controlled by the use of a very high MLR and other interest rates.

At present we still do not have what I have described as a "true" monetarist policy based on a low PSBR which only requires low rates of interest to control the money supply but a "phoney"monetarist policy with a high PSBR which demands high interest rates to control the money supply. This is difficult to distinguish from a real old-fashioned deflation.

I am glad the importance of this crucial difference between the two ways of controlling the money supply now seems to be generally understood, but unless we get a grip on public sector pay, attempts to get our policy right will fail. I thought, therefore, I should send you this copy of an article covering related points which I wrote a short time ago.

I understand that both Geoffrey and John accept the criticisms I make in the article about the present system of cash limits and public sector pay. In addition a further device for circumventing effective control has now emerged. We are told that Civil Service pay increases of more than 20% are to be brought within the cash limits by delaying the starting date for the increases. This is a dangerous subterfuge. Either it raises the base on which next years pay increases are calculated, when we are getting closer to the General Election, or, alternatively, if we continue with pay research and tight cash limits the gap between the two will get larger and larger and increasingly difficult to defend.

Although some of the arguments I have put forward are now understood, I remain gravely concerned about the apparent lack of coordination of Government opposition to inflationary public sector pay claims. We are continuing to fudge the issue and pile up problems for the future. When we were in Government before, no one contributed more by way of example to the "N-1" or "De-escalation" policy (which halved the rate of pay and price increases in less than two years), than you did as Secretary of State at the Department of Education. But I fear I may have been mistaken in thinking you knew all the details of how this policy worked from an over all point of view. There are a number of vitally important lessons to be learned from our experience then, which are of immediate relevance to our present situation, and I shall be glad if we could meet to discuss them.

As ever,

Reece

The Rt. Hon. Mrs M. Thatcher,
The Prime-Minister,
10, Downing Street,
London SW1.

GUARDIAN AGENDA

Conservative MPs argue for urgent changes in the Government's strategy for bringing down i

Action now—or the election is lost

TERENCE HIGGINS

THE PRIME Minister in a much publicised speech a short time ago said that the Conservative Government was determined to pursue the right economic policies even if it meant it lost the next General Eelection. Such a statement of principle is welcome. But it is also true that unless the Government carries out the right economic policies it is bound to lose the next election.

Time is running out. The economy takes about two or three years to respond to any major change in policy and the Government has wasted a year by failing to take sufficiently positive action in cutting public expenditure and exercising control over public sector pay. At most the Government has 18 months in which to have a significant impact on the situation which will exist on polling day.

The announcement that a special Cabinet meeting will be held to discuss economic policy has encouraged press speculation about a "U turn." This is neither likely nor necessary. What is needed is greater determination to make the existing policy work effectively. Why is it not doing so now?

There is dispute over whether control of the money supply is a sufficient condition for curing inflation but general agreement that it is essential. The crucial question is how the money supply is controlled. There is a fundamental difference in doing so by covering a very large Public Sector Borrowing Requirement (PSBR) by borrowing at very high interest rates and doing so by cutting public expenditure, substantially reducing the PSBR and thus paying much lower interest rates.

The Government ought to have been doing the second but in practice has been doing the first. At present we do not have a true monetarist policy but what I have called "phoney monetarism." It is difficult to distinguish this from an old-established deflation.

The Government has taken too long to cut the total of public expenditure in real terms. True, the latest White Paper is an improvement on the original plans for 1980/81 published last autumn, and the success of the EEC negotiations is a help. But increases in charges do not have the same economic impact as real cuts.

It is optimistic to hope to squeeze an additional £700 million out of public expenditure over the year by the strict application of cash limits and still expect a substantial shortfall in actual spending compared with the limits. And the credibility of the "medium term financial strategy" is open to doubt when about half the expenditure cuts towards the end of the period are expected to come from a massive, unspecified, turnround in the profitability of the nationalised industries.

Most important, the public sector pay which constitutes almost half the total expenditure covered by cash limits is rising dangerously.

Déjà vu has become the hallmark of the pay debate. It is difficult to think of any form of "incomes policy," broadly defined, that has not been tried. So we must learn the lessons of the past as well as analysing the serious flaws in the present pay/cash limits system.

First, there is no hope of controlling inflation if ministers, perhaps reacting emotionally against the catch phrase "incomes policy," fail to take a tough line against excessive pay settlements in the public sector. Public sector pay is not something ministers are powerless to influence. They have a duty to do so. The change in climate generated by the Prime Minister during the last few days is welcome. But collectively the Government will only succeed in de-escalating pay claims if each one is analysed fully to determine what the true percentage increase is and which particular components, such as shorter hours, will have damaging repercussions on other claims and settlements. The role of ministers in this field is particularly important because, unlike managers in the private sector, they are not inhibited by the level of demand. What they settle for inevitably has repercussions in the private sector. The private sector is affected by the demand. So profits, employment, investment and growth are potentially, and at present actually, vulnerable to a two-way squeeze.

Secondly, it must always be remembered that if, because of ministerial neglect, inflationary public sector pay settlements are granted then the Government deficit and PSBR rise correspondingly and (unless interest rates are raised even higher) so does the money supply. The Government's overall policy then faces disaster. Both public and private sector pay claims explode together.

The cash limit system has not proved as effective in solving these problems as many hoped. Its reform is of more than technical interest. It is vital. Two major flaws must be corrected. Their importance is shown by the fact that this year when the cash limit has been 14 per cent, the central Government pay bill (which affects the PSBR) is going up 23-25 per cent.

