

PREM 19/704

Public Sector Pay Policy

Treasury Manuvary Reports

PART 6.

ECONOMIC POLICY

Part 1: July 1979

Part 6: Jan 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
25-1-82							
25-1-82							
5-2-82							
8-2-82							
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21-4-82							
22-4-82							
26-4-82							
26-4-82							
- Pt Ends -							

PREM 19/704

PART 6 ends:-

s/s Social Services to PM 28/4/82

PART 7 begins:-

cc (82) 21st - Item 3 29/4/82

PRIME MINISTER

PUBLIC SERVICE PAY: THE HEALTH SERVICE

Geoffrey Howe will be reporting to you our discussion today on the implications of the proposed handling of the recommendations of the Top Salaries Review Body, the Armed Forces Review Body and the Civil Service Arbitration Tribunal for the National Health Service and in particular for our handling of the Doctors and Dentists Review Body report.

I met the TUC Health Services Committee yesterday and they expressed very strongly their rejection of the present offer and warned that industrial action would escalate unless a better offer was forthcoming. I reiterated the Government's case and in particular the additional funds made available already to give certain groups directly concerned with patient care more than originally provided for in the 4 per cent cash limit.

It is not yet clear whether we face a major and prolonged dispute nor how the views expressed yesterday and reported in the Press will affect the ballot of members by the major nursing organisations on their current offer of 6.4 per cent. The Conference of the Royal College of Nursing will debate tomorrow afternoon whether there should continue to be a bar to industrial action by their members. We hope that the outcome of the debate will be the continued rejection of industrial action.

I am copying this letter to all Members of the Cabinet, the Chief Whip and Sir Robert Armstrong. I will continue to keep colleagues informed of developments.



N F

28 April 1982

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PRIME MINISTER

MONITORING REPORT: PUBLIC TRADING SECTOR

I have seen the Chancellor of the Exchequer's letter to you of 26 March enclosing a monitoring report of pay settlements in the public trading sector. In it he asked for an assessment of the settlement achieved by the British Airports Authority.

The settlement at 6% is admittedly higher than we hope to achieve in the public services. But it is not out of line - and indeed is below - the average level of settlements both in the public sector as a whole and in the private sector. It is also significantly below the 9% settlement concluded in 1981.

The £14 a month productivity bonus referred to in the monitoring report enclosed with the Chancellor's minute to you of 26 March was not part of the January 1st settlement as the report would imply. It was agreed last year and was payable from November 1981. It is not being increased as part of the current settlement and in any event we expect it to be fully absorbed in increased productivity and past experience supports this view.

The effect of the current settlement on earnings is estimated at 5.6% and the effect on the pay bill is likely to be somewhat less. This, in the circumstances, I regard as an acceptable result.

I am copying this minute to the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for the Environment, Industry, Transport, Energy and Employment, and to Sir Robert Armstrong and Mr Sparrow.

Arthur Cockfield

LORD COCKFIELD

Prime Minister

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with M.C.S.?

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

PRIME MINISTER

PUBLIC SERVICE PAY

As agreed yesterday, I have discussed with Norman Fowler the NHS angle to the choices we face on the Review Body reports. Like him, I feel considerable unease about the wider implications of implementing the recommendations of all three in full. The consequences which concern me are not just on the NHS, or even just on public expenditure - though they are substantial for both - but on our whole pay stance and strategy.

2. There is no question about the AFPRB; we must clearly implement its recommendations in full. The problem concerns the DDRB and the TSRB.

3. The hinge is the DDRB. If we pay the full 9 per cent, including the 3 per cent catch-up, we shall change the entire context of the unsettled scene on pay for the nurses and other NHS elements; in Norman Fowler's words, we shall be tossing in a grenade. We shall certainly remove whatever chance there may be that the nurses will settle at 6.4 per cent, and the lower offers to other NHS classes, already acutely difficult, will become unsustainable. Norman and I are considering the questions which arise in any event of whether, when, and how far the Government will have to move on these matters, and how to finance the outcome; but the immediate point is that the levels at which we can eventually settle in the NHS, with or without industrial strife, will certainly be substantially higher with 9 per cent for doctors than with

S E C R E T



6 per cent. When the extra costs of this are added to the direct cost of the 3 per cent catch-up (£60 million) the real net difference between 6 per cent and 9 per cent in the DDRB field will be at least £100 million - Norman Fowler is inclined to suggest some £200 million.

4. The damage goes wider. We shall surprise everyone, including (I suspect) even the doctors and dentists themselves, in giving 9 per cent on a report which almost sets up the 6 per cent option for us. Alongside the NHS repercussions which will be plain to everyone, this will transmit a general message that the Government has eased up on pay - that we have let go of the rope. This will cut right across one of our most crucial economic themes, just when - in my view - it was beginning to strike home. The climate for 1982-83 may well be significantly affected.

5. I recognise the "clean-sheet" argument for accepting the Review Bodies' recommendations as they stand - not least to reduce the likelihood or the scale of renewed difficulties with the doctors and others next year, when the scene may be no easier. This has real attractions. But I cannot believe they weigh equally in the scale with the contrary considerations outlined above.

6. I recognise also the more particular advantages which underlay yesterday's general preference for implementing TSRB in full. Again, however, I cannot think they match the wider arguments. Moreover, given the scale of the recommended awards, I believe we could still substantially secure those advantages even after a 5 per cent abatement to accompany a 6 per cent decision on DDRB.

A handwritten signature in blue ink, appearing to be 'G. Howe'.

S E C R E T

GEOFFREY HOWE

S E C R E T



7. Copies of this minute go to our Cabinet colleagues, to the Attorney General and the Chief Whip, and to Sir Robert Armstrong.

G.H.

28 April 1982

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28 APR 1982



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Prime Minister

The Post Office have

Treasury Chambers, Parliament Street, SW1P 3AG now, as you know,
01-233 3000

PRIME MINISTER

*No - I don't think a further
complaint will reduce the
settlement you will
get with
the Chancellor.*

settled at 7% (= 7.7% on
earnings). The Chancellor (attached)

has complained to Patrick Jenkin.

MONITORING REPORT: PUBLIC TRADING SECTOR

Do you wish me to underline

and say how unsatisfactory

.... I attach the latest monitoring report on the public trading
sector.

you consider this

2. The gas industry manuals have gone to arbitration following an offer worth 7.9 per cent on earnings. As reported in David Mellor's letter of 15 April, the unions are balloting the electricity industry manuals (without a recommendation) on the Electricity Council's offer, which is worth 7.1 per cent on earnings.

settlement?

MS 29/4

3. In spite of the representations which Patrick Jenkin has made to the Post Office Board, they now seem to be well advanced in exploring with the union side an offer worth 7.7 per cent (comprising a basic 7 per cent increase plus a bonus linked with the better-than-expected financial performance in the last financial year). The details are set out in Patrick's letter of 20 April, and evidently include some commitment to share the benefit of improved performance in the current year also. This would clearly be an excessive settlement, and I hope that we will continue to make our dissatisfaction plain to the Chairman.

4. Finally, I understand that the results of the arbitration on flexible rostering at British Rail will not now be available before the end of this month at the earliest.

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5. I am sending copies of this minute to the Home Secretary, the Secretaries of State for the Environment, Industry, Trade, Transport, Energy and Employment, and to Sir Robert Armstrong and Mr Sparrow.

(G.H.)

27 April 1982

CONQUEROR



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PUBLIC TRADING SECTOR

PART 1 CURRENT AND FORTHCOMING NEGOTIATIONS

A 1980/81 PAY ROUND

1 British Rail - Clerical and Conciliation grades (150,000)

Settlement date: 20 April

Unions: NUR, ASLEF, TSSA

In accordance with the Committee of Enquiry's recommendations, the unresolved productivity issues at the centre of the dispute between BR and ASLEF were referred to the Railway Staffs National Tribunal on 15 March. In concluding the hearing, however, the Chairman said that the Tribunal had found it difficult to reconcile the evidence of the two sides, and would need to consider other means of arriving at a decision. The Chairman and assessors have since visited guards' and drivers' depots around the country and the report of their findings is not expected before the end of April at the earliest. The Tribunal's decision will not be binding on either side.

B 1981/82 PAY ROUND

2 British Rail - Clerical and Conciliation grades (150,000)

Settlement date: 20 April

Unions: NUR, ASLEF, TSSA

At a meeting on 11 March the unions presented a claim for increases in line with the rise in the RPI, plus other benefits. BR responded that any increase in pay would be linked to improved productivity but the unions indicated firmly that this was unacceptable.

Comment: Detailed negotiations are unlikely to commence before the current dispute about productivity has been resolved. Any offer by BR will need to reflect the heavy financial losses incurred during the recent dispute.

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Gas Supply - Manuals (41,300)

Settlement date: 17 January

Unions: GMWU, TGWU

The unions have submitted a claim covering:-

- (a) An increase in rates to maintain the value of the pay packet - taking account of both inflation and taxation levels;
- (b) A reduction in working hours (from 38 $\frac{3}{4}$ to 37 hours a week);
- (c) Consolidation into basic pay of bonus earnings and the "general obligations payment" - the key issue;
- (d) Payment of average earnings during holidays;
- (e) Improvements in shift and stagger pay.
- (f) A change in the basis of awarding local holidays.

On 10 March, Management made a revised offer of basic rate increases of between 7.5% and 8% (depending on grade), with full flow through into bonus payments. This differed from previous offers, which proposed basic rates increases having no flow through into bonus. It also included improvements to the 'General Obligations Payment' (for flexible working procedures), holiday pay, staggered working pay and local holiday entitlement. The increase in average earnings was costed at 7.6% in the settlement year, 7.9% in a full year.

The unions rejected this offer. They regard the consolidation of bonus into basic pay as the key issue in negotiations, but Management have resisted this.

At a meeting on 30 March, BGC reverted to a revised form of a previous offer: an increase of between 7.8% and 9.1% in basic rates (not flowing through to bonus) and a maximum increase of 80 pence per week in the 'General Obligations Payment', plus increases to holiday and staggered working pay and local holiday entitlement. This offer too would have led to an increase of 7.6% in average earnings in the settlement year, and 7.9% in a full year. Compared with the 10 March offer, it would have meant slightly less for bonus workers, but more for non-bonus workers.

The unions rejected this offer, and said that since there was such a gap between the two sides they wished to seek arbitration. Management did not agree that

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arbitration was the best way forward. However, the constitution of the National Joint Industrial Council allows unilateral access to arbitration, and the unions are seeking arbitration on their own. BGC have however been consulted on the terms of reference and will be giving evidence to the arbitration. The hearing is likely to be in early May, and any award arising out of arbitration is binding on both sides.

Comment: The Gas, Water and Electricity industries closely watch each other's settlements and the union's have drawn attention to the water service settlement of 9.1% on basic rates. In addition the miner's settlement presented as 9.3% will influence negotiations. The final settlement for manuals will have repercussions for the BGC staff negotiations (58,900 SD: 1 June). Ministers considered union rights to unilateral arbitration in the public sector in E(81) Committee on 30 November 1981 and agreed that it was then inopportune to invite the BGC to consider seeking to change the arrangements for arbitration in the industry.

4 Electricity Supply: Manuals (94,000)

Settlement date: 17 March

Unions: EETPU, GMWU, AUEW, TGWU

The unions made the following 5 point claim at a meeting of the National Joint Industrial Council on 7 January:-

- (1) A substantial increase on basic rates
- (2) An additional increase on each band of the scale
- (3) Increased holidays
- (4) A shift and staggered hours pay increase (in line with the increase in basic)
- (5) A reduction in working hours

The total paybill increase of the claim has not been estimated.

Following rejection of the Council's offer of basic rate increases ranging from 5.1% on the minimum of the labourer's scale to 6.4% for a craftsman on his maximum and enhancements to shift pay of £3.73 per week (worth in total about 6.1% on average earnings), a further negotiating meeting was held on 8 April. At the meeting, the Council improved their offer to increases ranging from 5.1% (£5 per week) on the minimum of the labourer's scale to 6.6% at the top of the foreman's scale. In addition, increases in shift payments (which affect about 25% of industrial staff) are expected to increase these figures to 6.6% and 8.0% respectively. The effect of the offer on average earnings (including shift earnings) will be 7.1%.

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The Council have said that this is a final offer and the unions have decided to put it to a ballot of the membership without recommendation. The result is expected to be known in about 5 weeks.

Comment: Acceptance by the miners of an increase presented as 9.3%, water service manuals at 9.1% and a settlement in the gas industry will influence negotiations. The manual's settlement will influence the power engineers (SD: 1 February; see item 5).

5 Electricity Supply: Power Engineers (20,300)
Settlement date: 1 February
Unions: EPEA/BMA

At a National Joint Board meeting on 19 January, the EPEA submitted a 5 point claim as follows:

- (1) Preservation of existing links with industrial scales
- (2) Even progression through NJB scales
- (3) Restoration of 1975 differentials at maxima of scales
- (4) Improvement in out-of-hours payments
- (5) 35 hour week as a long term objective

Neither average earnings, or the total paybill increase of the claim has been estimated.

No detailed negotiations have so far taken place on the claim and the next National Joint Board meeting will be held on 20 April. The power engineers settlement traditionally awaits the outcome of the manuals' settlement.

Recent press reports (Financial Times, 7 April) of the EPEA annual conference indicate that the Association will seek the same percentage increases as are eventually agreed for the manuals and in addition press for the existing linking arrangements with the pay of manual groups, to be changed to take account of developments which have occurred since the link was established. The General Secretary of the EPEA is reported as saying that the Electricity Boards "are on a collision course" with the engineers over pay.

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6 Passenger Transport Executives: Platform Staff

Settlement dates: Various

Unions: TGWU, GMWU

The following have yet to reach a settlement:-

- (a) Tyne and Wear (SD: 1 March). An offer of 4% on basic rates has been made to bus staff, and ^{plus 2 days extra holidays} 4.1% to engineering staff. The latter are being balloted and management are optimistic of a settlement, particularly as this group are covered by a 're-opener' clause should other groups achieve higher settlements. The local metro service staff were made an opening offer worth around 4% on 16 April. The effect of the offers on average earnings is not known.
- (b) South Yorkshire (SD: 1 April). The unions submitted an uncosted claim for increases in line with inflation, and other improvements. At a meeting on 30 March, management responded with an offer of 4% on basic rates, plus a further 2-3% for improvements in productivity. The effect of the offer on average earnings is not known. It was overwhelmingly rejected (9 to 1) in a ballot.
- (c) Strathclyde (SD: 27 April). The unions representing traffic, inspectorate, and manual staff have all rejected offers of 6.5% increases in basic rates. The engineering staff are expected to vote to reject a similar offer in a ballot taking place in the week of 19 April.
- (d) West Yorkshire (SD: 1 May). In response to a claim estimated to be worth over 30% on earnings, management have offered an increase of 6.6% on basic rates, plus two extra days holiday per year (worth in total about 6.9% on average earnings). They are optimistic about settling at this level, or slightly higher with any extra cost being covered by productivity improvements.

7 Passenger Transport Executives: Non Manual Staff (6000)

Settlement date: 1 April

There is a Joint Negotiation Committee representing non-manual staff in all 6 English PTEs. The unions submitted a claim for "cost of living" increases and at a JNC meeting on 18 March, management offered a 4.0% increase in rates, plus

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an additional 2.8% linked to increased productivity. The offer was rejected. On 7 April an increased offer of 4% plus 3% for increased productivity and efficiency was accepted and is worth 7% on earnings.

8. British Shipbuilders: Staff and manuals (67,000)

Settlement date: 1 April

Unions: CSEU, SAIMA

At a meeting on 10 March, the CSEU provisionally accepted management's offer of increases to basic rates which, with the subsequent ^{effect on} overtime, represents an increase in average earnings of 5¹/₂%. In addition, a further 1% increase will arise from consolidation of supplements from a previous round and an increase in the minimum earnings level; in total a 6¹/₂% increase in average earnings. There will also be a 1 hour reduction in the working week, which was agreed in the previous pay round, to be implemented from 1 April 1982. Management say that the reduction will be met from improved productivity (ie prompt starting times etc) and will not add to unit costs. The unions were reported to be presenting the offer to members as 7% on earnings.

The CSEU put the offer to individual yards, and the staff union, SAIMA, consulted their membership on a similar offer. Support has not been universal, but leaders of both unions have received sufficient backing for them to accept. A formal agreement will be signed in the next few days, and management have begun arranging for implementation.