The first problem arises from staged pay settlements (including those resulting from Clegg reports). Staging enables settlements to be reached in one year within the cash limit for the "global increase in pay" by promising more to come next year, and sometimes the year after as well. Then when we reach the next year the promised increase is already covered by the departmental cash limits. It isn't controlled by the so called "global pay increase" for either year.

This is a marvellous device for buying peace one year at the expense of anguish the next, but it drives a cart and horses through the practical operation of cash limits. Given the need to get a grip on the present situation it is for consideration whether past staging should be paid up now (with suitable adjustments) but at the very least the Prime Minister should impose an immediate ban on any more staging in the public sector and ensure the system itself is sorted out in time for the forthcoming pay round.

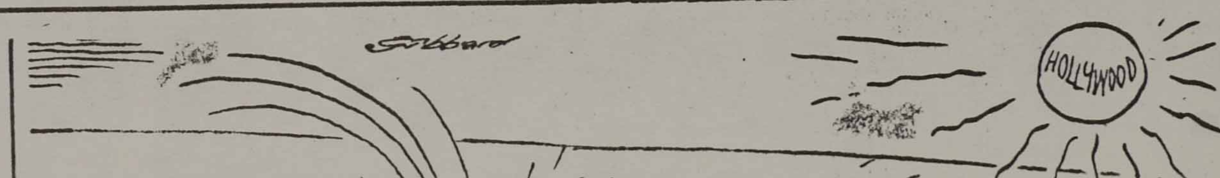
The second major problem arises from the fact pay settlements of more than say 18 per cent have been said to be brought within cash limits of 14 per cent on the pay bill because of a reduction in numbers. At a time when the declared Government policy is to reduce the size of the bureaucracy as much as possible this can't be right. There is obvious double counting.

If the Government really accepted the logic of the argument it would mean every cut made in the Civil Service would justify a proportionate pay increase for those who remain in it. The fact is that this year the issue has been fudged. It mustn't be allowed to happen again.

Recent statements by the Prime Minister on interest rates have attracted so much attention it is necessary to stress that a significant reduction in interest rates would only represent a policy "U turn" if it were made before public expenditure has been reduced and its most important component, public sector pay, had been controlled. This article specifies some of the most important areas in which ministers must act now in order to achieve this.

● *Terence Higgins is Conservative MP for Worthing.*

The parts



Econ Policy

1

LORD PRESIDENT OF THE COUNCIL

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

8 July 1980

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

Prime Minister

CSD's initial - negative - reaction to the idea of splitting the present cash limit on pay between departments.

Dear Geoffrey,

At E Committee on 17 June we were asked to consider the possibility of splitting the present cash limit on Civil Service pay between Departments. Although you were invited to be in the lead on this I thought you might find it helpful to have my views before going further.

Put in those terms the proposition presents no problems since it is precisely what we already do. The CSD do not hold a bag of gold for the whole Civil Service; each Department has its own cash limit and has to live within it. The equitable distribution of the total among Departments is never easy because of their widely differing grade mixes, and that is one reason why we prefer to leave it until we know what pay increases the various grades are to receive. But I am in no doubt that we should not attempt to operate a single centralised cash limit.

But I suppose what we are asked to consider is not just the distribution of the cash limit to Departments but a freedom of each, within its cash limit, to fix its own rates of pay. There is already some scope for this with industrials through productivity bargaining, - although even here experience has shown that unless firm central control of policy is maintained there is ample scope for paying for pious hopes rather than proved performance.

I do not deny that it has its attractions for me personally. It would spare us a great deal of difficult and time-consuming work with the Unions and enable staff savings to be made by rolling up the Pay Divisions. But quite apart from the resource implications in Departments of a fragmented pay bargaining system, I wonder whether we would be wise to seek to put back the clock in this way.

A unified Civil Service dates from the Northcote-Trevelyan reforms of 1853 - one of the principal objects of those reforms was "To mitigate the evils which result from the fragmentary character of the Service, and to introduce into it some elements of unity ..." I am not suggesting that our Victorian fore-fathers knew all the answers or that there should be any sacred cows in our search for a more efficient Civil Service, but it does seem to me important that we should not lightly chase after every passing fancy, at the cost of much expensive time. The developments of the past 100 years and more do not suggest to me that the practices of the first half of the 19th century are the answer to our prayers or problems. It is only too easy to envisage the difficulties there would be if department X paid its staff more (or less) than department Y for the same work being done by the same grades of staff in the same town or even in the same building. Unlike the early Victorians, we now have inquisitive journalists and Select Committees, not to mention Trade Unions, to whom such discrepancies would be meat and drink. They would no doubt be only too pleased to seize on the unfortunate Minister in charge of department X for paying more than he need - or less than he ought; or again on the Minister in charge of department Y for the administrative consequences of having lost half his staff to X.

These are my first reactions to this suggestion. If after due reflection there remains a wish to pursue this examination of it then let us by all means consider how best so to do. But I wonder whether we have not got enough problems on Civil Service pay and management on our plates for the immediate future and whether it would not therefore be wise to put aside projects of this nature for a future date?

I am copying this letter to the Prime Minister and the Home and Environment Secretaries.

Yours ever

Christopher

SOAMES

Econ Pol

Prime Minister.

Notwithstanding the caveats with which these tables are hedged about, these figures are worth looking at.

2 vii

PUBLIC SECTOR PAY

As before the attached table is unusable in this form. The figures requested are not readily available on a consistent basis; many have not been published; and in some cases (essentially in the local authorities) the negotiators are unaware of precisely what provision was made in respect of the cost of each individual comparability award within the cash limit (in the case of the LA's essentially the Rate Support Grant). Further, there are inevitably doubts about the accuracy of some of the figures quoted; so it would be dangerous to try to draw more than broad conclusions from the data.

Most of the groups listed in the table (with the apparent exception of the Civil Service) will have seen by the end of the current financial year increases in their total pay bill of over 40 per cent between FY 1978-79 and FY 1980-81. Meanwhile, the Armed Forces pay bill has increased by nearly 50 per cent, and that for nurses and doctors by around 70 per cent. These are all total pay bill figures, and do not, therefore, necessarily reflect the average increase in per capita earnings of employees in each group.

HM TREASURY

PUBLIC SECTOR PAY: CHANGES IN THE PAYBILL OF SELECTED GROUPS IN THE PUBLIC SERVICES AND NATIONALISED INDUSTRIES

(£ million)

	Financial Years 78/79	79/80	80/81	Percentage Increase FY 80/81 over FY78/79	Coverage
Public Services					
CIVIL SERVICE	3,865	4,255	5,289	37%	UK
ARMED FORCES	1,846	2,348	2,740	48%	UK (Regulars)
DOCTORS & DENTISTS	395	505	690	75%	England only
NURSES	1,355	1,660	2,300	70%	England only
TEACHERS (primary and Secondary)	2,770 (E & W only. The inclusion of Scotland would add approximately a further 1/9th)	3,100	3,900 est.	44%	
POLICE	1,067	1,436	1,548*	45%	UK
FIREMEN	254	331	374	47%	(LA Fire Services under Home Office supervision)
APT & C (Local Authority Non-Manuals)	-	2,600	3,200	-	E & W only (Annual Settlement Date 1 July 'comparability' award of 12% already conceded).
LOCAL AUTHORITY MANUALS	-	2,200	2,600	-	*** E & W only
NHS ANCILLARIES	620	760	915	48%	*** England only
Nationalised Industries					
MINERS	1,600	1,846	2,160**	40%	UK
BRITISH RAIL	1,129	1,354	1,664 est	43%	

NB. Figures for public services taken from the Estimates (disaggregated where necessary) - including provision made in cash limits for settlements which have not yet been agreed. Many of these figures are not published, and should not be quoted; publication could in some cases prejudice pay negotiations and lead to industrial action and/or higher increases than could otherwise be expected. There could also be pressure to reopen some existing settlements.

* The Chancellor and Home Secretary have already agreed in principle that the Police should receive an index-linked settlement this year. This will require a Supplementary Estimate later in the financial year. The Police Service is not subject to cash limits.

** Does not take account of increase due from January 1981.

*** (First major groups in the public services due to settle in the 1980-81 payment)

PUBLIC SECTOR GROUPS WAGES BILL

- MPs' and Top Salaries Review Body Groups

(£ million)

	78/79	79/80	80/81	Percentage increase 1980/81 over 1978/79
MPs' ∅	4.5	6.1	7.0	55%
TOP SALARIES GROUPS: ≠	28.3	36.1	40.6	43%
- Higher Civil Service	11.0	13.9	15.1	37%
- Armed Forces Senior Ranks	3.0	3.8	4.1	37%
- Judiciary	11.7	14.7	16.0	37%
- Nationalised Industry Boards	2.6	3.7	4.3	65%

Notes

∅ Excludes miniterial salaries, but includes London supplements and certain contributions to the Parliamentary Contributory Pension Fund and employer's National Insurance contributions. 1980/81 includes pay rise of £1,275 pa from 13 June 1980 (to rate of £10,725 pa).

≠ Assessed cost of basic salaries, taking numbers in post as constant at 1980 levels to avoid distortion from changes in coverage. 1980/81 based on salaries resulting from TSRB's 1979 report No. 11.

Many of these figures have not been published and should not be quoted.

CONFIDENTIAL

Pw. VB

10 DOWNING STREET

B/F 14-7-80

From the Private Secretary

MR. WRIGHT
CABINET OFFICE

Public Sector Pay

The Prime Minister has considered Sir Robert Armstrong's minute of 27 June (ref. AO2455). She agrees that it would be useful if the Cabinet Office could produce a note of recapitulation on the conclusions reached and specific decisions made so far, and that it should then be circulated to E Committee. However, she does not wish there to be a new sub-committee of E.

In addition to summarising where we have got to, the Prime Minister would be grateful if the suggested note would consider the question of whether there should be a statement at some stage; or if there is no statement what Ministers should say publicly.

C. P. LANKESTER

30 June 1980

CONFIDENTIAL

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Prime Minister cc/ J. Hoskyns'

Are you content with these proposals, which we think are sensible?

One point which also needs to be considered is what we say publicly - eg. a statement before the recess or in the autumn. Shall I suggest that this be covered in the paper?

TL. 27/6

No

CONFIDENTIAL

Ref. A02455

PRIME MINISTER

Public Sector Pay

The Ministerial Committee on Economic Strategy has now completed its review of the main issues on public sector pay, based on the paper by the CPRS. The only issue outstanding is that of the future of the Review Bodies; the Committee did not have time to discuss the Lord President's memorandum but that is a separable issue, and can wait until after the Cabinet have dealt with the two TSRB reports.

2. I think that the discussion in the Committee has produced a considerable measure of agreement on the general lines on which it is desirable that the Government should deal with public sector pay issues. But the discussion has been spread over three meetings and has covered a wide range of subjects, and I believe that it would be useful if we were to try to produce a note of recapitulation - a kind of "new readers begin here" - which would attempt to extract from the discussions so far the general conclusions reached and the specific decisions made. That note could be circulated round the Ministerial Committee on Economic Strategy as a basis for further work; or it could be circulated as a report to the Cabinet, if you and your colleagues in E thought fit.