9. Post Office: Postal Officers, Assistants, Postmen, Cleaners & Doorkeepers (156,500)

Settlement Date: 1 April

Union: UCW

Management has received an indication from the UCW that increases of around 20% are sought. There is an outstanding claim from a previous pay round for a 3 hour reduction in the working week which has yet to be agreed.

On 24 March, management offered an increase of 5% on rates (management estimate that the effect of the offer on average earnings will be around the same figure). The union

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rejected the offer. Further informal meetings between both sides have taken place with the Post Office management, while not improving their formal offer of 5% on rates, indicating willingness to consider a settlement in the region of 7% on rates and earnings. A settlement or breakdown of the negotiations (the latter most probably accompanied by selective industrial action) is expected shortly.

10. British Nuclear Fuels Ltd: Non industrials (7000)

Settlement date: 1 April

Unions; IPCS, CPSA, SCPS, AGSRO, GSU

In response to a claim for a 15% increase on average earnings, management offered, on 31 March, an increase worth 7½% on average earnings. The unions are to ballot their membership to see if this is acceptable.

11. London Transport: Railway Supervisory, Booking Office and Conciliation Grades (18,000)

Settlement date: 19 April

Unions; ASLEF, NUR, TSSA

The unions have submitted an uncosted claim for a substantial pay increase and shorter hours, in line with the main British Rail claim. At a meeting on 20 April management offered an increase of 5% on basic rates (expected to be worth about 5% on average earnings also). If the unions accept this offer, management would additionally undertake:-

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- (a) to review relativities
- (b) to consider the case for an extra day's holiday (giving parity with bus staff)
- (c) to reduce working hours to 38 per week, as long as this could be done at negligible cost
- (d) to pay a lump sum bonus worth in total half of any undershoot on the 1982/3 budget.

In response the unions were critical but asked to see details of the offer in writing so they could consider it more carefully.

12 London Transport: Rail Workshop Trades (3550)

Settlement date: 22 April

Unions: ASBSBSW, AUEW, EETPU, FTATU, NSMM, NUSMWCIDE, TGWU, UCATT, NUR

The unions have submitted an uncosted claim for a substantial increase. At a meeting on 20 April management made a 5% offer, similar to that for underground staff.

13. London Transport: Platform Staff (19,450)

Settlement date: 28 March

Union: TGWU

The Union has submitted a claim for substantial increases. Negotiations open on Tuesday 27 April.

14. Water Service: Staff (35,300)

Settlement date: 1 July

Unions: NJC - NALGO, GMWU, NUPE, GLCSA, TWSA

There will be a National Joint Council Meeting on 22 April at which a claim is expected to be submitted.

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15 British Telecommunications

Telecom engineers, technicians etc (130,000)

A. Settlement date: 1 July

Union : POEU

Executive engineers, inspectors, technical and sale supervisors etc (22,500)

B. Settlement date : 1 July

Union : SPOE

It is understood that offers of 4.3% on basic rates, subsequently improved to 4.8% plus other improvements were made to both negotiating groups in early March. The unions are said to have asked for increases in line with the RPI. Negotiations continue and it is understood that the next negotiating meeting will be held on 23 April. The likely next moves are not known, but the Secretary of State for Industry is to meet the Chairman of British Telecoms, probably on 27 April.

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SETTLEMENTS CONCLUDED SINCE LAST REPORT

16. British Airways: All grades (excluding pilots) 50,000

Settlement date: 1 January

Unions: TGWU, AUEW, EETPU, NUMSMWGH, ACTSS, APEX, GMWU, FEATU, UCATT

A mass meeting on 1 April of TGWU ramp staff, who have been on strike since 9 February in protest over revised working arrangements, voted to cease further industrial action. A return to full normal working took place on 6 April. BA's "rescue plan" includes a pay freeze until September 1982 and although three negotiating groups have submitted claims for substantial increases there has been no attempt to open pay negotiations in the immediate future.

17. London County Buses: Platform staff etc (2353)

Settlement date: 4 April

Union: TGWU

The union has accepted management's offer of a 6.6% increase on basic rates and 2 additional days holiday per annum; worth in total approximately 7.4% on average earnings.

18. National Bus Company: Clerical, Administrative and Supervisory Staff (9522)

Settlement date: 1 March

Unions: NJC for non manual staff - NALGO, ACTSS, NUR

The group has accepted an increase in line with NBC Platform and non-craft maintenance workers of 6.6% on basic rates, 2 additional days holiday and improvements to overtime pay. The effect of the total offer will be to increase average earnings by approximately 6.9%.

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SUBJECT

HRD MANAGEMENT

DS
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file

✓ CRLS
CO
MPO
Chief Whip's Office
Dept Emp
LPS office
DHSS
LP's office.

10 DOWNING STREET

u. Master

From the Private Secretary

27 April 1982

cc Civil Service Rev
AFPRB
Doctors Dentists
TSRB

SO
Defence
Ed Science
Lord Chancellor's Office
HO
J. Vereker

Dear John,

The Prime Minister held a meeting with Ministers this morning about a number of pay issues. The Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer, the Secretaries of State for Education and Science, Defence Scotland, the Lord President, the Secretary of State for Social Services, the Lord Privy Seal, the Secretary of State for Employment, the Chief Whip, the Minister of State, Treasury, Mr. Hayhoe, Sir Robert Armstrong and Mr. John Sparrow were present.

The Chancellor of the Exchequer said that a number of pay issues required decisions. The award of the Civil Service Arbitration Tribunal (CSAT), which gave an average increase of 5.9%, and a range for individuals from 4.75% at the bottom of the scales to 6.25% at the top, was lower than had been feared and higher than had been hoped. In his judgment it was at about the limit of acceptability. He believed that it would involve an addition to the 4% cash limits, although he hoped colleagues would be able to absorb no less than 5% of the 5.9% within existing departmental cash limits by finding further administrative or manpower savings. The Armed Forces Review Body Report (AFPRB) recommended a range of increases which would add 6.1% to the estimated 1982/83 pay bill. He believed that these recommendations should be accepted. The Doctors and Dentists Review Body (DDRBR) recommendations, which would add 6% to the pay bill, or 9% when the 3% deducted from the 1981 recommendations was taken into account, would if implemented in full create very considerable difficulties for the negotiations currently in progress with other National Health Service groups. The Top Salaries Review Body (TSRB), which recommended on average a 21.9% increase over current levels, also posed considerable problems. The most logical course was, perhaps, to accept all these recommendations; but this would make the National Health Service negotiations very difficult. If the DDRBR recommendations were not fully accepted, there would be a strong case for a less than full acceptance of the TSRB recommendations. There were a number of options here: it would be possible to deduct 3% from the recommended increases, numerically in line with what was being done with the DDRBR. An alternative approach would be to deduct 5% on the grounds that the TSRB recommendations were in part making good the 5% shortfall of the salaries awarded in 1981 as against the 1980 recommendations.

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Further in the background were the issues of teachers' and police pay. English and Scottish primary and secondary teachers were now subject to arbitration. The English further education teachers' negotiations were probably now stalled awaiting the result of arbitration, but there seemed to be a case for conceding 5.5%, or even 5.9%, given that Scottish further education teachers had settled at an average of 5.5%, with Scottish local authority further education teachers receiving 5.9%.

In discussion there was general acceptance of the Chancellor's conclusions as regards the CSAT award. There was, too, a general disposition to accept in toto the recommendations of the AFPRB. The following points were made in discussion:

- a) There were strong grounds for implementing the recommendations of the TSRB in full. This group, unlike other groups, had never had a full catching-up operation. Problems of recruitment and retention of people of the right calibre were beginning to make themselves felt, and it was of the highest importance to maintain the quality of those who held these posts. The levels of remuneration recommended by the TSRB were low in relation to the private sector. The public expenditure cost was of little importance in the decision. The differentials between these grades and the grades immediately below them had become excessively compressed. There would, certainly, be political difficulty in accepting the TSRB recommendations. There would not be very much less criticism if 3-5% were deducted from these recommendations; to avoid criticism it would be necessary to implement a very much smaller figure, and this was not a practicable option in 1982, bearing in mind the recent history. In any year it would be politically difficult to grasp this nettle; the time had come to do so.
- b) Against this it was argued that acceptance of the TSRB recommendations would make the NHS pay negotiations very hard to handle. It would not be possible to justify offers in the 4-6.4% range to the NHS groups at the same time as 19.4% was offered to senior civil servants and service officers. Nor would it be possible to accept all the Review Body Reports except the DDRB. If the doctors and dentists were held at 6% there was some prospect of sticking successfully to the present NHS offer. To make this one-third reduction on the DDRB recommendations acceptable to the doctors and dentists it would be necessary similarly to cut the TSRB recommendations, by one-third or more. Alternatively, both the DDRB and TSRB recommendations could be accepted in full, but paid in two stages with an abatement of, respectively, 3% and, say, 5% this year.
- c) There was arguably less scope in the NHS than in the Civil Service to squeeze a higher pay increase from a given cash limit. The NHS was a labour-intensive service, and

the Government's policy, in successive public expenditure reviews, had been to budget for a real improvement in the NHS. Demographic trends also worked in the same direction.

d) Departments would not find it easy to absorb part of the cost of the CSAT award within their cash limits, as proposed by the Chancellor. There would be particular difficulties in relation to the prison service, and the defence programme, where the 4% cash limit pay factor was itself already under great pressure as a consequence of the Falkland Islands dispute.

e) On the other hand, the proposal to absorb only part of the CSAT award within existing cash limits would create difficulties with local authorities. The Government's stance with them was that no extra money was available to finance higher pay increases. Their argument would be that the Government was prepared to raid the contingency reserve to finance its own employees' pay increases.

f) With the Task Force at sea it would be unfortunate if there were any suspicion that the Government was holding back its response to the AFPRB recommendations. Ideally all these pay decisions would be announced together. But if this were not possible, there was a strong case for going ahead with the AFPRB in advance of the rest.

The Prime Minister said there were a number of principles to be followed in these matters. It was necessary for broad economic reasons to restrict the level of pay increases. There must, too, be justification for each of the Government's decisions on pay. It was essential that there should be effective management at the top in the public sector. The Prime Minister said that it was agreed that the award of the CSAT, and the recommendations of the AFPRB, should be accepted. The balance of opinion also firmly favoured a full acceptance of the recommendations of the TSRB and the DDRB. There was a good case for announcing all these decisions at the same time, and soon; if this was not possible it would be desirable to go ahead separately with the AFPRB and CSAT. It was recognised that these conclusions would cause very great difficulties with the NHS pay negotiations. The Chancellor of the Exchequer and the Secretary of State for Social Services were, therefore, asked to consider what changes might be necessary to the Government's stance in the NHS negotiations in the light of the meeting's conclusions generally. The results of this consideration together with the group's other conclusions should be put to Cabinet on Thursday 29 April. The Chancellor of the Exchequer should also discuss with the Home Secretary and Defence Secretary the problems which had been raised in relation to the effect of the CSAT award on existing cash limits for the prison service and the defence budget; the general presumption for Departments, however, should be that no less than 1% of the award should be absorbed within existing cash limits. As regards police pay, inter-departmental consideration of the official side report on the police pay system was necessary; when this was concluded she would be grateful if the Home Secretary would bring the matter to colleagues again.

I am sending copies of this letter to John Halliday (Home Office), Michael Collon (Lord Chancellor's Office), Imogen Wilde (Department of Education and Science), David Omand (Ministry of Defence), Muir Russell (Scottish Office), David Heyhoe (Lord President's Office), David Clark (Department of Health and Social Security), Jim Buckley (Lord Privy Seal's Office), Barnaby Shaw (Department of Employment), Murdo Maclean (Chief Whip's Office), Adrian Carter (HM Treasury), David Wright (Cabinet Office) and Gerry Spence (CPRS). I would be grateful if you and they would give this letter the most limited possible circulation.

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
HM Treasury.

CONFIDENTIAL

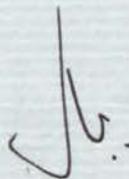
PA
✓
MR. SCHOLAR

Monitoring Report: Public Trading Sector

Two points arising from the Chancellor's covering note, dated 27 April, to the Public Trading Sector Monitoring Report:

(i) The Chancellor is absolutely right to describe the offer now being explored by the Post Office with the unions as "an excessive settlement", and the Prime Minister will have seen that he has written today to Mr. Jenkin asking him to underline to Mr. Dearing our dissatisfaction. I think the Prime Minister will want to second that. She will recall that she wrote at my suggestion on 26 March, asking Mr. Baker to express the Government's "considerable disquiet" at the prospect of any increase in the offer already made (5%); and to list ways in which the Department of Industry might bring suitable pressure to bear on the Post Office. Both Department of Industry officials (with me present) and Ministers did see Mr. Dearing, evidently to no effect: and the letter of 29 March from Mr. Baker's Private Secretary recorded his view that the most effective way of bringing pressure to bear is "to keep in close touch with the Chairman". I doubt if that has ever proved effective as a means of encouraging nationalised industry boards to move in the direction of the Government's objectives.

(ii) The Chancellor suggests that we shall not get the result of the McCarthy Tribunal before the end of this month; I think you have already told me that the Department of Transport do not now expect it before 6 or 7 May; you will want to consider postponing yet again the Prime Minister's meeting to discuss the McCarthy award, currently planned for 4 May.



John Vereker

27 April 1982

CONFIDENTIAL

	Actual Salary	TSRB 1980 recs	TSRB 1982 recs	Maintain current AS/US diff*	TSRB -3%+	TSRB -5% [†]	- $\frac{1}{3}$
	£	£	£	£	£	£	
<u>PERM. SECRETARY</u>	33,170	34,000	40,000	35,127	39,008	38,345	38,000
<u>US</u>	21,935	23,500	26,000	23,240	25,335	24,896	24,250
<u>GENERAL etc</u>	33,170	34,000	40,000	35,127	39,008	38,345	38,000
<u>MAJOR GENERAL etc</u>	21,935	23,500	26,000	23,240	25,335	24,896	24,250
<u>HIGH COURT JUDGE</u>	35,000	35,000	45,000	37,065	43,960	43,260	41,000
<u>CIRCUIT JUDGE</u>	23,250	24,000	29,000	24,622	28,295	27,830	27,500

*i.e. increasing US salary to maintain the present cash differential with AS and giving all other grades the same percentage increase as US(5.9%)

+ 3 percentage points less than the TSRB 1982 recommendations (about same percentage shortfall in 1982 as DDRB if later cut back to 6%)

† 5 percentage points less than the TSRB 1982 recommendations (about same percentage shortfall in 1982 as TSRB groups now are in relation to 1980 recommendations.)



Ref. A08227

PRIME MINISTER

Public Services Pay

Mr. Gregson has sent you a note on the issues for consideration at your meeting on pay on 27th April.

2. I have discussed with Sir Douglas Wass whether he and I should offer you any advice or comments as Joint Heads of the Civil Service. It is clearly invidious for either of us to do so, as our own pay is affected; and it would be particularly invidious for him, since the Government's decision on the TSRB recommendations will determine the level of his pension. He has therefore preferred not to put any thoughts to you himself; but he has encouraged me in the view that I ought to do so.

3. The Government has a commitment to the armed forces to implement the recommendations of the Armed Forces Pay Review Body (AFPRB). It would clearly be virtually impossible to do other than implement the recommendations now, with the Falklands Task Force in action in South Georgia and nearing the Falkland Islands themselves.

4. The award by the Civil Service Arbitration Tribunal (CSAT), at 5.9 per cent, is marginally below the 6.1 per cent recommended for the armed forces by the AFPRB. Both are less than the 6.4 per cent offered to and so far not accepted by the nurses (the levels of these awards may help to encourage a positive response in the nurses' ballot); and both are less than the average increases for the current round hitherto, in the private sector as well as in the public sector. There is no commitment to the Civil Service (save the commitment to go to Parliament if the Government proposes to override the award). I do not see any signs of active preparation for industrial action by the Civil Service unions. But a decision to implement the award would do something to restore the confidence in the Government as employer which was gravely damaged by last year's events; and contrariwise a decision to override would once again damage that confidence and alienate many of those who stuck by their work last year; I do not believe that industrial action of some kind could be avoided.

5. A decision to override the award would create a special sense of bitterness among the civilians in the Ministry of Defence who have worked hard and long hours to get the Falklands Task Force ready and are supporting it now (I could document this if you would like me to).