Agreed

3. But I share the view that has been expressed by Mr. Hoskyns, and by Mr. Ibbs in a memorandum of which I attach a copy, that the discussion so far is only the first chapter. Having set out the broad lines of the Government's approach, we now need to go through the list of forthcoming pay claims and negotiations in the public sector case by case and with numbers, so that the Government can take a view on the tactics by which its strategy will take effect. There is more to this than plotting the Government's own course. As Mr. Ibbs suggests, much will depend upon the attitudes of individual Departments and of managements who have to handle the actual negotiations, and it will take more than a public relations campaign decisively to influence those. They need to get a clear sense direct from the Government of what it is seeking to do and how it is proposing to try and do it.

CONFIDENTIAL

4. I think that we shall need to have at least a group of officials from the Departments concerned to pull this work together and report to Ministers, not just in general terms but case by case.

5. I think that we also need to consider how this work should be handled at Ministerial level. I doubt whether it could be done in the Sub-Committee of the Ministerial Committee on Economic Strategy (E(EA)) which has dealt with these questions ad hoc so far. On the other hand I think that E itself is too big, and that this ought to be done in the first instance in a group of Ministers not under your chairmanship, so that you are held in reserve for the issues on which your intervention is essential. I believe that this should be a Sub-Committee of the Ministerial Committee on Economic Strategy under the chairmanship of the Chancellor of the Exchequer; and its membership should include the Secretaries of State for Industry, Trade, Employment, Energy, the Environment and Social Services, and the Lord President of the Council or the Minister of State, Civil Service Department.

No

6. If you agree with the proposals that I have made in this minute, I should like to draw them together in a note, which could be circulated under your name or, if you preferred, as a "neutral" note by the Secretaries, which would both recapitulate the conclusions and decisions already reached and set out the proposals for further work and machinery to do it.

No

RA

(Robert Armstrong)

No – we are not going to have a third Committee. Though the [illegible], never can.

27th June, 1980

PUBLIC SECTOR PAY

1. After yesterday's meeting of E Committee I am still anxious lest natural concern with what is desirable and needed means that insufficient attention is given to ensuring that in practice actual settlements are the lowest that can be sensibly achieved. I am referring to the straightforward management of the situation.

2. John Hoskyns is, of course, quite right in pointing out that case-by-case it is necessary to define numerically what level of settlement would be compatible within the desired cash limit and to follow this with assessment of the risks that would be entailed in achieving it. Specific figures are the only basis on which the pay problem can be thought through even though some decisions have to be regarded as provisional.

3. However, in the event, the level of settlements will depend on the attitudes and expectations of the negotiators, the people they represent, and the public generally, and also on sheer negotiating skill. The task of influencing opinion, constructing negotiating positions and sharpening negotiation skills needs to be going on already for the whole series of deals, not just the early ones. Apart from the role of individual Departments there is obviously a central management task and it is not clear to me who does it. As a newcomer I realise that there may be more going on than I appreciate but at the moment I am uneasy.

4. The sort of questions on which I feel the Government needs to be satisfied are:

(a) What is the overall plan of campaign for this wage round and the period which follows - the practical moves not just the targets? Considering a year in isolation is not sufficient as the consequences of staging so clearly demonstrate. Because one settlement influences another and a steady downward trend is likely to be more effective than a series of sudden lurches and setbacks, the main settlements need to be considered as a series as well as individually. The series of principal settlements in the private sector needs also to be taken into consideration. Information for starting this kind of campaign planning is contained in the paper which officials recently put to E Committee.

(b) Are negotiating skills of the necessary very high standard available in each individusl Department? I realise this question may seem rather offensive but experience suggests that there is usually wide variation. Such variation was certainly indicated by the handling of settlements in the nationalised industries over the past year.

(c) Is the management of each Department systematically creating the right attitudes, expectations and atmosphere? This is quite separate from negotiation and is a matter of continuous education and should include 'worker involvement' in the best sense of that phrase.

(d) Are the overall efforts to influence sufficiently complete and co-ordinated? For example, there needs to be a systematic analysis of all the groups whose views can influence the situation either way and to establish how the favourable ones can be strengthened and the others weakneed.

5. What is in people's minds at each negotiation is what will determine the outcome. Getting this right involves a great deal more than just a PR effort. It demands well planned continuous effort and cannot be undertaken at the last moment.

c/f J Hoskyns
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SECRET

Ref. A02244

PRIME MINISTER

Public Sector Pay

(E(80) 46, 48, 49, 53, 55, 56 and 59)

BACKGROUND

The Committee will resume their discussion of public sector pay which was centred on the CPRS paper on the main issues (E(80) 55). At the last meeting they dealt with the Civil Service, the Armed Forces and the National Health Service. In addition to the papers the Committee had last time there is a note by the Lord President of the Council (E(80) 59) covering a paper by officials on the possibility of changing the membership and the terms of reference of the three pay review bodies (asked for last time) and a minute of 23rd June from the Secretary of State for Employment on the Clegg Commission.

This is in the Action folder because there is a decision to be taken on an appointment.

HANDLING

2. You might open the discussion by reminding the Committee which sectors were covered at the last meeting and proposing that, again, the CPRS paper E(80) 55 should be used as an annotated agenda.

Prison Officers, Policemen and Firemen (paragraphs 7(e), 8(f) and 8(g) of E(80) 55)

3. The pay of prison officers is determined as an average of all Civil Service increases. Police pay is index-linked and is not cash limited. The settlement date is September 1980. Firemen's pay is also indexed and is not constrained by the general local authority cash limit. Their settlement date is November.