6. Turning now to the groups covered by the Top Salaries Review Body (TSRB), the senior officers of the armed forces, the higher Civil Service and the judiciary are, as you know, the only groups covered by Review Body recommendations whose salaries in payment are still below the levels recommended by the TSRB for 1st April 1980 (the judiciary did better than the other two groups last year). One result of this has been acute compression of differentials, particularly at the "interface" with the people immediately below. The Brigadier is now paid £20,900, and the Major General £21,935; the corresponding levels in the Civil Service are Assistant Secretary maximum £20,895 and Under Secretary £21,935. These differentials, at only just over £1,000 (about 5 per cent) are clearly extremely narrow at this level. The AFPRB recommendation would take the Brigadier to £22,750; the CSAT award would take the Assistant Secretary maximum to £22,200; and the TSRB recommendation would take the Major General and the Under Secretary to £26,000. The resulting differentials (£3,250 or 14.3 per cent for the armed forces, £3,800 or 17.1 per cent for the Civil Service) would not be unreasonable at these salary levels. Paragraphs 42 and 43 of the TSRB report deal with this matter.

7. Clearly many of the arguments for implementing the AFPRB recommendations, given the fact that the armed forces are in action, apply to the TSRB recommendations in respect of the senior officers of the armed forces. These arguments do not apply in the same way to the higher Civil Service, though there are many of those in the relevant Departments much involved in work in support of the operation. But there is a strong and long tradition of salary relationships between the senior officers and the senior civil servants, and the TSRB consider that a change in the relationships would be inadvisable. I would endorse that view, and so (I know) would Sir Frank Cooper. The senior service officers and senior civil servants work closely alongside each other, particularly in the Ministry of Defence, and are used to and accept the traditional links. A change either way would be disruptive to good management, particularly in the Ministry of Defence.



8. Holding back the salaries of the TSRB groups has also significantly increased the gap between their remuneration and remuneration in the private sector. As the Review Body says, these comparisons can be no more than an aid to judgment. But I have noticed, for example in making the arrangements for remunerating the Head of the CPRS, that in 1980 the man we engaged was costing about $2\frac{1}{2}$ times more than a Permanent Secretary's salary; that has in 1982 risen to about 3 times.

9. As to recruitment and retention, there is detectably more moving out of the higher Civil Service, and certainly a much greater disposition to consider moving out and to look out for opportunities to do so, than at any time I have known. Nor is this confined to the senior ranks; it extends to Assistant Secretaries and Principals, who are affected by future prospects as well as by current remuneration; and it tends to be the livelier and better people who go. No doubt this is not just a matter of remuneration. The general image of the Civil Service, and the sense of not being valued by its political masters, contribute to it. Moreover promotion prospects, already less good than for some time, will be further diminished by the job losses arising from the open structure review now just being completed. But remuneration is an aspect of present discontent, and there are many Under Secretaries who find themselves very tight for money: above all, those with high education commitments. As the TSRB recognises (paragraph 98), at these levels in a career service problems of retention and recruitment are slow to show up. But the retention problem is beginning to show up, affecting the administrative Civil Service down the line, and these factors must have something to do with the observed deterioration in the quality of recruitment. If the Government is not able to accept the TSRB recommendations, the sense of disenchantment will grow, job satisfaction and motivation will deteriorate further, and the risk of wastage will increase.

10. The coincidence of this year's TSRB recommendation with the open structure review is, I think, particularly important in this regard. That review is likely to result in a considerable reduction in the number of posts in the open structure (it is too soon to say how considerable, but figures of



15 to 20 per cent would come as no surprise). Many of us think that this is both right and necessary, to tauten efficiency, enforce delegation and improve job content. But there is no associated reduction of functions: the existing functions have to be absorbed by a smaller number of people by means of greater efficiency. There are already signs of a feeling that, if Ministers require the job reductions which will be proposed, they should not withhold the pay increases recommended by the TSRB as being appropriate for the job.

11. As Mr. Gregson's note makes clear, the cost of the TSRB's recommendations are neither here nor there in relation to the cost of the CSAT award or the cost of the AFPRB recommendations: 0.07 per cent of the wage bill for the Civil Service, 0.03 per cent of the wage bill for the armed forces. Thus the implementation of the TSRB recommendations in full, added to the CSAT and AFPRB awards, would produce increases of 5.97 per cent and 6.13 per cent respectively. The fact that on this occasion the Government will be in a position to announce all these increases together will help to put the TSRB recommendations in scale and perspective.

12. As the TSRB says, increases at these salary levels are bound to be politically sensitive. This year's recommendations are difficult because, as catching-up increases, they are uncomfortably large. But, as catching-up increases, they are in effect the legacy of past decisions not to accept TSRB recommendations in full. If Ministers conclude that they must ask Parliamentary agreement to override the CSAT award, it will no doubt be necessary to implement something less than the full amount of the TSRB recommendations. In that event, however, apart from the distinct possibility that the Review Body might resign, the problem of underpayment and the need for "catching-up" increases will remain for the future. If the senior officers and the higher Civil Service could "catch up" this year, next year's increase could be no greater than that for other groups, and need not create special embarrassment. Accepting the TSRB recommendations this year will no doubt be politically embarrassing; but the circumstances are conducive to making that embarrassment as little as possible, and "catching up" increases would be more embarrassing, and therefore more difficult to put into effect, next year, with a general election by then only at most a year away.

ROBERT ARMSTRONG

26th April, 1982

SECRET

Prime Minister

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MR. SCHOLAR

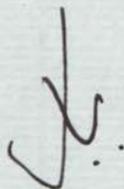
c. Mr. Hoskyns
Mr. Ingham

19

Brief for the Prime Minister's
Pay Meeting

I attach my brief for the Prime Minister's meeting tomorrow on public service pay.

I make no apology for the length of this brief: the meeting has to take a number of difficult decisions, and there are important consequences and inter-relationships to consider; and, at the time of writing, there is no other paper on the table containing recommendations for Ministers, since Peter Gregson's brief simply concentrates on the options.



J.M.M. VEREKER

26 April 1982

SECRET

PRIME MINISTERPUBLIC SERVICE PAY: YOUR 27 APRIL MEETING

The decisions taken on the issues before this meeting will set the pattern for public service pay for the remainder of this pay round - and will provide a reference point for the next one.

The Broad Perspective

So I think you may find it helpful to approach these decisions with these points in mind:

(i) What we are trying to achieve in this pay round is, above all, a continuation of the downward trend of pay settlements generally. After last year's massive fall - from well over 20% to about 9% generally and 7½% in the public services - we do well to get much below 7%, particularly since the local authority manuals settled for 6.9% in the autumn and inflation is still in double figures.

(ii) We want pay rises kept down not so much for its own sake, although the public expenditure involved does matter, but for the sake of increased competitiveness and a recovery in employment. That's going to be a continuing struggle, and we need to look ahead: establishing a serious grievance now could cost us dearly in the next pay round - and the Government may be more vulnerable to threats of industrial action as the election approaches. Conversely, there should be substantial benefits for starting the post-Megaw pay system, whatever it may be, from an independently established base, and a clean sheet.

(iii) But our approach to pay has another important feature: we don't just want to keep it down, we want pay rises to be related to the justification for them. Uniformity of treatment of all public service groups will not be a virtue: it will imply we are in the "norm" business.

/ Decisions Required

SECRET

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Decisions Required

Peter Gregson's note covers the options thoroughly. The Chancellor will no doubt make his own recommendations at the meeting. My own views are as follows, in the order in which I think you will find it easiest to take the decisions:

(i) The Civil Service. The CSAT award is generally coming across in the media as 5.9% or 6%, with Kendall's claim that it's 6½% accurately seen as a union tactic. In fact the extra leave proposed - 2 days a year for clerical grades - does bring the award over 6%, which is probably well over what can be squeezed out of the cash limit (about 5½%, subject to recalculation by the Treasury). But seen in the broader perspectives outlined above it is not sufficiently far above our original offer to justify our overriding it, and I am sure we should accept it.

(ii) The Armed Forces. Of the three Review Body Reports, the AFPRB's is easiest to deal with. Aware that their system is now under close scrutiny, and that the armed forces have done well out of them so far, they recommend an average of 6.1%, with a higher range for officers. On all grounds - inherent justification, broader pay policy, morale during the Falklands engagement - the report should clearly be accepted as regards pay; the detailed recommendations on allowances and charges should be studied separately by MOD and the Treasury.

(iii) The Doctors and Dentists. The DDRB recommend about 9% overall, of which 3% represents the restoration of the amount by which their 1981 award was cut back. There are good reasons for not restoring that 3%. First, bygones are bygones and we don't believe in catching up for its own sake - only if justified on recruitment and retention grounds. Second, other NHS workers will regard their 4% - 6.4% pay offer as even less acceptable if doctors and dentists get 9%. Third, 9% is too high for a major public service settlement this pay round. And fourth, DHSS believe the DDRB would accept the logic that the 3% is gone forever. So I recommend acceptance of the report less the 3% deducted last year. Again, there are details of allowances for

/ officials to

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- 3 -

officials to work over subsequently.

(iv) Top Salaries. The TSRB recommends an average of 19.4% for senior civil servants and service officers, and 24.3% for the judiciary. This is partly catching up from 1980 but also, as the report indicates, in response to market factors.

← The case for accepting the TSRB report is strong. We are committed to doing so unless there are "clear and compelling reasons" to the contrary. The cost would be only £10m. It would be consistent with our evidence to the CSAT on the importance of management requirements. Above all, it would improve quality - especially in the Civil Service, where the combination of sharply reduced promotion prospects and absurdly low pay differentials leads many of the more able staff to leave in mid-career, and almost none to join.

So I think it would be defensible to accept the TSRB while cutting the DDRB back. The alternative would be to treat it similarly: last year the TSRB said it would take 12% to bring top salaries up to 1980 levels, and only 7% was given, so it would be possible to argue that the 5% then lost should not now be restored. I recommend that as second best to full implementation.

Consequences for other Groups

Whatever decisions are taken, it will be important to have in mind their impact on other public service groups:

← (i) The NHS. Those who have been offered 4% are capable of causing trouble, especially since they got 1½% less than the Civil Service last year as well. Mr. Fowler will no doubt advise what more they should be given: some increase, not necessarily to 5.2%, is a pill we must swallow. There is no case for the nurses, who have already been offered 6.4%, being given more again, at least until the outcome of their ballot is known.

/ (ii)

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- 4 -

(ii) The Teachers. It is reasonable to hope that, with Scottish further education teachers having settled at 5.5% and the CSAT at 5.9%, the teachers' arbitration will come out below 6%. If it is much above, we will have to be prepared to override it - there is no case for teachers getting more than the NHS and the civil servants.

(iii) The Police. You have asked for a discussion of police pay at this meeting, but I doubt if there will be much time. I have had a first look at the official side report on the police pay system. Notwithstanding its conclusions I still have doubts. Apart from the general objections to indexation - its lack of relation to market factors and job security, its reflection of earnings rather than basic rates, and its imputation of productivity gains - there can be little doubt that, with an ordinary constable in London receiving an average of £12,328 (some 2½ times a qualified staff nurse, roughly twice a private or an executive officer) the police have done exceptionally well. The way forward is to ask the Official Committee on Pay (which Peter Gregson chairs) to look in detail at the report and prepare a paper for Ministers, before Mr. Whitelaw is authorised to reaffirm the commitment to the Edmund-Davies formula.

Presentation

I recommend that:

(i) Decisions on the CSAT and the main elements of the Review Body reports be announced as soon as possible, preferably later this week; and

(ii) That the announcement makes it clear that the Government sees these pay rises as part of a continuing downward trend in pay settlements, and therefore good news for everyone because everyone will benefit; and that our efforts to maintain that downward trend will continue in the next pay round.

26 April 1982

J.

SECRET

FROM: P L GREGSON, DEPUTY SECRETARY



CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

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01XXXXXXXXXX 233 8339

P.0726

Prime Minister

John Vercher will offer

advice in your Monday box.

Mr M Scholar
Private Secretary to the Prime Minister
10 Downing Street
London SW1

MS

23 April 1982 MS 23/4

COVERING SECRET AND PERSONAL AND MANAGEMENT IN CONFIDENCE

Dear Michael,

In accordance with your letter to John Kerr of 22 April I attach a note by the Cabinet Office setting out the issues for consideration at the Prime Minister's meeting on pay on Tuesday 27 April.

I am sending copies of this letter and the note to the Private Secretaries of the Ministers attending the meeting, and to John Sparrow and Robert Armstrong.

Yours sincerely

Peter Gregson

P L GREGSON

COVERING SECRET AND PERSONAL AND MANAGEMENT IN CONFIDENCE

THE CSAT AWARD AND REVIEW BODY RECOMMENDATIONS

CSAT award

3. The CSAT award on pay gives increases for individuals ranging from 4.75 per cent at the bottom of scales to 6.25 per cent at the top. The average increase is 5.9 per cent. In addition the Tribunal has awarded increases in leave entitlement mainly for junior staff. In accordance with usual practice, the CSAT gave no reasons for its award. The award resembles the Government's offer in giving the highest increases at the top of the scales and the lowest at the bottom although the overall spread is much narrower. Unlike the union claim the award contains no cash underpinning for the lower paid, and it bears no relation to RPI movements.

4. The cost of implementing the pay award is £237m. The cost of the leave award would in theory be up to £20m but in practice would probably be much less. The award does not cover skill and responsibility allowances. Those which the Government offered in negotiation would cost about £8m. The award also does not cover London Weighting which is not due for settlement until the summer. The cash limit pay factor of 4 per cent already provides about £165m for increases in non-industrial civil service pay. Treasury Ministers are urgently considering the cash limit implications of the award.

TSRB

5. The report covers three groups of staff, namely the higher Civil Service (ie Under Secretary and above), senior officers of the Armed Forces (ie Major General and equivalents, and above) and the judiciary. The TSRB recommends on average a 21.9 per cent increase over current levels - 19.4 per cent for senior civil servants and Service officers, 24.3 per cent for the judiciary. More detailed information is provided at Annex A. The annual cost for civil servants and Service officers would be respectively £3 million and £1 million, very small figures in relation to the relevant cash limits; that for the judiciary would be £6 million on the Consolidated Fund, mostly not cash-limited.

6. In their report No 14 the TSRB recommended pay increases for April 1980 which were not implemented in full by the Government; instead increases of about half

the recommended level were awarded. For 1981 the TSRB made no new recommendations but instead urged the Government to implement their 1980 recommendations, which would have involved increases of about 12 per cent. Instead the Government increased the pay of these groups by 7 per cent, in line with the then pay offer to the non-industrial Civil Service.

7. For all three groups the TSRB say that they have based their recommendations on considerations of recruitment and retention as well as on the salaries paid outside the public services to those in similar occupations and other, less easily-quantifiable considerations such as the differences in the nature of employment (eg job security) as between the public and private sectors and in the non-pay benefits enjoyed by each group. The Review Body also takes account of the need for a coherent salary structure for the three groups within its terms of reference.

8. Certain particular links with the CSAT award and with the AFPRB's recommendations should be borne in mind. The CSAT award if implemented would result in a salary maximum for Assistant Secretaries of £22,200 ; the AFPRB report recommends £22,750 for Brigadiers, Under Secretaries and Major Generals now get £21,935 and the TSRB has recommended £26,000.

AFPRB

9. The report's recommendations involve increases of

for officers	<u>4.5 - 8.9%</u>
for warrant officers and senior NCOs	<u>5.6 - 7.0%</u>
for other ranks	<u>4.0 - 5.8%</u>

Overall, the AFPRB estimate that their recommendations would add 6.1 per cent to the estimated 1982-83 pay bill.

10. The AFPRB report also includes recommendations on a wide range of additional pay and allowances and on charges for eg accommodation. These will require separate, more detailed consideration by the Treasury and the Ministry of Defence.

11. The AFPRB recommendations are based primarily on detailed information on earnings levels in a wide range of comparable civilian occupations, adjusted for differences in pension and fringe benefits and for the advantages and disadvantages inherent in Service life. The AFPRB also considers the need for a coherent pay structure and, in particular, for pay levels to provide adequate incentives to retention. The report says that the general economic situation and the recruitment position were taken into account.

DDRB

12. The DDRB recommends increases of 6.3-8.2 per cent for junior hospital doctors and 5.3-5.9 per cent for other staff over the rates recommended for 1981; the increases above current rates would in each case be about 3 per cent higher. (For 1981 the DDRB recommended increases of about 9 per cent; this was reduced by the Government to 6 per cent, in line with increases in the rest of the NHS).

13. The DDRB estimate that on the basis of 1981 staffing levels and their 1981 recommendations, their current recommendations would add 6 per cent to the pay bill- presumably about 9 per cent when the 3 per cent deducted from the 1981 recommendations is taken into account.

14. The report also includes recommendations on a wide range of additional payments (eg merit pay) which will require separate consideration.