4. The Home Secretary will wish to comment on the case for maintaining special treatment for policemen and firemen (he has discussed the former with the Chancellor of the Exchequer since the last meeting). He will also wish to comment on whether any special consideration should be given to prison officers in view of the serious consequences of disruption in the prison service. Both he and the Secretary of State for the Environment will wish to comment on the

possibility of seeking to influence local authorities on the arrangements for the firemen. The likely outcome for these three services is that the present arrangements will have to continue.

Local authorities and teachers (paragraphs 9(h) and (i)

5. In effect the constraint is the Rate Support Grant cash limit which has to be settled by November. Subject to any points the Secretary of State for the Environment makes there is probably nothing more to be discussed at this stage. He will be reporting early next month on the options for dealing with the likely overspend in the current year.

6. For teachers, Ministers will have to decide on the current claim when the arbitration awards are available (probably the last week in July). If the Committee were disposed to pursue the longer term possibility of legislating to withdraw the right to arbitration, it would be necessary to involve the Secretary of State for Education before any decision could be taken.

Nationalised industries (paragraph 9(j)

7. The main constraints are the external financing limits. The main question is whether these should be set in November, as last year, in order to influence the pay negotiations, or later. The Chancellor of the Exchequer will wish to speak on this and on his proposals in paragraph 21 of E(80) 46 - tight pay assumptions in the 1981-82 EFLs to be announced this autumn (though the pay assumptions would not be made public); pressure on chairmen to hold settlements to these assumptions; a requirement on all the nationalised industries to adopt performance targets related to costs per unit of output before the autumn.

8. The Committee may well favour the Chancellor's approach here (and he would I know welcome a specific endorsement recorded in the minutes). You could also invite him to supervise further work through his E(NF) Sub-Committee.

The future of the Clegg Commission (paragraph 10(k)

9. The Secretary of State for Employment will wish to enlarge on his minute to you of 23rd June, which points to the difficulties of maintaining sufficient members of the Commission to complete the present reviews, and advises that the Commission should be wound up when its present references

are completed. This would be a popular move with your supporters in Parliament and the House but you will need to ask the Chancellor of the Exchequer to comment especially in view of the suggestion in his own paper (E(80) 46) that there would be merit in retaining a fact finding body as an aid for the settlement of particularly difficult disputes. Could the Office of Manpower Economics (which already services the review bodies) take this on? Other Ministers may also wish to comment. It is not essential to take a decision on the long term future of the Commission immediately, but there should probably be an announcement one way or the other before the Recess.

Membership and Terms of Reference of the Review Bodies

10. In earlier discussion it was agreed that the Armed Forces Pay Review Body (AFPRB) and the Doctors and Dentists Review Body (DDRB) should continue, though no specific discussions took place on the future of the Top Salaries Review Body (TSRB). It was however also agreed that further thought should be given to the possibility of tightening the terms of reference and changing the membership of these Bodies, and that this would be considered further in the light of a note by the Lord President (E(80) 59 now before the Committee). You may prefer to defer taking final decisions on this paper until after Cabinet's discussion of the TSRB reports next Tuesday.

11. The note by officials points out that while the members of the TSRB can be changed at any time, those of the other two bodies have fixed appointments and for the most part the terms of the present members continue until the end of 1981 or 1982. It goes on to make the obvious point that any blatant attempt to alter the membership in order to encourage recommendations more in accordance with the Government's wishes could backfire. The doctors and dentists could be particularly troublesome in this respect (you will remember that last year they were arguing for the DDRB to be slanted more in their direction).

12. On terms of reference, officials point out that it is open to the Government to submit evidence to the review bodies about economic considerations which should be taken into account, and that this could be done with or without a change in the terms of reference. The risk of changing the

terms of reference is that the Government could then reduce its freedom for manoeuvre since it might be difficult to reject recommendations which the Review Bodies claimed already took account of economic considerations as put to them by the Government.

13. You will wish to invite the Lord President to speak to his paper. The Chancellor of the Exchequer, the Secretary of State for Defence and the Secretary of State for Social Services will wish to comment.

Size and timing of cash limits

14. The Committee has already agreed that cash limits and External Financing Limits for the nationalised industries should be the overriding constraint on pay. The size of these limits will be crucial and you may wish to remind the Committee that there will be an opportunity to discuss them when the Chancellor comes forward with his specific proposals in the autumn. You might also hold open until later in the year final decisions on whether the quantum and timing of cash limit should be uniform or varied, so that account can be taken of circumstances nearer to the operational deadlines.

CONCLUSIONS

15. You will wish to record conclusions on as many of these issues as possible, but probably to reserve a final decision on the membership and terms of reference of the Review Bodies until Cabinet has discussed the current TSRB reports. You might also care to envisage a further meeting of E to confirm the totality of the decisions taken (possibly on the basis of a note by the Secretaries drawing them all together and to discuss public presentation and handling.

16. In addition you have had John Hoskyns's paper of 25th June which recommends that a good deal of work needs to be done to quantify the costs and risks attaching to the individual elements which make up the totality of the public sector pay problem. I have a good deal of sympathy with that approach. At the same time I doubt whether present decisions need be delayed while the work he suggests is put in hand - much of it relates to the actual numbers to be

inserted into the policy when we come to set cash limits, etc., in the autumn. Nevertheless you might care to ask the Treasury or the CPRS to pick up his suggestions and let you have a quick report on what can or can't be done and on what timescale.

RtA

(Robert Armstrong)

25th June, 1980

Original filed Econ Pol (Strat) Pt

PRIME MINISTER

Meeting with the Chancellor: 0900 AM: Thursday 26 June

I have warned the Treasury that you will probably want to go over with the Chancellor the reasons for the high central government expenditure and borrowing recorded for the first two months of this financial year.

The Chancellor is meeting the Governor this evening, and he may want to report on the monetary prospects.

I suggest you also discuss where you hope to get to at E Committee tomorrow morning on public sector pay. John Hoskyns has put in a very useful paper: in particular, he suggests that we ought to have a clear idea of what sort of figure we are aiming at for public sector settlements in the next round. There must be a figure implicit in the medium term financial strategy - that is, assuming we are going to get a resumption of growth in the economy by 1982. I do not know what that figure is. But one thing is certain: the higher the public sector pay out-turn, the higher will be private sector settlements and inflation, and the further off will be the recovery in output. Furthermore, in order to stay within the PSBR projections in the financial strategy, if public sector pay is too high, the volume of expenditure will probably have to be cut further. I say "probably" because more inflation in the economy would mean higher revenue; but revenues would also be held back by the lower level of activity in the economy resulting from a higher rate of inflation.

The Treasury have sent over a copy of their medium term projections, which the Chancellor mentioned to you last week. Although such projections are no better than the assumptions on which they are based, Table 1 - which shows their central projection - is worth looking at. This shows GDP continuing to fall in 1981 and only beginning to recover in 1982; manufacturing output continues to fall in 1982. Unemployment, albeit probably the most difficult variable to project, rises throughout the period to 1983 to a level of 2.1 million. A crucial assumption is that earnings, having risen by 18% in 1980 compared with 1979, will

/rise

rise by 13% in 1981. If we could achieve a lower figure than this, the output prospect would be better because of better competitiveness. It seems to me that we should do everything we can to get earnings below 13% in 1981; but we must not be unrealistic. To aim for too much risks total failure à la Callaghan in 1978.

Finally, it is not just public service settlements we must get down. We must also strive to get nationalised industry settlements down. It is the latter which are more influential in regard to private sector settlements; and we have neither the cash nor the headroom on the RPI to pay for high settlements in the nationalised industries. I realise that achieving this is easier said than done.

One last point. The Chancellor may tell you where he has got to with Mr. Whitelaw on police pay. Mr. Whitelaw has apparently argued vigorously that we must stick to the Edmund-Davies formula - i.e. increase their pay by average earnings which will mean about 22%. The Chancellor has reluctantly agreed. If we are to cut back MPs' pay and top public servants, I wonder if we could not also cut back police pay by say 2½%. If we do not, what is the point of setting an example in the first place?

R.

25 June 1980

Original returned to J. Hoskyns

25 June 1980
Policy Unit

PRIME MINISTER

PUBLIC SECTOR PAY - E

attached to this minute

1. You will have seen our paper on public sector pay. The approach is so different from that suggested in the CPRS agenda that it is difficult to reconcile the two. How, therefore, to proceed?

2. This paper suggests how you might reconcile the two positions and direct the discussion.

3. Assuming the colleagues have all seen our paper, you could introduce the discussion on the following lines:

(1) We are currently addressing a number of interconnected tasks. We can't decide how to handle MPs' pay without also taking a view on the other TSRB recommendations. But we can't do that, except within the context of an agreed approach to public sector pay (unless we try to treat TSRB as the last of the present round, which could be a lost opportunity which turns into a dangerous new problem). And public sector pay itself cannot be discussed except in the context of the MTFS and the PES - to give us the sort of numbers the Policy Unit's paper is groping for.

(2) Today's meeting will continue working through the CPRS agenda as it is helpful to walk the course, even though we cannot quantify the problem in each area and thus what has to be achieved.

(3) Can we speed up the assessment of risks, especially those of selective disruption in the Civil Service, currently being looked at by E(CS)?

4. I don't know what the detailed plans for the 3 July presentation are, but you might like to raise the question of numbers (implications of breaking MTFS, the implicit cash limits) when you see Geoffrey tomorrow morning.

JH

JOHN HOSKYNS

SECRET

25 June 1980
Policy Unit

Tim

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PRIME MINISTER

PUBLIC SECTOR PAY - E

I attach a paper on Public Sector Pay, for tomorrow's E.

1. E Committee has not yet started to come to grips with the public sector pay problem, because the essential first step, of defining the problem, putting numbers to it, and setting it in the context of the Medium-Term Financial Strategy, has not yet been done.

The meaningless objectives shown in paragraph 2 of the CPRS paper, E(80)55, demonstrate the impossibility of trying to address what is essentially a "numbers problem" without any numbers.

2. Public sector pay is at the heart of public expenditure, pay pressures in the economy, and thus the whole financial strategy. At present, we don't know by how much we are trying to keep public sector pay down; or the risks attaching to different ways of doing it; or the implications of different degrees of failure.

3. Clearing minds on this question is tedious and difficult. The problem looks increasingly daunting as the numbers emerge - when they emerge. It is no answer to say that life is complicated and messy and cannot be reduced to such simple logic. Of course it can't. No-one suggests it can be. But such a response amounts to saying "Since life is confused, the future unpredictable, and all plans go awry, why bother to clear our own minds? Why bother to have any plans at all? Let's have no objectives and no plans, so that we need never know whether we've failed at all."