15. Ministers have already agreed that NHS cash limits should be increased to accommodate pay increases above 4 per cent for certain NHS groups. The Secretary of State for Social Services previously proposed a further increase in the cash limit to accommodate increases of 6.1 per cent for doctors and dentists. This would cost £30.7m. A further 3 per cent would cost an extra £45-50m.

16. The DDRB's recommendations are based on evidence submitted to them by the professions and by the Health Departments and on movements in earnings of groups outside the NHS at levels of income comparable to those of NHS doctors and dentists derived primarily from the New Earnings Survey. The DDRB also says that evidence relating to recruitment and retention and more general economic considerations were taken into account.

THE WIDER CONTEXT

17. Ministers will also wish to consider the implications of their decisions for other pay negotiations, both in the public services and in the rest of the economy.

Pay Movements in the Economy

18. The cumulative weighted level of settlements in the current pay round is as follows:

- Whole economy: just over 7 per cent.
- Private sector manufacturing: just over 6 per cent.
- Private sector non-manufacturing: 7½ per cent.
- Public sector: just over 7½ per cent.

These figures cover about one-third of employees whose settlements are surveyed by the Department of Employment; the proportion is somewhat higher in the private than in the public sector.

Other Public Service Groups

19. i. NHS: The nurses and their close analogues have been offered, but have not accepted, 6.4 per cent; the Royal College of Nursing is to ballot members on this offer. Ambulancemen and hospital pharmacists have been offered the equivalent of 5 per cent.

Other NHS Groups have been offered 4 per cent, and have rejected it. Unions have taken industrial action and are considering more substantial measures.

ii. Teachers: Scottish further education teachers have settled at an average of 5.5 per cent. Scottish primary and secondary teachers are at arbitration, and the award may be made known in a fortnight or so; the official side offer is 4 per cent. A meeting of the Burnham Committee on English further education teachers is due on 26 April; Ministers are in correspondence about the line to be taken. English primary and secondary teachers go to arbitration in May; the official side offer is 3.4 per cent.

iii. NI Boards: NI Board members were taken out of TSRB in 1980. In 1981, with a few exceptions, there was a flat rate increase of 7 per cent. No decisions have been taken for 1982; the Nationalised Industries Chairmen's Group has been invited to produce proposals for relating salary to performance.

iv. MPs: The Chancellor of the Exchequer will shortly be putting to the Cabinet proposals on MPs' pay for 1982, with longer term issues raised by the recent Select Committee report left for later discussion.

v. Police: The next police settlement is not due to come into effect until September. But it is publicly known that the official side has reviewed the working of the current system, which links police pay with the movement of average earnings; and the Home Secretary will be expected to say something about its future at the Police Federation conference on 19 May. Treasury and Home Office officials are in touch on detailed issues with a view to further Ministerial discussion.

OPTIONS

Civil Service Arbitration Award

20. The main options relating to the CSAT award are:

- a. To implement the award.
- b. To seek Parliamentary override of the award and approval instead of the Government's original offer.
- c. To accept the structure of the CSAT award but reduce the cost either to the level of the Government's original offer or to some intermediate position: *This would also mean seeking Parliamentary override*

Review Bodies

21. The first option is whether Ministers wish to treat all the Review Bodies' reports in the same way, and, if so, whether they wish to accept them all (subject to any points of detail) or to reject them all.

22. If Ministers wish to deal with each review body report separately the options in relation to each are as follows:

TSRB

- a. Accept the recommendations in full for all three groups (higher Civil Servants, senior officers in the Armed Services and the judiciary) subject to any points of detail.
- b. Modify the recommendations for one or two of the three groups, and accept the remainder in full.
- c. Modify the recommendations for all three groups.

AFPRB

- a. Accept the recommendations in full, subject to any points of detail. (This would be consistent with past practice and the Government's existing commitments.)
- b. Modify the recommendations.

DDRB

- a. Accept the recommendations in full, subject to any points of detail. (This would increase the difficulties with the negotiations for other NHS groups; see paragraph 19.)
- b. Implement the recommendations without restoring the 3 per cent deducted by the Government from last year's recommendations.
- c. Modify the recommendations.

Further work

23. If Ministers choose any of the options involving straight rejection for certain groups (Option b. for the CSAT, Options b. and c. for the TSRB, Option b. for the AFPRB and Option c. for the DDRB), they will wish to instruct officials to prepare alternative proposals for the pay of the groups affected.

24. Ministers will also need to give guidelines for the drawing up of such alternative proposals: for example, whether they should be confined within a percentage limit, and, if so, what that should be.

ANNOUNCEMENT AND PUBLICATION

25. There will be pressure for a rapid indication of the Government's intentions on the Civil Service arbitration award and a growing risk of industrial action the longer the announcement is delayed.

26. In the case of the review bodies it would be awkward though not impossible to announce decisions for one while delaying an announcement on others. The DDRB and AFPRB reports in particular raise some complex points of detail; any early announcements on them would need to be in broad terms. All three reports are customarily published as Command papers. Printing generally takes some two to three weeks from the go-ahead which is for the Government to determine, although this could, if necessary, be completed within about a week. Decisions have sometimes been announced before printed publication; adequate supplies of duplicated copies of the reports would then need to be made available to Parliament and to the press.

27. There could well be advantages in announcing decisions on the CSAT award and the three review body reports simultaneously. On the other hand, depending on Ministerial decisions, further work may be required on the review body reports. The announcement of decisions on the CSAT award should not be delayed on this account.

SUMMARY OF POINTS FOR DECISION

28. Ministers are invited to consider:

- i. which of the courses of action outlined in paragraph 20 above should be adopted in relation to the CSAT award;
- ii. which of the courses of action outlined in paragraphs 21 and 22 above should be adopted in relation to the review body reports;

- iii. when and how any decisions should be announced; and
- iv. whether to authorise now the printing of any or all of the review body reports.

CABINET OFFICE

23 April 1982

SUMMARY OF THE MAIN RECOMMENDATIONS OF THE TSRB(i) the higher Civil Service

	<u>Salary now in in payment</u>	<u>Salary recommended by TSRB as appropriate for</u>	
		<u>1 April 1980</u>	<u>1 April 1982</u>
Secretary of the Cabinet) Permanent Secretary to) the Treasury)	£33,845	£37,000	£45,000
Permanent Secretary	£33,170	£34,000	£40,000
Second Permanent Secretary	£30,495	£31,000	£37,000
Deputy Secretary	£26,215	£27,000	£32,000
Under Secretary	£21,935	£23,500	£26,000

(ii) senior members of the Armed Forces

The TSRB's recommendations are as follows (for simplicity only ranks in the Army are referred to):-

	<u>Salary now in payment</u>	<u>Salary Recommended by TSRB as appropriate for</u>	
		<u>1 April 1980</u>	<u>1 April 1982</u>
Field Marshal	£35,845	£37,000	£45,000
General	£33,170	£34,000	£40,000
Lieutenant General	£26,215	£27,000	£32,000
Major General	£21,935*	£23,500	£26,000

* £23,005 for Medical
Major Generals

(iii) the judiciary

The recommendations for only a sample of the most senior judicial grades are as follows:

	<u>Salary now in payment</u>	<u>Salary recommended as appropriate for</u>	
		<u>1 April 1980</u>	<u>1 April 1982</u>
Lord Chief Justice	£44,500	£43,000	£56,000
Lord of Appeal	£41,000	£40,000	£51,000
High Court Judge	£35,000	£35,000	£45,000

PRIME MINISTER

cc. Mr. Hoskyns

Public Service Pay

Peter Gregson will be putting in your weekend box a paper by the Cabinet Office, prepared in consultation with those of us most closely concerned, covering the issues that need to be decided at your meeting next Tuesday. These are principally whether or not to accept the award of the Civil Service Arbitration Tribunal, and how to handle the three Review Body reports.

The Cabinet Office paper will not offer advice, partly because of an understandable reticence on the part of senior officials in advising on the handling of the TSRB. If I may, I will offer advice on Monday evening, partly because I think we will need to take account of the way in which the CSAT award goes down over the weekend - I am worried that the unions may succeed in putting it across as 6½ per cent, by including the extra leave; and partly because I would like to reflect further on the consequences of these decisions, and particularly the handling of the Review Bodies, on NHS pay.



J. M. M. VEREKER

23 April, 1982

Prime Minister

Duty Clerk
22/4

Prime Minister

I reported to the Cabinet this morning about the present position in relation to NHS pay and the possibility of industrial action.

I have just heard the good news that the Royal College of Nursing have decided to ballot all their members on the 6.4 per cent pay offer which has been made to them. They take the view that, since it is clear that there is no prospect of their securing any increase in the offer, it would be sensible to seek to reach an early agreement so that the Staff Side can turn their attention to working out the improved permanent pay determination arrangements, on which we for our part are anxious to push ahead with discussions.

This might prove to be a first step towards a solution of the present serious difficulties over NHS pay. It is important not to prejudice this opportunity. From this point-of-view, it is unfortunate that the outcome of arbitration on civil service pay, perhaps recommending increases equal to, or exceeding, the 6.4 per cent offered to nurses, is likely to become known very shortly. The belief that civil servants were to receive increases of this order could well have a damaging effect on the outcome of the ballot, which, though it will take some days to complete, is likely to begin very soon. I hope therefore that in our public statements - certainly in advance of your meeting on Tuesday - we shall be able to indicate that the findings of the arbitrators have to be considered by the Government, and avoid giving the impression that civil servants will inevitably be receiving whatever pay increases are recommended by the arbitrators.

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



NORMAN FOWLER

22 April 1982



10 DOWNING STREET

From the Private Secretary

SECRET - MANAGEMENT IN CONFIDENCE

22 April 1982

JR
cc: HO
DES Econ Pol 16
MOD
SO
LPO
DHSS
J/M

LPS.

M/S, HMT

CWO

CPRS, CO.

PAY

As you know, we have arranged a meeting of Ministers at 10 a.m. on Tuesday 27 April to consider a whole range of pay issues. The Prime Minister's intention is to have a strategic look at the pay scene, and to consider in particular the results of the Civil Service arbitration, and the handling of the Review Body reports. A number of other particular pay issues will also be in view - including, as you will know from my letter to the Home Secretary's Private Office of 19 April, police pay. I do not believe that the Prime Minister expects substantive discussion on all these matters: it will just not be possible in the time (only two hours is available on Tuesday morning).

To assist discussion, the Cabinet Office have kindly agreed to product a factual note for the meeting, which will be circulated as soon as possible, once the Civil Service arbitration result is known.

I am sending copies of this letter to John Halliday (Home Office), Imogen Wilde (Education and Science), David Omand (MOD), Muir Russell (Scottish Office), David Heyhoe (Lord President's Office), David Clark (Health and Social Security), Barnaby Shaw (Employment), Jim Buckley (Lord Privy Seal's Office), Adrian Carter (Office of the Minister of State, HM Treasury), Murdo Maclean (Chief Whip's Office), Gerry Spence (CPRS) and to Peter Gregson and David Wright (Cabinet Office).

MS.

John Kerr, Esq.,
HM Treasury.

CONFIDENTIAL

from Pol
Prime Minister

ms 2114

cc Mr. Hoskyns

PRIME MINISTER

Cabinet 22 April: NHS pay

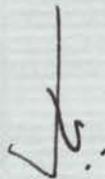
I understand that Mr. Fowler will report orally to Cabinet tomorrow on the current situation over NHS pay, and in particular on the prospects for industrial action.

Prospects for settlement of the NHS pay dispute depend to a very large degree on the outcome of the Civil Service arbitration. If the civil servants end up with substantially more than 4%, it will be extremely difficult to persuade the main NHS groups to settle at 4%, and probably quite difficult also to persuade the nurses that their 6.4% is sufficiently "special". It is too soon to see our way through the various inter-connections between Civil Service pay, the pay of doctors and dentists in the light of the Review Body report, and the pay of the NHS groups: I think the main points to bear in mind are:

(i) Any industrial action is not likely to be widespread or particularly serious in the short term, although of course isolated incidents will attract considerable media interest;

(ii) There is as yet no case for taking special action in the CCU context to counter any NHS industrial action;

(iii) And no decisions need to be, or should be, taken by Ministers until the outcome of the Civil Service arbitration is known.



John Vereker

21 April 1982

CONFIDENTIAL



Ref. A08184

PRIME MINISTER

Cabinet: National Health Service Pay

BACKGROUND

The Secretary of State for Social Services intends to raise orally at tomorrow's Cabinet the question of National Health Service pay and the prospects for industrial action. He is not seeking decisions, but merely wishes to inform the Cabinet of the potentially serious situation which is developing.

2. You will recall that NHS staff directly concerned with patient care - principally the nurses but also some other groups - have been offered an increase worth on average 6.4 per cent, although weighted towards those in the clinical (ie non-administrative grades) who are at the top of their incremental pay scale. Ancillary workers and administrative and clerical staff have been offered increases of 4 per cent. The Doctors and Dentists Review Body (DDRB), whose latest report was recently submitted to you, have suggested increases for doctors ranging from 5.3 per cent to 8.2 per cent, but which the DDRB estimates to be worth overall 6 per cent on the NHS pay bill.

3. The current position in the negotiations on nurses, ancillaries and administrators, as reported yesterday by DHSS officials to the Official Committee on Public Service Pay, is as follows. None of these three groups has accepted the offers made to them. The Confederation of Health Service Employees (COHSE) which represents some nurses, ancillaries and ambulancemen, have proposed an extensive campaign of industrial action beginning on Monday. This will include two-hour selective strikes, bans on admitting non-emergency NHS patients and all private patients and a refusal by those nurses who are members of COHSE to do non-nursing work. There may well be a vote on an all-out strike. NALGO, which represents mainly administrative and clerical workers in the NHS, have called a delegate conference for Friday but have yet to announce specific plans for industrial action. The DHSS assessment is that it is unlikely that NALGO members will take significant industrial action until after the next meeting of administrative and

clerical Whitley Council on 6 May. The National Union of Public Employees which has membership in all the above NHS groups, is also meeting on 23 April to consider possible industrial action. They and NALGO may well support the plans for industrial action already announced by COHSE. None of the trade unions are inclined at this stage to put the pay offers to a ballot. The Royal College of Nursing, on the other hand, is to decide on Friday whether or not to put the nurses' offer to a ballot. If they do the result would probably be announced during the first week in May. But DHSS officials think it far from certain that they will decide to do so.

4. The current assessment of DHSS officials is that there is little enthusiasm in the NHS for widespread or sustained industrial action and that the most likely outcome in the foreseeable future is a period of patchy and sporadic strikes. They think that these can be satisfactorily handled by local NHS management. They see no need at this stage for the Civil Contingencies Unit to meet to consider the situation. However, should the situation deteriorate, I understand that the Falkland Islands crisis would not undermine the Services' ability to carry out the plans which have already been prepared for military assistance to the NHS. But that seems a long way off at this stage.

5. I understand that the Secretary of State for Social Services is meeting the TUC Health Services Committee next week, at their request. They will probably press for an improved pay offer or arbitration. The Secretary of State will clearly rule out both at this stage. But the possibility that he may seek at some stage authority to increase the Government's pay offer clearly cannot be ruled out.

HANDLING

6. Once the Secretary of State for Social Services has described the situation in the NHS a number of other Ministers may be inclined to raise the various difficult pay issues which are current. Some of these may eventually need to come to Cabinet for decision, but I think it would be preferable to avoid substantive discussion at this stage. You have called a meeting on Tuesday morning to consider the Civil Service Arbitration award and the reports of the three Pay Review Bodies. The Ministerial Sub-Committee on Public Service Pay (E(PSP)) would be the suitable



forum for detailed discussion of the situation in the NHS and of other current pay issues in the public services sector, for example school teachers.

CONCLUSION

7. The Cabinet need only take note of the situation as described by the Secretary of State.

ROBERT ARMSTRONG

21 April 1982

CONFIDENTIAL

SECRET

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PRIME MINISTER

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PAY

You agreed at the end of last month to postpone the meeting which the Chancellor of the Exchequer was proposing on the pay strategy generally until we had some more concrete matters to discuss. That time has now nearly come, since we have the three Review Body Reports, and we are expecting the Civil Service Arbitration by Friday 23 April. You have recently had minutes from Keith Joseph and Norman Fowler on the general pay policy supporting Geoffrey Howe's proposal for a meeting.

Agree to hold a meeting at the beginning of the week commencing 26 April, i.e. in time for the Civil Service Arbitration to have been rapidly assessed? Such a meeting would cover Civil Service pay, with reference to teachers' pay (the decision on override on the former has clear implications for decisions on the latter group), and also the handling of the Review Body Reports. It would also take stock of the position on NHS and nurses' and midwives' pay.

I suggest that the people who will be necessary for the meeting are: Chancellor of the Exchequer, Lord Chancellor (judicial pay), Lord President, Chief Whip, Lady Young, Norman Tebbit, Norman Fowler, John Nott, Keith Joseph, George Younger; plus, John Sparrow, Sir Robert Armstrong, Barney Hayhoe, Peter Gregson, John Vereker. Agree? *Yes not*

The Chancellor's minute of 16 April (attached) considers the merits of a rapid publication of the Armed Forces Review Body Report. Agree to its conclusion that we should not bring forward the decision on this Review Body Report, but should consider it in the same timescale as the others?

MCS

Yes not

16 April 1982

SECRET

*original copy filed
on Nat. Health Str
Nurses Pay*

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Prime Minister

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MAD 14/IV.

PRIME MINISTER

You and other Cabinet colleagues may wish to know that at yesterday's meeting of the Nurses' Whitley Council the Staff Side took away for consideration a reconstructed pay offer at 6.4 per cent after the Management Side had rejected a proposal that the matter be referred to arbitration. The Staff Side's representatives from the affiliated trade unions now have to consult their executives; but there seems a reasonable prospect that they, like the non-affiliated trade unions, will decide to ballot their members on the offer. If so, balloting will begin on 23 April, the results will be due in by 11 May, and the Staff Side will meet finally to settle its response to the offer on 18 May.

The Chancellor of the Exchequer suggested in paragraph 5 of his minute to you of ³⁰31 March that if we could secure a settlement with the nurses it would help us with other public services' pay issues currently before us. In fact, the boot is on the other foot, in the sense that unhelpful developments elsewhere in the public services - more specifically pay settlements, or the prospect of settlements, at rates significantly above the pay factor - could prejudice the outcome of the nurses' ballot and cause the offer to be rejected. I believe this to be a real risk. Contacts with the Staff Side suggest that there is a good deal of discontent amongst nurses about pay; and it would be unwise to take it for granted either that all the trade unions will decide to ballot their members, or that the outcome of such a ballot will be favourable.

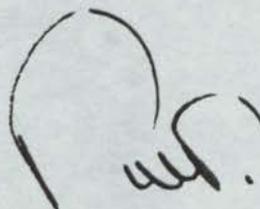
This reinforces my conviction that we should be firm in adhering, as closely as we can, to the pay factor we have chosen for the public services. This is not only because I believe it is right to do so on merits, but also for the

tactical reason that, owing to the interaction of the pay issues which will shortly be before us for decision, a failure to hold one part of the line will make it doubtful whether we can hold any of it. I am, for example, quite clear that if we allow the Civil Service and the teachers to receive pay increases in the region of 6 per cent, it would be very difficult indeed - unless perhaps it was made clear that the excess cost would be met entirely from job losses - to suppose that it would be possible to secure settlements with NHS staff at 4 per cent. This is quite apart from the repercussions I have already mentioned on nurses and the other NHS groups which we have agreed should receive special treatment.

The cost to the NHS of the higher pay settlements which could be expected to ensue would be considerable - probably more than £100 million; and it would be out of the question to look for this to be met from the existing NHS cash limit, since we have already gone at least as far as is practicable this year in demanding economies from health authorities.

I support the Chancellor of the Exchequer's proposal that there should be some collective discussion on the handling of public services pay. In the meantime, I hope that, in relation to each decision which has to be taken, we shall do our utmost to avoid giving ground or appearing to do so.

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



13 April 1982

NF

cc. Mr. Goshals
Mr. Verkerke.

Prime Minister.

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HW
FIV

mt

PRIME MINISTER

IMPENDING PAY DECISIONS

The Chancellor's recent minute to you called attention to the need for our decisions on the three pay claims which have gone to arbitration to be publicly defensible as consistent. That is clearly right as a statement of principle but we have to recognise that the override powers are different and that the timetables of the three arbitration processes probably mean that we will have to take our decision on the Civil Service arbitration award before the teachers' (E&W) arbitration recommendations are known - indeed, probably before the hearing itself has taken place.

The Chancellor suggests that a figure "below about 6%" would be acceptable and largely containable within cash limits in the case of the Civil Service, and "7½ or 8%" as the threshold for override action, with an area of difficult judgement between. I accept the principle of that analysis, but do not think that we should fix on particular figures at this stage.

On consistency, the Attorney General reminds us (in the papers which accompanied my letter of 31 March to the Chancellor, copied to your office) that the conditions attaching to override are sufficiently different to allow a teachers' (E&W) arbitration recommendation to stand while allowing override of a similar award for the Civil Service, though it would be difficult in public presentation terms. For these teachers at least, the "national economic circumstances" clause may mean that we shall have to have regard to settlements or offers elsewhere with which we are publicly associated. If we conclude that differential action on equivalent awards is not acceptable, we may risk having to apply the "national economic circumstances" test to the other two arbitrations to ensure consistency. We shall also have to form a view on the figure to be substituted through override action in each case.

I agree with the Chancellor that we cannot set our "game plan" until we have details of the Civil Service arbitration and the review body recommendations, and I support his suggestion of a restricted group under your chairmanship. There we might discuss the legal limitations, how far "consistency" requires us to set a common figure for override and what the threshold(s) should be, in readiness for a quick decision when the Civil Service arbitration result is known.

SECRET AND PERSONAL

I am sending copies of this minute to the Lord Chancellor, the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Employment, Scotland and Social Services, the Lord President, the Chancellor of the Duchy of Lancaster, the Chief Whip and the Secretary of the Cabinet.

KJ

7 APRIL 1982

Department of Education and Science

SECRET AND PERSONAL

DSC

File



10 DOWNING STREET

cc: HO
DOE
DOI
DOT
D/Trans
D/N
D/M

Kwon Pol.
CO
CPRS
bc:
Mr. Varelces

From the Private Secretary

1 April 1982

MONITORING REPORT: PUBLIC TRADING SECTOR

The Prime Minister was grateful for the Chancellor's minute of 26 March to which was attached the latest monitoring report on the public trading sector.

The Prime Minister considers that the advance notification of some of these pay settlements is disturbingly haphazard. She asks whether the Industry Secretary has seen the Chairman of British Shipbuilders about the high settlement which is in prospect there. She has also commented that in both the gas and electricity supply industries any further increase in the offers already made would be very disquieting.

I am sending copies of this letter to John Halliday (Home Office), David Edmonds (Department of the Environment), Jonathan Spencer (Department of Industry), John Rhodes (Department of Trade), Anthony Mayer (Department of Transport), Julian West (Department of Energy), Barnaby Shaw (Department of Employment), David Wright (Cabinet Office) and Gerry Spence (CPRS).

MS

John Kerr, Esq.,
HM Treasury.

DSC

cc. J.V.

PA.



Prime Minister

(live and I mentioned this to you this afternoon.

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

We are setting up a meeting on

PRIME MINISTER * not until after Easter unless we rearrange the diary.

Mps pay (Francis Pym, Michael Jopling, Willie Whitelaw, Geoffrey Howe and Cecil Parkinson). Would you like a separate

IMPENDING PAY DECISIONS

meeting on these general pay matters? I don't see the point, since there seems to be nothing concrete.

As I have mentioned in a shorter and more widely-circulated minute, we shall face a large number of complicated and inter-related public service pay questions in about a month's time. This minute sets out some preliminary thoughts about them.

Told the Treasury M.S.

to decide, and since the full diary means

Non-industrial Civil Service

the meeting will have to be after 19 April anyway. Agree no separate meeting! M.S. 31/3

2. We expect to have the arbitration award around 23 April; and we shall probably need to decide within a week to a fortnight whether or not to ask the House of Commons to approve its setting aside. If the award is below about 6 per cent, we should be able to accept it. At least the bulk of the cost will be containable within cash limits (there might have to be some recourse to the Contingency Reserve); and a settlement at this sort of level would be compatible with an acceptable, if not necessarily an ideal, outcome of the pay round in other public services. Anything above 7½ or 8 per cent we should have to reject; and I would expect little difficulty in securing a majority in the House for this, though we could still face an awkward decision regarding the details of what we should put in place of the arbitration award.

3. The most difficult judgement will arise if the award is somewhere between these figures. Such an award would be a clear reverse for our general policy; and the cost could not be contained within existing cash limits. But it would not be far out of line with settlements in the economy generally; we would have to decide whether we could and should ask the House to override the award, on the basis of sticking to our cash provision and seeking to provide a downward lead in the public sector. What we decide for the Civil Service will



have a direct bearing on the teachers and the NHS, which are likely to come later, either in the normal course or because the unions prefer to see what happens to the Civil Service before they settle.

Teachers

4. Both the Scottish and the English and Welsh school teachers have gone to arbitration. Presumably the awards should be available in late April or early May. In either or both cases, the question of override may arise. The legal position regarding override differs both as between England and Wales and Scotland, and as between the teachers and the Civil Service; but our decisions on the three cases will have to be publicly defensible as consistent. I would take broadly the same view in the teachers' cases as that set out in paragraphs 2 and 3 above. The only important extra factor is that we should need to carry a majority in the House of Lords as well as the House of Commons on override. We may have to take decisions on the Civil Service award before we know what the arbitrators have decided in the teachers' cases; but we shall need to take our thinking on the teachers as far as possible, and clear up any legal doubts, such as those to which the Secretary of State for Education and Science has recently drawn attention, so that we are clear about what we can properly do when the time comes.

National Health Service

5. There appears to be no significant sign of a move to arbitration in the NHS; but we must expect that at least some groups will await the outcome of the Civil Service arbitration before being willing to reach settlements. Others, however, may continue to negotiate; and we shall need to keep an eye on all the possible interactions. If we can bring off a settlement with the nurses on the lines of our current offer to them, that would of course be a very useful step forward.

Pay Review Bodies

6. We should receive the reports of the three pay review bodies around Easter. So far as I know, departments have little or no firm



information about the likely recommendations; but on general grounds I would assess the likely prospects as follows.

Top Salaries Review Body. On average, the TSRB groups are getting about 5 per cent less in cash terms than the recommendations for April 1980. The TSRB have given us notice that they intend to do a thorough job this year, and their recommendations may present us with a difficult problem. We ought to have in mind also that our TSRB decisions will affect the climate in which we shall have to take decisions about nationalised industry board members, which will be difficult this year.

Doctors and Dentists Review Body. The DDRB could well add the 3 per cent by which we reduced their recommendations last year to whatever they would otherwise recommend. We must, I think, assume that the likely minimum recommendation is 6 per cent or 7 per cent (including the 3 per cent). This might be reconcilable with our offer to the nurses; but anything higher would create obvious difficulties.

Armed Forces Pay Review Body. General earnings movements since April 1981 would point to recommendations of around 9 or 10 per cent. The AFPRB may reduce this to take account of the current great ease of recruitment and retention. Even so, a recommendation of, say, 7 or 8 per cent would not be easy to handle. It would certainly make it more difficult to cut a Civil Service arbitration award below that level, since it would be difficult to defend the difference of treatment by reference to recruitment and retention factors.

7. In taking our decisions, we shall have to recognise that rejection of the main recommendations of any of these bodies could lead to the resignation of its members. Although Megaw may help us



to devise a system to replace the TSRB, it is not easy to see what could replace the DDRB and AFPRB. But I am not suggesting that this factor should in any way be decisive.

8. We shall have a little leeway on the timing of the announcement of our decisions on the review body reports. (It will, of course, be important to do everything possible to prevent leaks, particularly before the Civil Service arbitration hearing and while we are considering the award.) But we shall need to ensure that our decisions are defensible by reference to our decisions on the other matters discussed in this minute.

9. We shall also need to address the question of the longer-term future of the AFPRB, on which the Secretary of State for Defence has recently circulated a paper to E(PSP). The inconsistency between our policy on the pay of the armed forces and our policy for the public services generally - at least as those policies are widely perceived - is becoming increasingly hard to defend. Our decisions here will have implications for the future system of determining police pay. I understand that this has been under study by a working party of the official side of the police pay negotiating body. No doubt the Home Secretary will be keeping us in touch, and putting forward proposals in good time for consideration before the negotiations for the next police pay settlement begin.

Other groups

10. The negotiations with further education teachers in England and Wales and in Scotland are less far advanced than those for school teachers; negotiations with the university teachers have not yet begun. The Government is involved in all the negotiations, though the details of the involvement differ. The Civil Service and school teachers' arbitrations are, of course, likely to be relevant. The other main public service groups (local authority white collar workers and the industrial Civil Service) do not settle until 1 July, but will be keeping an eye, in particular, on the Civil Service arbitration, and will be anxious to exploit any opening. The question



of the firemen does not arise until the "next round"; but they raise the same points of difficulty as the police.

Next pay round

11. It is too soon to begin laying plans for the next pay round; but our decisions on the impending questions in this pay round will need to pay some regard to the prospects for it. We must, of course, secure a reasonable measure of success in the current pay round; but we cannot prudently overlook the risk of provoking an uncontrollable rebound in the next.

Timetable and handling

.... 12. I attach as an Annex an outline timetable of relevant events. The dates in it should not be taken as more than indicative. But it shows the size of the task before us. I see no purpose in trying to draw up elaborate "game plans" before we know, in particular, the full details of the Civil Service arbitration award and the review body recommendations. Nevertheless, I think that it would be useful if we could have some preliminary discussion in the next week or so, which I suggest might take place in a restricted group of Ministers under your chairmanship, so that we can familiarise ourselves with the issues and commission any preparatory work by officials that we think useful.

13. The matters discussed in this minute are, of course, extremely sensitive. I should therefore be grateful if all who receive it could ensure that it is seen only by those with a clear need to know of its contents.

14. I am sending copies of this minute to the Lord Chancellor, the Home Secretary, the Secretaries of State for Defence, Education, Employment, Scotland and Social Services, the Chancellor of the Duchy of Lancaster, the Lord President, the Chief Whip and the Secretary of the Cabinet.

(G.H.)

30 March 1982

ILLUSTRATIVE TIMETABLE

1 April: E(PSP) considers paper by Secretary of State for Defence on future of AFPRB system (E(PSP)(82)7).

Easter: Reports of 3 pay review bodies presented to Prime Minister.

19 April: Civil Service Arbitration Tribunal hearing.

23 April: Civil Service Arbitration Tribunal award received.

Late April/
early May: Arbitration hearings and awards for school teachers (separate in England and Wales and in Scotland)

first week
in May: Government decision on Civil Service arbitration award announced;
Government decision on pay review body recommendations announced;
[Depending on decision on E(PSP)(82)7] Government decision on future of AFPRB announced

Mid-May: Government decision on teachers arbitration awards announced.

During this period other negotiations, particularly in NHS and education sectors, will be in progress.

CONFIDENTIAL



*Exec PA
CCTV*

Prime Minister

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

MUS 31/3

P.A.

A handwritten signature in blue ink, appearing to be 'M.S.' or similar.

PRIME MINISTER

PAY

We shall have to take quick decisions in a short space of time on a large number of complicated and closely-related public service pay matters towards the end of April.

2. The award of the arbitration tribunal on the non-industrial Civil Service pay claim will be central. I expect to receive this by about 23 April. We shall need to make our decisions about it known soon after the award - probably within not much more than a week. Delay would not only create problems with the Civil Service. It would tempt other public service groups, such as the local authority white collar workers, to press for settlements at the level of the award; and if such settlements were concluded they could well restrict our own freedom of manoeuvre.

3. I understand that the arbitration award to Scottish teachers may be available by late April or early May; presumably much the same timing will apply in England and Wales. The question of overriding either or both awards could arise. We shall therefore need to take our decisions on the Civil Service with an eye on the possibilities in the teachers' cases.

4. The main NHS group will be negotiating at much the same time: their settlement dates fall at the beginning of April.

CONFIDENTIAL



Again, we shall need to keep an eye on the possible interactions.

5. The reports of the three pay review bodies (Top Salaries, Armed Forces, and Doctors and Dentists) are likely to be presented to you around Easter. They will raise difficult questions in themselves, and as they affect the matters mentioned earlier in this minute. The paper to E(PSP) by the Secretary of State for Defence on the AFPRB is relevant; and our decisions on that may in turn raise questions about the future of the police pay system, which I understand is being studied by the official side of the police pay negotiating body.

6. I shall be minuting you and the other Ministers most closely concerned in more detail about the specific issues. But I would ask all our colleagues to bear in mind the need both to do everything possible to bring home to public opinion the need for pay moderation, and to bear in mind the implications for the current pay negotiations and prospective arbitration hearings of any decisions they may take and of any guidance they may give - for example, to nationalised industries. An obvious example is the pay award for MPs and Ministers and our response to the recent Select Committee report. An early indication of the Government's view could help to influence the climate in which the various arbitration awards are received.