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

JOHN HOSKYNS

SECRET

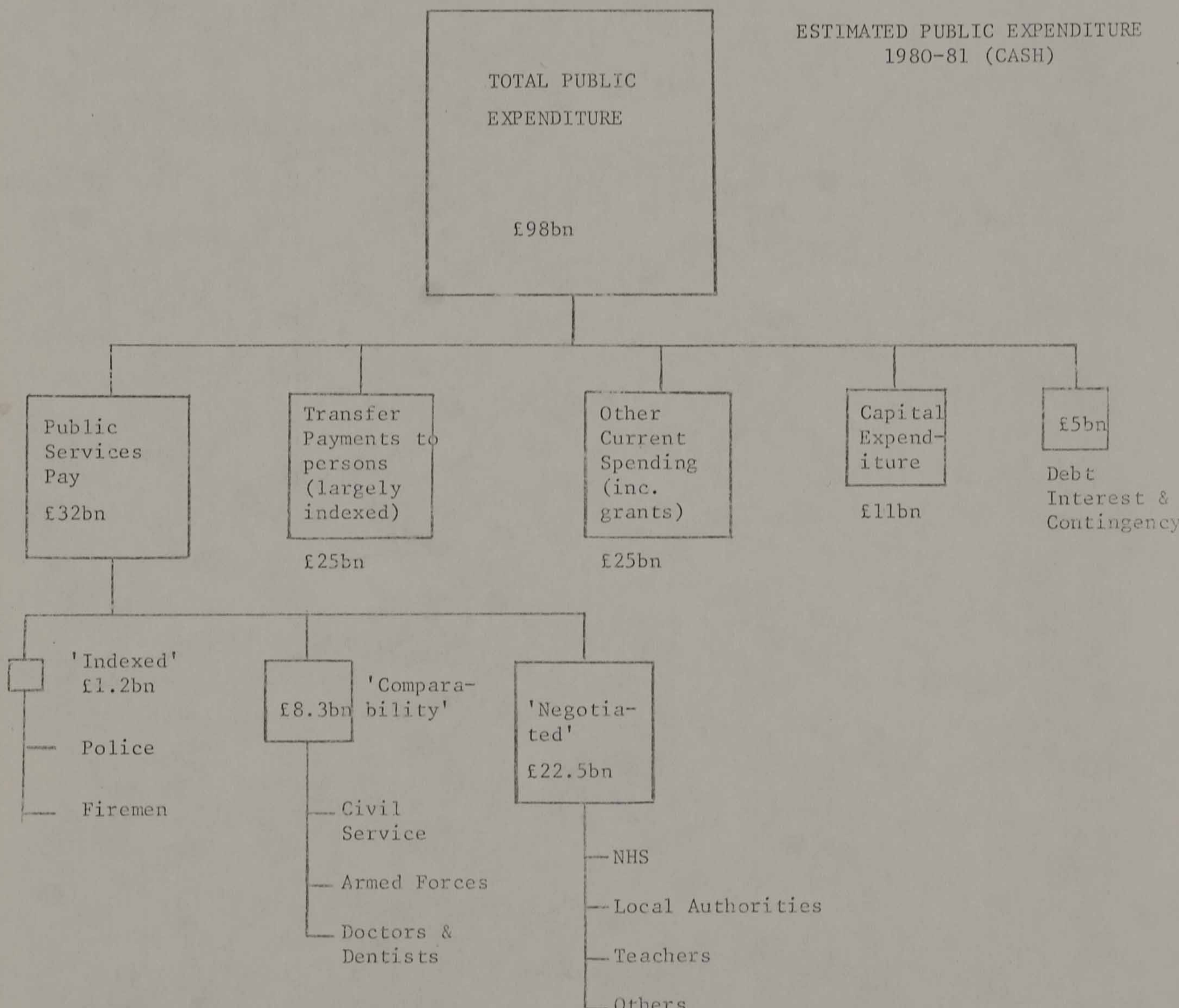
25 June 1980
Policy Unit

PUBLIC SECTOR PAY

E Committee is working its way through the annotated agenda, E(80)55, suggested by the CPRS. In the our view, it is not possible to make real progress with this agenda without more numbers. This paper attempts to structure and quantify the problem.

1. THE SIZE OF THE PROBLEM

1.1 The diagram below may be helpful:



Public expenditure, like everything else, will try to index itself. Much of it is effectively indexed now. It will therefore be pressing for between 12% (£11.7bn) and 18% (£17.6bn) during 1981-2.

1.2 This paper concentrates on public services (£32bn), whose outturn will affect, and be affected by, settlements in both the nationalised industries and the private sector. Nationalised industries should be looked at separately. Their pay settlements are not under Government control; they are quite different from public services and from each other - profitable/loss-making, growing/shrinking, monopoly/open to competition.

1.3 Public services pay. The figures in E(80)56 suggest increases of about 18% (including drift) over the period February 1980 - February 1981, for the economy as a whole. On that assumption, 'Comparability' settlements (£8bn out of the £32bn, backward-looking and linked to those still in jobs in the private sector and nationalised industries) would be about 18%. It seems likely that similar figures would apply for the indexed and the negotiated portions of public services. Public services pay would therefore tend to grow by about 18% - from £32bn to just under £38bn.

1.4 The problem is the "gap" between the results of this self-indexing tendency and the desired outturn, implicit in meeting the Medium-Term Financial Strategy, for the public services.

What is the desired outturn? There has been talk of "single figures". A 9% objective would thus give a nine point gap (£2.88bn). "Less than last time", ie 13%, would give a five point gap (£1.6 bn).

2. THE CONSTRAINTS OF THE MEDIUM-TERM FINANCIAL STRATEGY

2.1 The MTFS is concerned with Transition from high inflation to Stable State. That Transition process requires public expenditure, like the rest of the economy, to "settle for less than the going rate". How much less, we are not yet sure. This deceleration is over and above, and quite distinct from, the need to cut public spending and reduce the PSBR.

2.2 If public sector pay does not accommodate to the MTFS, then some combination of the following will result:

- Inflation will take longer to come down.