7. I am sending copies of this minute to the other members of Cabinet and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

30 March 1982

A

CONFIDENTIAL

MR. SCHOLAR

c.c. Mr. Hoskyns

Monitoring Report: Public Trading Sector

Apart from the issues to which the Chancellor draws attention in his note covering the latest public trading sector monitoring report, I think the Prime Minister may want to look at the position in the gas and electricity supply industries.

In the case of gas, employers have increased their offer to a level which represents on earnings more than the miners' settlement, because everybody is still too readily accepting that the miners got 9.1% (instead of the 7.3% we think it really was). In the case of electricity, there is still some uncertainty about the value of the latest offer: if it is only the 6.1% reported, there may be room for a small increase, but experience shows that the industry's own calculation of the average earnings effect tends to be an underestimate. The Chancellor wrote to Mr. Lawson on 19 March saying that BGC should be urged strongly to make a firm stand on their latest offer; the Prime Minister may feel that in acknowledging this latest report, you should mention that she too feels that in both the gas and electricity supply industries any further increase in the offers would give Ministers considerable disquiet.

x

J.S.

Yes
no

29 March, 1982.

CONFIDENTIAL

Prime Minister

(2)



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

It is disturbing that
the notification of some of these
settlements in advance
is haphazard.

MS 20/3

PRIME MINISTER

Agree I make the point at

Yes no

X in John Verker's note at flag A?

MS 30/3

MOTORING REPORT : PUBLIC TRADING SECTOR

I attach the latest monitoring report on the public trading
sector.

Was
intended by
see on the
Chairman?

2. A settlement is in the process of being reached at British Shipbuilders for a 6½ per cent increase in average earnings together with a 1 hour reduction in the working week. The unions are apparently presenting the settlement as worth 7 per cent in total. Depending on the view taken of the cost of the reduction in hours, the real value of the settlement could be even higher.

3. There must be a real question whether it is appropriate for a manufacturing industry which needs to compete internationally, and which is already heavily supported by subsidies, to settle as high as this. A further point of concern is the late stage at which this settlement has been brought to our attention.

4. Separate correspondence is taking place about the Post Office, where there is also a clear risk of an excessive settlement.

5. The British Airports Authority have now reached a settlement which is being publicised at 6 per cent. The effect on earnings may, however, be rather different. It would be helpful if John Biffen could now let us have the assessment which I mentioned in my minute of 15 February.

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6. I am sending copies of this minute to the Home Secretary, the Secretaries of State for the Environment, Industry, Trade, Transport, Energy and Employment, and to Sir Robert Armstrong and Mr. Ibbs.

G.H.

26 March 1982

CONFIDENTIAL

PUBLIC TRADING SECTOR

PART 1 CURRENT AND FORTHCOMING NEGOTIATIONS

A: 1980/81 PAY ROUND

1. British Rail - Clerical and Conciliation grades (150,000)

Settlement date 20 April

Unions: NUR, ASLEF, TSSA

A Committee of Inquiry was appointed by ACAS on 2 February to consider the pay and productivity understandings of the 1981 agreement which have been the subject to dispute between BR and ASLEF. ASLEF refused to co-operate with the Inquiry; evidence was taken from BR, NUR and TSSA.

The Committee reported on 16 February and recommended that both sides return to the established negotiating machinery within 7 days, that ASLEF re-assert its commitment to the understandings of August 1981 and call off industrial action and that BR pay ASLEF members the 3% increase at the centre of the dispute.

Both sides accepted the Committee's recommendations. BR authorised immediate payment of the 3% increase and ASLEF called off further industrial action from 19 February. Negotiations on productivity issues took place at National Council level but agreement could not be reached. The issues were referred to the Railway Staffs National Tribunal (the highest level of the industry's negotiating machinery) and the hearing commenced on 15 March. The terms of reference were those set out in the findings of the Committee of Inquiry. The Tribunal finished taking evidence on 17 March; the Chairman concluded, however, that he was unable to give any indication of a recommendation as the Tribunal had found difficulty in reconciling the evidence of the two sides. The Tribunal are considering other means of arriving at their recommendations, possibly involving visits to drivers' (NUR and ASLEF) and guards' (NUR) depots. It is hoped that a report of their findings may be available by mid-April. The Tribunal's decision will not be binding on either side.

Agreement on flexible rostering at national level was reached with the NUR before Christmas, and in local negotiations on the new arrangements 70% of NUR depots have agreed to the changes. 50 per cent of NUR depots are now actually working to the new arrangements. However a small number of NUR depots remain opposed, and some isolated industrial action has occurred.

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B: 1981/82 PAY ROUND

2 British Rail: Clerical and conciliation grades (150,000)

Settlement date: 20 April

Unions: NUR, ASLEF, TSSA

A meeting took place on 11 March at which NUR, ASLEF and TSSA presented their claims for minimum pay increases in line with the increase in the RPI. BR responded that any increase in pay would be linked to increased productivity, the Unions indicated firmly that pay increases could not be linked to productivity in the current round.

Comment : Detailed negotiations are unlikely to commence before the current productivity issues between BR and ASLEF have been resolved. Any offer by BR will need to reflect the heavy financial losses incurred during the current dispute.

3. London Transport: Underground Staff (18,000)

Settlement date: 19 April

Unions: NUR, ASLEF, TSSA

Pay claims were submitted on Monday 22 March of 12% increases and shorter hours, similar to that before British Rail. LT plan to respond with an offer on 7 April: their current budget allows for a 5 per cent increase on paybill.

Comment: The negotiations will be influenced by the BR situation.

4 British Airways: All grades (excluding pilots) 50,000

Settlement date: 1 January

Unions: TGWU, AUEW, EEPFU, NUMSINCH, ACTSS, APEX, GAWU, FTATU, UCATT

On 10 September British Airways announced a "rescue plan" aimed at stemming losses of some £100 millions in the current year and £250 millions in the two year period to April 1982. So far as staff and pay are concerned, the plan involves a reduction of 9,000 jobs by June 1982 by early retirement, voluntary severance and natural wastage and a pay freeze at least until September 1982 when the situation will be reviewed. Other features of the plan include the reorganisation of many working practices, cuts in routes, closure of some depots and offices and the sale of aircraft and property. An unexpectedly high response to the severance scheme has been reported.

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For the purpose of negotiation on pay and conditions of employment staff are divided into 11 functional groups called National Sectional Panels on which all unions are represented. Although delay of the annual settlement has been generally accepted, 3 panels have submitted claims for substantial increases (Engineering and Maintenance, Ramp, Ground Service staff). These claims are thought to be aimed at keeping options open rather than to be a serious attempt to open negotiations in the immediate future.

The panel covering 2000 TGWU ramp staff (eg baggage and cargo handlers, cleaners and towing staff) at the terminals for European and domestic flights have objected to the company's reorganisation of working practices for increased productivity which, the company say, will enable 300 staff who have opted for the voluntary severance scheme to leave. A strike began on 9 February when management attempted to implement the new working arrangements. A suggestion by TGWU officials that members return to work under the old arrangements while continuing discussions was rejected by BA who are taking a firm line. The strike continues to cause some cancellations of European flights but the effect is limited as other groups of employees have undertaken the work of those on strike. Efforts to involve other BA employees and other TGWU members outside BA in sympathetic stoppages have had little success; although there have been intermittent brief stoppages caused by TGWU staff elsewhere on the airport which are likely to continue. TGWU picketing on the airport has lately succeeded in stopping supplies of oil fuel for water and space heating at the airport. This is primarily the concern of the British Airports Authority but the intended effect is to interfere with the working of the BA maintenance base.

Comment: failure to reach a settlement on revised working arrangements could jeopardise those agreements already reached with other groups.

4A Gas Supply: Manuals (41,300)

Settlement date: 17 January
Unions GMWU, TGWU

The unions submitted a claim to Management covering:

- (1) An increase in rates to maintain the value of the pay packet - taking account of both inflation and taxation levels
- (2) A reduction in working hours (from 38 $\frac{1}{2}$ to 37 hours a week)

- (3) Consolidation into basic pay of bonus earnings and "general obligations payment", (the key issue)
- (4) payment of average earnings during holidays
- (5) Improvements in shift and stagger pay
- (6) A change in the basis of awarding local holidays

Management's latest offer, made on 10 March, comprises basic rate increases of between 7.5% and 8% (depending on grade) with full flow through into bonus payments. This offer differs from those made previously which proposed basic rate increases having no flow through into bonus. Management have consistently refused consolidation of bonus into basic pay which the unions regard as the key issue in negotiations. The current offer also includes improvements to the General Obligations Payment (for flexible working procedures), holiday pay, staggered working pay and local holiday entitlement. The increase in earnings has been costed at 7.6% in the settlement year, 7.9% in a full year.

The unions indicated that they would recommend acceptance of the offer if BGC agreed to the payment of a £2.50 per week supplement for non bonus workers. Management refused.

The GMWU - the largest union in the industry - presented the offer to members as 9% on earnings but nevertheless recommended rejection. A GMWU delegate conference on 17 March rejected the offer and has instructed negotiators to arrange an emergency meeting with BGC and to organise industrial action if agreement cannot be reached. A meeting of TGWU members was to take place on 23 March. BGC have received a verbal request for a meeting; the request must be made in writing in accordance with procedure and is likely to take place within 14 days.

Comment: The Gas, Water and Electricity industries closely watch each other's settlements and the union's have drawn attention to the water service settlement of 9.1% on basic rates. In addition the miner's settlement presented as 9.3% will influence negotiations. The final settlement for manuals will have repercussions for the BGC staff negotiations (58,900 SD: 1 June).

5 Electricity Supply: Manuals (94,000)

Settlement date: 17 March
 Unions: EETPU, GMWU, AUEW, TGWU

The unions made the following 5 point claim at a meeting of the National Joint Industrial Council on 7 January:-

- (1) A substantial increase on basic rates
- (2) An additional increase on each band of the scale
- (3) Increased holidays
- (4) A shift and staggered hours pay increase (in line with the increase in basic)
- (5) A reduction in working hours

The total paybill increase of the claim has not been estimated.

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previous

At a meeting on 4 March, management improved their offer to 5.1% (£4.97) on the minimum of the labourer's scale, and 6.4% (£10.62) for a craftsman on his maximum. In addition the Council offered a further 75p per week on shift allowances making a total enhancement to shift pay of £3.73 per week. The effect of the offer will be to increase average earnings by about 6.1%; 6% on the salary bill.

This offer was also rejected by the unions who pressed hard for an 8% increase on salaries. The next formal meeting will be on 8 April.

Comment: Acceptance by the miners of an increase presented as 9.3%, water service manuals at 9.1% and a settlement in the gas industry will influence negotiations. The manual's settlement will influence the power engineers (SD: 1 February, see item 6).

6 Electricity Supply: Power Engineers (29,300).

Settlement date: 1 February

Unions: EPEA/EMA

At a National Joint Board meeting on 19 January, the EPEA submitted a 5 point claim as follows:

- (1) Preservations of existing links with industrial scales
- (2) Even progression through NJB scales
- (3) Restoration of 1975 differentials at maxima of scales
- (4) Improvement in out-of-hours payments
- (5) .35 hour week as long term objective

The total paybill increase of the claim has not been estimated.

There has been no offer or discussion about the claim at either of the last two National Joint Board meetings on 16 February and 16 March. The power engineers settlement traditionally awaits the outcome of the manuals' settlement.

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7 Passenger Transport Executives: Platform Staff

Settlement dates: Various

Unions: TGWU, GMWU

Three authorities have reached agreements as follows:

Greater Manchester	(SD: 1 November)	7.8%	
West Midlands	(SD: 6 November)	6.5%	Increase on average earnings
Merseyside	(SD: 1 January)	7.8%	

The following have yet to reach a settlement:

- a) Tyne and Wear (SD: 1 March) - The local metro service includes ASLEF membership. Negotiations have been delayed pending the outcome of the national dispute between BR and ASLEF.
- b) South Yorkshire (SD: 1 April) - No claims submitted
- c) Strathclyde (SD: 27 April) - In response to ^acost of living claim a 5½ per cent offer have been made.
- d) West Yorkshire (SD: 1 May) - Management have received a claim costed at over 30% on earnings. Negotiations commenced 16 March when management offered £4.60 on basic rates across the board (estimated to be about 6.9% on earnings). The unions gave a cool response to the offer on the ground that it distorted differentials. A further meeting has been fixed for 26 March.

8 Passenger Transport Executives: Non Manual Staff (6,000)

Settlement date: 1 April

There is a Joint Negotiating Committee representing non-manual staff in all 6 English PTEs. In response to a claim for "cost of living" increases, management responded at a meeting on 4 March with an offer worth 6% on earnings of which 2% is linked to increased productivity. A special joint sub-committee was established to look at the productivity issues - mainly the introduction of new technology. Following agreement in the sub-committee to the principle of increased productivity, the overall offer was increased on 18 March to 6.6 per cent, of which 2.6% was for productivity linked elements. The union side rejected this as insufficient and after lengthy discussions management further increased their offer to 6.8% in the hope of achieving a full and final settlement. However this was also rejected, and negotiations have effectively broken down. The union side are now expected to consult with their members before communicating further meeting has already pay issue is not on

CONFIDENTIAL with management. A routine NJC been set for 7 April, but the the agenda.

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9

British Shipbuilders: Staff and manuals (67,000)

Settlement date: 1 April

Unions: CSEU, SAIMA

On 17 February Management received an uncosted claim from the CSEU which comprised:

- (1) A substantial increase in basic rates not less than the rate of inflation
 - (2) Consolidation of certain items from the previous pay agreement
 - (3) A substantial increase in overtime rates
 - (4) An increase in the Minimum Earnings level
 - (5) A phased reduction to a 35 hour week
 - (6) Increased holidays and holiday pay
- plus other minor benefits.

At a meeting on 10 March, the CSEU provisionally accepted management's offer of increases to basic rates which, with the subsequent effect on overtime, represented an increase in earnings of 5½%. In addition, a further 1% increase will arise from consolidation of supplements from a previous round and an increase in minimum earnings level; in total a 6½% increase in average earnings. There will also be a 1 hour reduction in the working week, which was agreed in the previous pay round, to be implemented from 1 April 1982. Management say that the reduction will be met from improved productivity (ie prompt starting times etc) and will not add to unit costs. The unions are reported to be presenting the offer to members as 7% on earnings. The provisional agreement will need to be ratified by individual yards. A delegates meeting in Newcastle on 17 March was reported to have overwhelmingly endorsed the offer. SAIMA (staff union) submitted a similar uncosted claim for substantial increases at a meeting on 18 February. Negotiations for this group traditionally follow those of the CSEU.

10 Post Office: Postal Officers, Assistants, Postmen, Cleaners & Doorkeepers
(156,500)

Settlement Date: 1 April

Union: UCW

At a meeting on 24 March an offer of 5 per cent on basic rates (earnings effect not yet known) was rejected. There is to be a further meeting on 30 March.

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11 British Nuclear Fuels Ltd: Non industrials (7,000)

Settlement Date: 1 April

Unions: IPCS, CPSA, SCPS, AGSRO, CSU

Management has received a claim for an increase of 15% on earnings, No offer has yet been made.

C) SETTLEMENTS CONCLUDED SINCE LAST REPORT

1981/82 PAY ROUND

12 Coalmining: Clericals (13,600)

Unions: NUM(COSA), APEX

Managerial grades (16,900)

Unions: BACM

Settlement Date: 1 November 1981

Both groups have accepted increases in line with the manuals' settlement of 7.4% on earnings.

13 British Airports Authority: All grades (7,150)

Settlement date 1 January

Unions: Staff - IPCS, SCPS, CPSA, CSU
Industrial - TGWU, AUEW, EETPU, NUSMWCH,

On 4 March all unions (with the exception of TGWU who abstained) accepted the Authority's offer of 6% on all elements of pay except London Weighting. In addition the Authority have agreed to a £14 per month increase across the board as a productivity payment, a variation in annual leave entitlement (to bring manuals in line with staff) and have bought out 2½ days annual leave which had applied to some employees who were previously Civil Servants by paying an additional ½% on holiday bonus. Only the award of 6% will be publicised. The effect of the total offer will be 5.6% on the pay bill in the first year; the effect on average earnings is not known.

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14 Municipal Buses: Craftmen (2,500)

Settlement date: 4 January

Unions: AUEW(E), RLTPU, TGWU

The group has accepted an increase in line with platform staff of 6.6% on basic rates, an increase in the bonus calculator, 2 days additional holiday and a 1 hour reduction in the working week (40 to 39) from 1 November. The effect of the total offer on average earnings will be 6.9%.

15 National Bus Company: Platform and non craft maintenance (34,323)

Settlement date: 1 March

Unions: TGWU, NUR, GMWU, AUEW, NCOI

Following a regional delegate conference on 5 March, the unions have accepted management's offer of a 6.6% increase on basic rates from 1 March, 2 days additional holiday and a £1 per week unconsolidated supplement for crew drivers and conductors. The total package represents a 7.5% increase on average earnings.

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29 MAR 1982





✓ JV (top page only)
 ✓ NBPM

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

MUS 17/3

PRIME MINISTER

MONITORING REPORT: PUBLIC TRADING SECTOR

.... I attach the latest monitoring report on the public trading sector.

2. As in the last report, there are no specific issues to which I need draw attention. A 5½ per cent settlement has been reached by the UKAEA, and an offer of around 7 per cent is being recommended by the National Bus Company unions. I understand that the gas supply unions have now rejected BGC's 7 per cent offer to their manual workers; and Nigel Lawson will no doubt be reporting on that. In the electricity supply industry, you will have seen from his letter of 1 March that a slightly improved offer is now being made, with an effect on average earnings of between 5½ and 7 per cent.

3. Copies of this minute go to the Home Secretary, Secretaries of State for the Environment, Industry, Trade, Transport, Energy, and Employment and to Sir Robert Armstrong and Mr Ibbs.

G.H.

(G.H.)

8 March 1982

CONFIDENTIAL

PUBLIC TRADING SECTOR

PART 1. CURRENT AND FORTHCOMING NEGOTIATIONS

A: 1980/81 PAY ROUND

1. British Rail - Clerical and Conciliation grades (150,000)

Settlement date: 20 April

Unions: NUR, ASLEF, TSSA

A Committee of Inquiry was appointed by ACAS on 2 February to consider the pay and productivity understandings of the 1981 agreement which have been the subject of dispute between BR and ASLEF.

ASLEF refused to co-operate with the Inquiry; evidence was taken from BR, NUR and TSSA.

The Committee reported on 16 February and recommended that both sides return to the established negotiating machinery within 7 days, that ASLEF confirm its commitment to the understandings of August 1981 and call off industrial action, and that BR pay ASLEF members the 3% increase.

Following further talks with ACAS, both sides accepted the Committee's recommendations. BR undertook to authorise immediate payment of the 3% increase and ASLEF called off further industrial action from 19 February. Negotiations on productivity issues were inconclusive and the matter will now be referred to the RSNT by 19 March at the latest. Terms of reference will be as set out in the findings of the McCarthy inquiry.

Some NUR guards in isolated areas have taken unofficial action in the form of lightning strikes in protest over flexible rostering proposals which have already been agreed with the NUR executive .

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B: 1981/82 PAY ROUND

2. British Rail: Clerical and conciliation grades (150,000)

Settlement date: 20 April

Unions: NUR, ASLEF, TSSA

The unions have submitted claims for 'substantial' but unspecified increases in the 1982 pay round.

Comment: Negotiations are very unlikely to begin before the productivity issues between BR and ASLEF have been resolved. Any offer by BR will need to reflect the heavy financial losses incurred during the dispute.

3. British Airways: All grades (excluding pilots) (50,000)

Settlement date: 1 January

Unions: TGWU, AUEW, EEPTU, NUSMWCH, ACTSS, APEX, GMWU, FTATU, UCAT

On 10 September British Airways announced a "rescue plan" aimed at stemming losses of some £100 millions in the current year and £250 millions in the two year period to April 1982. So far as staff and pay are concerned, the plan involves a reduction of 9,000 jobs by June 1982 by early retirement, voluntary severance and natural wastage and a pay freeze at least until September 1982 when the situation will be reviewed. Other features of the plan include the renegotiation of many working practices, cuts in routes, closure of some depots and offices and the sale of aircraft and property. An unexpectedly high response to the severance scheme has been reported.

For the purpose of negotiation on pay and conditions of employment staff are divided into 11 functional groups called National Sectional Panels on which all unions are represented. Although delay of the annual settlement has been generally accepted, 3 panels have submitted claims for substantial increases

(Engineering and Maintenance, Ramp, Ground Service staff). These claims are thought to be aimed at keeping options open rather than to be a serious attempt to open negotiations in the immediate future.

The panel covering 2000 ramp staff (eg baggage and cargo handlers, cleaners and towing staff) at the terminals for European and domestic flights have objected to the company's reorganisation of working practices for increased productivity which, the company say, will enable 300 staff who have opted for the voluntary severance scheme to leave. A strike began on 9 February when management attempted to implement the new working arrangements. A suggestion by TGWU officials that members return to work under the old arrangements while continuing discussions was rejected by BA who are taking a firm line. The strike continues to cause some cancellations of European flights but the effect is limited as other groups of employees have undertaken the work of those on strike. Efforts to persuade ramp staff at the intercontinental terminal to stage a 24 hour strike on 25 February in support of their colleagues at the European and domestic terminals were unsuccessful.

Comment: Failure to implement the revised working arrangements could jeopardise those agreements already reached with other groups.

4 British Airports Authority: All grades (7,500)

Settlement date: 1 January

Unions: Staff - IPCS, SCPS, CPSA, CSU

Industrial grades - TGWU, AUEW, GMWU, EEPTU, NUSMWCH, UCATT

The unions submitted claims for overall increases of 15% on average earnings slanted toward a larger proportional increase for the lower paid. The Authority offered 6% on all elements of pay except London Weighting. The offer was rejected.

There have been two further meetings. The Authority's offer has remained at 6% on all elements of pay but in addition they have proposed a small increase for productivity in return for some harmonisation of annual leave arrangements. It is understood that the unions have agreed to recommend the offer to their members. Preliminary assessments indicate that the pay award would increase the salary bill by slightly less than 5½% and the productivity award would add a further 1½%. There has been no estimate of the effect on average earnings.

Comment: Any settlement is usually influenced by that of British Airways. This year, however, BA have delayed all settlements until September 1982 (see item 3).

5 National Bus Company: Platform and non-craft maintenance (34,328)

Settlement date: 1 March

Unions: TGWU, NUR, GMWU, AUEW, NCOI

On 7 December, the unions submitted a claim for an 18% increase on rates, 1 week's additional holiday and progress toward a shorter working week. Management's initial offer of 4.25% on rates was rejected. On 15 February management improved their offer to 6% on rates from 1 March, plus an additional 0.6% from November (to maintain parity with municipal busmen who have negotiated a reduced working week from November), 2 days additional holiday and £1 per week unconsolidated supplement for crew drivers and conductors, worth in total 7% on average earnings. This offer was rejected.

However, a slightly improved offer - 6.6% on rates from 1 March - will be put to a union delegate conference on 5 March with a recommendation to accept.

6 Passenger Transport Executives: Platform Staff

Settlement dates: Various

Unions: TGWU, GMWU

Three authorities have reached agreements as follows:

Greater Manchester	(SD: 1 November)	7.8%	
West-Midlands	(SD: 6 November)	6.5%	Increase on average earnings
Merseyside	(SD: 1 January)	7.8%	

The following have yet to reach a settlement:

- a) Tyne and Wear (SD: 1 March) - The local metro service includes ASLEF membership. Neogtiations have been delayed pending the outcome of the national dispute between BR and ASLEF.
- b) South Yorkshire (SD: 1 April))
- c) Strathclyde (SD: 27 April)) No claims submitted
- d) West Yorkshire (SD: 1 May))

7 Gas Supply: Manuals (41,300)

Settlement date: 17 January

Unions GMWU, TGWU

The unions have submitted a claim to Management covering

- (1) An increase in rates to maintain the value of the pay packet - taking account of both inflation and taxation levels
- (2) A reduction in working hours (from $38\frac{3}{4}$ to 37 hours a week)
- (3) Consolidation into basic pay of bonus earnings and "general obligations payment", (the key issue)
- (4) Payment of average earnings during holidays
- (5) Improvements in shift and stagger pay
- (6) A change in the basis of awarding local holidays

On 13 January management offered an average increase of 7% on basic rates plus increases in holiday pay (from 1 June), improvements to pay for working staggered hours and an increase in local holiday entitlement worth in total 5.2% on earnings. At a further meeting on 28 January management slightly improved the offer to an average increase of $7\frac{1}{2}$ % on rates (6.8% - 8.1%) which, together with the other improvements offered earlier, would have increased average earnings by about 6%. In addition BGC proposed a restructuring of bonus and other payments which would add a further 0.4% to earnings. The offer was rejected and on 9 February, while continuing to refuse to consolidate bonus into basic pay, management again improved their offer to between 7.8% and 9.1% (average 8.5%) on basic rates with no flow through into bonus. A further 50p per week was offered on the General Obligations payment (for flexible working procedures). Together with the improvements to holiday and staggered working pay the total offer represents an average earnings increase of about 6.8% during the settlement year - 7% in a full year.

After consulting their members the unions have told BGC that the offer is unacceptable because there is no increase in bonus payments and BGC have refused to give a commitment on future consolidation of bonus payments. The next meeting will be 10 March and BGC are still considering their response.

Comment: The Gas, Water and Electricity industries closely watch each other's settlements and the union's have drawn attention to the water service settlement of 9.1% on basic rates. In addition the miner's settlement presented as 9.3% will influence negotiations. The final settlement for manuals will have repercussions for the BGC staff negotiations (58,900 SD: 1 June).

8 Electricity Supply: Manuals (94,000)

Settlement date: 17 March

Unions: EETPU, GMWU, AUEW, TGWU

The unions made the following 5 point claim at a meeting of the National Joint Industrial Council on 7 January:-

- (1) A substantial increase on basic rates
- (2) An additional increase on each band of the scale
- (3) Increased holidays
- (4) A shift and staggered hours pay increase (in line with the increase in basic)
- (5) A reduction in working hours

The total paybill increase of the claim has not been estimated. The Electricity Council made a formal offer on 4 February of basic rate increases ranging from £5 per week for labourers to £8 per week for craftsmen at the top of the salary range. A willingness to enhance shift payments was also indicated. The total package represents a 5-7% increase in average earnings depending on grade, overtime and shift pattern (5.6% on the paybill). The unions considered the offer unsatisfactory but a starting point for negotiations. There was an informal meeting between the Council and union negotiations on 2 March prior to a formal meeting on 4 March.

Comment: Acceptance by the miners of an increase presented as 9.3%, water service manuals at 9.1% and a settlement in the gas industry will influence negotiations. The manual's settlement will influence the power engineers (SD: 1 February see item 9).

9 Electricity Supply: Power Engineers (29,300)

Settlement date: 1 February

Unions: EPEA/EMA

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At a National Joint Board meeting on 19 January, the EPEA submitted a 5 point claim as follows:

- (1) Preservations of existing links with industrial scales
- (2) Even progression through NJB scales
- (3) Restoration of 1975 differentials at maxima of scales
- (4) Improvement in out-of-hours payments
- (5) 35 hour week as a long term objective

The total paybill increase of the claim has not been estimated.

No offer was made by management at the National Joint Board meeting on 16 February. The next meeting will be 16 March.

Comment: The power engineers traditionally wait for the manual's settlement (see item 8).

10 British Steel Corporation: All grades (108,600)

Settlement date: 1 January

Unions: ISTC, GMWU, TGWU, NUB, NCCC, MATSA, SIMA

The BSC corporate plan announced in December 1980 involved 20,000 redundancies by March 1982. The corporation are now reported to require a further 15,000 redundancies by July 1982.

The plan envisaged no national pay award in 1982: any pay increases to be geared to local productivity deals. In their present situation BSC have also decided not to introduce a 39-hour week from 1 January 1982, as was conditionally agreed after the Lever Committee of Enquiry ended the 1980 strike. Following lengthy negotiations, BSC reached agreement with the ISTC to forego a national pay award in 1982 and pursue local productivity deals. Productivity increases will be achieved by negotiation on cuts in manning levels and a percentage of any subsequent increase may be consolidated into basic earnings if the gains are judged to be permanent. The craft and service unions (NUB) and the management association (SIMA) have also agreed to local productivity deals for 1982 increases. BSC will not consider introducing the 39 hour week before 1 January 1983.

CONFIDENTIAL

BSC's Head Office staff increases for 1982 will be based on the average increase paid from local productivity deals in BSC's main businesses; there will be no guaranteed minimum payment.

11 British Shipbuilders: Staff and manuals (67,000)

Settlement date: 1 April

Unions: CSEU, SAIMA

On 17 February management received an uncosted claim from the CSEU which comprised:

- (1) A substantial increase in basic rates not less than the rate of inflation
- (2) Consolidation of certain items from the previous pay agreement
- (3) A substantial increase in overtime rates
- (4) An increase in the Minimum Earnings level
- (5) A phased reduction to a 35 hour week
- (6) Increased holidays and holiday pay
- plus other minor benefits.

Management will respond to the claim at the next meeting on 10 March.

SAIMA (staff union) submitted a similar uncosted claim for substantial increases at a meeting on 18 February. Negotiations for this group traditionally follow those of the CSEU and further meetings are likely to follow those of the CSEU.

C: SETTLEMENTS CONCLUDED SINCE LAST REPORT

1981/82 PAY ROUND

12 United Kingdom Atomic Energy Authority: Manuals (4,700)

Settlement date: 1 October

Unions: AUEW, TGWU, GMWU, EEPTU

Following consultation with their members, all unions have accepted the Authority's offer of just under 6% on rates (5.5% on average earnings and on the pay bill). In addition the Authority have agreed to a 1 hour reduction in the working week in return for the abolition of tea breaks which has a nil effect on the pay bill.

Footnote: Details of negotiations in subsidiaries of the National Freight Company have been omitted from this report following denationalisation.



✓ JV 123

NB PM

(Arrived too late

to consult the PM sensibly)

JV agrees)

MCS 8/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP
Secretary of State
Department of Health and
Social Security
Alexander Fleming House
Elephant & Castle
London SE1 8BY

8 March 1982

Dear Secretary of State,

-TPM

Thank you for your letter of 4 March about NHS pay. I am generally content with your proposed reply but would like to suggest some changes to clarify the Government's intentions and to reflect the real status of the 4% pay factor. These ... are indicated on the retyped version attached.

As you know the pay of the non-industrial Civil Service will be considered by the Civil Service Arbitration Tribunal probably in April. It is particularly important that in the run-up to that Arbitration hearing we do not make statements in other contexts which can be quoted against us. I know you have this point well in mind and will exercise due vigilance.

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

Yours sincerely

T. Matthews

for LEON BRITTAN

Approved by the Chief Secretary
and signed in his absence.

REVISED DRAFT REPLY

The Chancellor of the Exchequer announced in his statement on public expenditure on 2 December that expenditure plans for 1982-3 included a 4 per cent pay factor for the public services. Allocations for 1982-3 to Health Authorities in Great Britain accordingly include 4 per cent for increases in earnings from due settlement dates. It remains the Government's view that this is in general an appropriate provision. However, the Government recognise the need for pay settlements to take account of market factors including their effect on recruitment and the retention of certain types of expensively trained staff in the NHS. An additional £81.9 million will, therefore now be made available for some specific groups within the NHS responsible for the direct treatment of patients. This money will be available to finance appropriate pay settlements for nurses and midwives and for the professions supplementary to medicine, to introduce a new contract for ambulancemen and an emergency duty agreement for hospital pharmacists. Two thirds of the additional money will be provided from the contingency reserve and added to the cash limits and the remaining third will be found by Health Authorities. The pay of doctors and dentists will be considered in the light of the Report of the Doctors and Dentists Review Body later in the year.

-8 MAR 1982



[Faint handwritten mark]

SECRET

cc Mr. Hoskyns
Mr. Ingham

12

MR. SCHOLAR

PA

Mr. Fowler's proposed PQ and Answer on NHS pay

I understand that the Treasury will be proposing a considerable number of changes to Mr. Fowler's draft: it would be best for the Prime Minister to see those before going firm on a text, and you may want to let Mr. Fowler's office know that you will not be commenting until after the weekend (I have warned them at official level).

Because there will therefore be an alternative draft, I refrain from suggesting specific amendments. But the Prime Minister should be aware that the importance of this Answer lies in its need to address two different audiences: the health service workers, who will certainly react by saying the proposals are inadequate, and other public service workers, such as the civil servants and teachers, who will see the increase in the NHS cash limit as a reason for having their own increased. The draft has therefore to strike a balance, and at present I think it takes too little account of the likely impact on non-NHS groups.