- The private sector will be badly damaged.

- The knock-on effect will further damage the private sector.

- Further de-manning of public services will be necessary, but in many areas like the NHS, impossible.

- Capital spending in the public sector will be cut, creating more problems for the future (eg Post Office).

It would presumably be possible to simulate the effects of different levels of failure to match public expenditure to the MTFS, in order to get a better idea of what is at stake. The Economist has tried to do something more general on pp. 108-9 this week.

2.3 The MTFS contains monetary targets. These in turn imply cash limits in the public sector. What are they? Can they be set late, to accommodate likely pay settlements; should they be set early, in order to constrain those settlements?

2.4 Cash limits will imply a level of public service pay settlements. What will it be? "Less than last time"? Single figures? If it's single figures, how do we achieve it? Are we about to get off on the wrong foot, politically, in our treatment of MPs' pay and Boyle generally?

2.5 External Financing Limits. Should monopoly nationalised industries be free to raise prices as necessary to stay within EFLs? Is this a "solution" to the problem, or is it simply price inflation by other means?

3. OBJECTIVES, CONSTRAINTS, RISKS

3.1 Objectives

3.1.1 In the public services, our objective is presumably to make pay outturns match the MTFS. Or is it? We have suggested in Section 1.4

above, that this means closing a gap of between five and nine percentage points (£1.6 bn and £2.88bn).

3.1.2 For the nationalised industries, the question is: to what extent do we allow nationalised industry management to meet EFLs by postponing capital spending or raising prices? Our initial "arm's length" position was to leave it to the industries concerned. But we are already moving towards making nationalised industries hold prices and delay badly needed investment. The Post Office is a case in point.

3.2 Constraints

3.2.1 To say that we want "minimum disruption" would be meaningless. Are we aiming to avoid public service disruption absolutely? Or are we saying that we would accept disruption as the price of achieving our objective, provided it does not jeopardise that achievement? Before we can decide on the latter, we have to look at the risks.

3.3 Risks

3.3.1 For each area of public services, we have to ask:

First, what is the likelihood that the disruption would happen in the different parts of public services?

Second, if disruption did occur, would it jeopardise the achievement of the desired outturn? What are the lessons of past public sector and public service strikes? What is the risk that disruption, particularly selective action, leading to concessions by Government, would bring larger aggregate settlements?

Third, what would be the political and economic consequences of being forced either to relax the MTFS or to slide it forward by, say, a year?

3.3.2 We may have to take the risk of disruption, but we should have some idea of what that risk involves. We are not suggesting that there is some simple mechanistic process for getting "correct answers" to these questions; simply that there is information available which can be used methodically to make an informed judgment.

4. OPTIONS

4.1 The options facing the Government lie between two extremes:

(1) At one extreme, the Government avoids all disruption, at the cost of abandoning the desired pay outturn, and thus breaking cash limits and thus the MTFS, or else fudging on manning levels and capital spending.

(2) At the other extreme, it goes for single figures in aggregate, which means certain and widespread disruption.

4.2 It is not possible to evaluate the different options because we don't yet have the numbers, and we have not yet analysed the risks. However, the main options seem to be:

(1) Accept the status quo. With comparability still in place, "doing the best we can", case by case; no disruption; cash limits and MTFS broken, or else fudged by de-manning and capital investment delays; knock-on effects in the private sector. The long-term political and economic costs of this option have not yet been assessed.

(2) Comparability less X%. The X% would be designed as a compromise between certain disruption on one side and breaking cash limits, MTFS etc, on the other. Would this be presentable as fair within the public services? Could it still cause problems with the private sector? Does it dangerously extend the principle of comparability just when we would really like to dethrone it? Much would depend on whether the nationalised industry settlements turn out, under recessionary pressures, to match fairly closely.

(3) Impose a figure for the public services. This would be rather similar to (2), but with greater certainty that the totals would turn out the way the Government wanted. The figure could be based on partial indexation. Partial indexation, by offering the certainty of a limited downside (as with de-indexed social security) could be cheaper than a norm, provided it really was partial and properly designed. (The Callaghan 5% norm was offered regardless of how inflation might actually go.) Could such a figure be imposed on the public services and not on the nationalised industries? Would it unite public sector unions

against the Government? How much would that matter, how long would the trouble last? Would it be saleable if private sector settlements were running higher (notwithstanding the resulting private sector unemployment)?

5. FURTHER WORK REQUIRED

5.1 Establish our objectives

This paper raises questions that have not yet been answered and which are essential to decision-making:

- Are the constraints of the MTFS understood?
- What are the cash limits?
- What are the desired pay outturns?
- How far are we prepared to go in delaying capital spending?
- Can we afford to give nationalised industries carte blanche to raise prices?

5.2 Risk analysis

For each key area in the public services (and perhaps also in the nationalised industries):

- What is the impact of disruption among the different groups? What is the likely outcome in terms of "who wins" and the subsequent level of settlements?
- What is the probability of it happening, at different levels of "pay compression"?
- What steps could be taken - apart from simply abandoning the attempt to compress - to make it less probable?
- What would breaking the MTFS really mean in political and economic terms?

6. CONCLUSION

It is not really possible to make decisions of principle and then, at a later stage, decide about numbers, which is what the CPRS paper, E(80)55, suggests. This particular problem is concerned essentially with numbers. That is what the problem is all about. Until the problem and the objectives can be expressed in numbers, it is not really possible to start work, because no-one knows what the Government has to achieve as a minimum, or what it would like to achieve if circumstances allow.

PART 1 ends:-

CAW to RTA 19.6.80

PART 2 begins:-

E (80) 59 25.6.80