The main points which need to be covered in any revision of the draft are I think these:

(i) We need to make it clear that NHS groups other than those mentioned are going to be held within the 4% pay factor;

(ii) It is highly desirable to explain that the bulk of the £81.9 million (not £83 million) will be for the nurses, because that is where greatest public interest and pressure lies;

(iii) We must remove the implication, which appears both in the reference to those responsible for the direct treatment of patients, and in the last sentence, that the doctors and dentists will eventually get more than 4%.

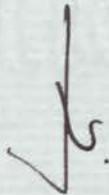
/ The DHSS

SECRET

SECRET

- 2 -

The DHSS are not anxious to convert the cost of the increase in the cash limit into percentage pay increases, because that would be seen as an interference with the negotiations which the NHS management will undertake in the days following the announcement. I think that is right, although many commentators will be able to work it out for themselves. The Prime Minister should be aware that the offer to the nurses will be made next Tuesday, which is fortunate since however badly it goes down (and DHSS do not expect a major outcry) it will be overshadowed by the publicity surrounding the budget.



John Vereker

5 March 1982

SECRET



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
 ALEXANDER FLEMING HOUSE
 ELEPHANT AND CASTLE LONDON SE1 6BY
 TELEPHONE 01-407 5522 EXT

The Rt Hon Leon Brittan MP
 Chief Secretary to the Treasury
 Treasury Chambers
 Great George Street
 London SW1

*Don't comment
 from CST*

4 March 1982

Dear Leon.

NHS PAY

will request if required

When I wrote to you on 26 February I said that I would be in touch with you about the wording of what is to be said publicly on 8 March. I am now in a position to circulate the terms of the Parliamentary Answer I am proposing to give on that day.

I am copying this to the Prime Minister, to other members of E(PSP), and to George Younger, Nicholas Edwards and Sir Robert Armstrong. I should be grateful for any comments by the weekend.

Yours aw.

Norman Fowler

NORMAN FOWLER

Question

To ask the Secretary of State whether it is the intention that all pay settlements within the NHS this year should be at 4 per cent.

ANSWER

The Chancellor of the Exchequer announced in his statement on public expenditure on 2 December that expenditure plans for 1982/3 included a 4 per cent pay factor for the public services and allocations to Health Authorities in Great Britain include 4 per cent for increases in pay from due settlement dates. The Government recognise the need for pay settlements to take account of market factors as they affect recruitment and the retention of certain types of expensively trained staff in the NHS. An additional £83 million will, therefore, be made available over and above the 4 per cent pay factor for some specific priority groups within the NHS responsible for the direct treatment of patients. This money will be available to increase the pay factor for nurses and midwives and for the professions supplementary to medicine, to introduce a new contract for ambulancemen and an emergency duty agreement for hospital pharmacists. Two thirds of the additional money will be provided from the contingency reserve and the remaining third will be found by Health Authorities. The pay of doctors and dentists will be the subject of appropriate consideration in the light of the Report of the Doctors and Dentists Review Body later in the year.

- 4 MAR 1982



Econ Pol



Prime Minister

2075 10

Econ Pol

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Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

~~SECRET~~

4th March 1982

D. Name

Your letter of 16 February to Leon Brittan invited my agreement to the arrangements for financing settlements for certain NHS staff groups.

I note that it is proposed that the cash limit for the NHS (GB) should be increased by £67 million and that health authorities be asked to find savings of £34 million. I understand that the total cost of the package has been calculated on the basis of the number of staff expected to be in post in Great Britain on 30 September 1982. My own feeling is that the actual distribution between the three countries should, as far as possible, be done on the basis of their share of the total pay bill, since this will most closely reflect the actual cost of the proposed increases. I suggest that officials should discuss this urgently.

Whatever may be finally agreed I confirm that I am prepared to ask health authorities in Wales to find savings to cover one-third of the additional cost. In saying this, I am only too aware that our health authorities will find it extremely difficult to achieve savings of the magnitude we will be proposing without some reduction in services. If past experience is any indication, short-term savings would be achieved through the suspension of recruitment (mainly nurses, since they are the largest group) and possibly closures of wards or other facilities. We can expect nurses, and their representatives in the Whitley Council, to oppose strenuously any suggestion that their higher pay increase should be paid for in part by a reduction of services or a slow-down in growth.

Leon Brittan, in his letter to you of 23 February, raises two further matters. The first, concerning the family practitioner services, proposes that we might want to look for additional savings from the FPS if the FPS got more than expected. The difficulties of doing this in

/a demand-led

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON



a demand-led service are too well-known to require elaboration here but I would be prepared for my officials to participate in any examination of how savings might be achieved if we are faced with that eventuality.

The second point raises the question of how we proceed if the NHS settles for more than Ministers had allowed for. Leon Brittan proposes that if settlements prove to be greater than anticipated then the savings required from the NHS would be correspondingly greater. I can see that it would be possible to go down this road if settlements were only marginally in excess of the amount allowed for. But I cannot gloss over the difficulties facing the NHS in Wales because of the need to secure the initial savings and if settlements, for whatever reason, cost a good deal more than had been expected then the harsh realities of the situation might mean that we simply could not find the necessary further savings without an unacceptable reduction in the level of services. I think it points to the importance of our standing fast against any suggestion that settlements should be at higher levels than those now proposed.

/ I have copied this to the Prime Minister, Geoffrey Howe, Leon Brittan and George Younger.

J. Crow
P. WITH 1985

Neil

-5 MAR 1982



SECRET

cc Mr. Hoskyns
Mr. Scholar
Mr. Pattison

19

MR. INGHAM

NHS PAY

Even pd

You should know that, following decisions taken at the Prime Minister's meeting yesterday, Mr. Fowler will be making an announcement by arranged PQ on 8 March about increased cash limits for the NHS to accommodate increases in pay for certain NHS groups. Ministers have decided that on top of the 4% provided the nurses, midwives and PSMs would get 2.4%, and the ambulancemen and hospital pharmacists would get 1%. The announcement will be in terms of the increased pay bill, but may make it clear what the pay assumptions are, and it will probably be clear that the other NHS groups are being held to 4%.

The official committee on pay this morning instructed the DHSS representative to ensure that the text of this announcement was circulated for comment to the Prime Minister and other departments concerned - which is practically everybody with a public service pay group. We must expect a difficult time. On the one hand NUPE will be jumping up and down about being held to 4%, and no doubt threatening industrial action, and the nurses will probably complain that 6.4% is nothing like enough; on the other hand the teachers and the civil servants are not going to take kindly to an increase in the cash limit for other white collar groups when their cash limit is being held. The increased NHS cash limit will be met as to two thirds from the contingency reserve, and as to one third by savings in the health service.

Mr. Scholar and Mr. Pattison may wish to note the importance of getting this announcement right. When the draft comes in, we will need to look particularly carefully, not only at the details of the substance, but also at the extent to which the justification can be made consistent with what the Government has been saying to the civil servants. Otherwise we shall be unwittingly providing ammunition for the civil service unions before the arbitrator.

J. M. M. VEREKER

3 March 1982

SECRET

SECRET

VS 9

SUBJECT.



bcc: Mr. Vereker

cc: Master sek.

10 DOWNING STREET

From the Private Secretary

2 March 1982

NHS PAY

The Prime Minister took a short meeting this morning with your Secretary of State about the issues raised in your Secretary of State's minute of 24 February about NHS Pay. The Secretary of State for Employment, the Minister of State, HM Treasury (Mr Hayhoe) and Mr Robin Ibbs were also present.

The Prime Minister enquired how far your Secretary of State's proposals about ambulancemen's pay were a concession to the claim of the ambulancemen to be treated on an equal footing with the firemen and police. Your Secretary of State argued that what he was proposing was no more than a nod in this direction, in so far as it represented some movement towards a salaried and professional status for ambulancemen. He judged that it would assist in avoiding industrial action, at an extra cost of £1.2 million. On NHS ancillary staff, your Secretary of State said that he believed that to open the negotiation at less than 4% overall would cause an immediate explosion which would make it more difficult than it would already have been to achieve in the end a 4% settlement. The Prime Minister enquired whether there was scope for offering less than 4% to the clerical and secretarial staff. Your Secretary of State saw difficulty in this course; the Prime Minister said that she hoped that it was now clearly understood that there should be no increases in the numbers of staff in these categories; indeed, that there should be reductions, particularly in the administrative, clerical and secretarial grades.

After further discussion, the Prime Minister said that it was agreed that your Secretary of State should proceed as he proposed in his minute. She recognised that there could be no guarantee that this approach would avoid industrial action. Your Secretary of State was asked to consider the scope for reductions for numbers in staff, so as to contain the growth of the pay bill for the NHS as near as possible to 4%

I am sending a copy of this letter to John Kerr and Terry Mathews (HM Treasury), Muir Russell (Scottish Office), John Craig (Welsh Office) Barnaby Shaw (Department of Employment), Gerry Spence (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

D.J. Clark, Esq.,
Department of Health and Social Security.

SW

SECRET



Prime Minister

✓ J.V. 8

mes 1/3

P.0667

PRIME MINISTERN H S Pay

Following the meeting on the lessons of the Civil Service dispute, you have arranged to have a talk with the Chancellor of the Exchequer, the Secretary of State for Social Services and the Secretary of State for Employment about Mr Fowler's minute of 24 February on NHS pay.

Tom

BACKGROUND

2. You will recall that, when you last discussed NHS pay with the Ministers mainly concerned on 4 February, there were several points at issue:
 - a. the need to defer announcing the NHS offer so as to avoid prejudicing the reception of the Government's offer to the Civil Service;
 - b. the problem of accommodating a pay offer to the NHS in excess of 4 per cent within the cash limit;
 - c. the need to get away from a flat rate offer, even for those groups such as the nurses which were to have more generous treatment;
 - d. the treatment of NHS groups other than the nurses.

3. The points at a. and b. are no longer in dispute. On a. you have agreed that the offer to the NHS can be announced on 8 March prior to the meeting of the Nurses and Midwives Whitley Council the following day. On b. the Treasury have agreed, and you have approved, that one-third of the cost of the increased pay awards should be met from savings by the health authorities primarily through increased efficiency, leaving an excess of £67 million above the cash limit which would have to be met from the contingency reserve.



MAIN ISSUES

4. The main issues to be resolved are therefore those at points c. and d. above, ie whether Mr Fowler has gone far enough in meeting your wish that we should get away from flat rate offers, and whether, as he proposes, no NHS group should be offered less than 4 per cent.

Varied offer v. flat rate offer

5. You have already agreed that the nurses, midwives and professions supplementary to medicine should be offered 6.4 per cent. Within the total however you have argued that the senior nurses should get less. In his minute of 24 February Mr Fowler says that he will be urging all chairmen of Whitley Council management sides, both those which are being held to 4 per cent and those which are not, to consider using the money at their disposal in a selective way. He cannot however guarantee what the outcome will be. He stresses that the structure of a pay offer is a matter for the Whitley Council management side concerned and that he has no power to direct them.

6. There is indeed, as Mr Fowler says, a real difficulty in the Government's seeking to determine the detailed structure of the pay offers made to the various NHS groups. You will however wish to probe carefully whether Mr Fowler is going as far as he reasonably can in indicating where, in the Government's view, the extra funds might best be deployed. He says that he will make clear to the chairmen "what our attitude is". You will wish to ask him what he has in mind to say and then to consider whether this goes far enough.

Treatment of groups other than nurses

7. Apart from the issue of varying the offer within groups, there remains the question of how far offers in excess of 4 per cent should be made to groups other than the nurses, and whether indeed some groups should receive less than 4 per cent. Of the one million or so NHS employees, the treatment of some 600,000 is no longer in dispute, but the offers to be made to the remaining 400,000 have still to be settled. The position is summarised in the following table:



Groups for which treatment has been agreed

Nurses and midwives	450,000 approx	
Professions supplementary to medicine	25,000	
Doctors and dentists	96,000	(awaiting outcome of Doctors and Dentists Review Body)
Maintenance workers	20,000	(in effect the offer to electricians, craftsmen etc is determined by national negotiations for these trades)

Groups for which treatment still to be decided

Ambulancemen	17,000	—
Hospital pharmacists	3,000	—
Ancillary workers	211,000	—
Administrative, clerical and secretarial	121,000	—

8. Mr Fowler's proposals for the groups for which treatment has not yet been finally decided are that the ambulancemen and pharmacists should get 5 per cent and that all the rest should get 4 per cent. The question is whether this package of proposals is consistent with the policy set out in the announcement about public expenditure cash factors on 15 September 1981: "the pay factor does not imply that all public service pay increases will or should be 4 per cent. Some may be less, and some may be more.". In the light of this should the increases in excess of 4 per cent agreed for the nurses etc be balanced by offers of less than 4 per cent for some other groups?

9. So far as the ambulancemen are concerned Mr Fowler has argued in his minute of 24 February that there is already difficulty because of the generous treatment given to the police and firemen, that there is a risk of industrial action, and that the proposed small excess over 4 per cent would bring management advantages in reducing the need for special payments for out of hours work. There is also a management argument in respect of the hospital pharmacists where the extra sum would be used to permit on-call payments for emergency work. You may feel that, in respect of both these groups, a respectable case has been made out for the small excess over the 4 per cent pay factor.



10. The main difficulty therefore arises over the ancillaries and the administrative, clerical and secretarial workers who together amount to nearly a third of all NHS employees. In his minute of 24 February Mr Fowler discusses only the ancillaries. He explains that there is already a problem because of the traditional link with local authority manual workers who have already received 6.9 per cent. In the case of the administrative, clerical and secretarial staff, to which he does not refer, there has been a traditional link with the Civil Service. Although this was broken last year, the argument may be that this group of staff should get 4 per cent, the same as the overall value of the offer made by the Government to the non-industrial Civil Service.

11. There would clearly be some presentational advantage to the Government if the offer to both of these groups was somewhat less than 4 per cent, eg around $3\frac{1}{2}$ per cent like the offer made to the teachers. It is however unlikely that either group would settle for such a low figure. Mr Fowler may argue that an initial offer of less than 4 per cent could be seen as provocative and lead to a higher settlement in the end. The decision therefore mainly turns on a judgement of the way the NHS package as a whole may be viewed publicly and tactical considerations about the negotiations with the ancillaries and the administrative, clerical and secretarial staff.

HANDLING

12. You will wish to ask the Secretary of State for Social Services to go over the points in his minute of 24 February and then to invite the comments of the Chancellor of the Exchequer and the Secretary of State for Employment on the issues which remain to be settled.

CONCLUSIONS

13. You will wish to reach conclusions on the following points:

- i. how far the Secretary of State for Social Services should go in giving guidance to the Whitley Council management sides about the structure of offers to each group of staff;



ii. whether the ambulancemen and pharmacists should get more than 4 per cent; ←

iii. whether the initial offers to the ancillary staff and to the ambulancemen, clerical and secretarial staff should be 4 per cent, or slightly less than 4 per cent.

PLG

P L GREGSON

1 March 1982

SECRET

Prime Minister

MCS 1/3

PRIME MINISTER

cc: Mr. Hoskyns

NHS PAY

We have arranged that the Ministers concerned will stay behind after your meeting tomorrow morning on the Civil Service dispute to discuss Mr. Fowler's latest note to you about NHS pay.

Mr. Fowler's original proposal to the Ministerial Committee on Pay covered five groups: Nurses and Midwives, Professions Supplementary to Medicine (PSMs), Ambulancemen, Doctors and Dentists, and Hospital Pharmacists. I attach a copy of his original proposal, showing the percentage increases, numbers and costs.

After all this had been referred to you, Mr. Fowler was told that he could have 6.4% for the nurses, midwives and PSMs, apart from those in the most senior grades; but that the other NHS groups should be held to 4%; and that Mr. Fowler ought to consider offering some of the ancillary workers less than 4%. Mr. Fowler has accepted your ruling on the doctors and dentists (at least for the moment) and on structuring the offer to the nurses. But he has not accepted your ruling on the ambulancemen, hospital pharmacists and ancillary workers. I offer the following comments on these groups:

(i) The Ambulancemen

I see no reason why the extra 1% proposed will make the negotiations with the ambulancemen any less difficult than they always are, given their aspirations to be treated like policemen. The proposed new type of contract ought not to be bought from them in this way.

(ii) Hospital Pharmacists

The amount involved is trivial - £300,000 - but might make it a little harder to hold the other groups to 4%.

/ (iii)

SECRET

(iii) The Ancillary Workers

NUPE are already making threatening noises, and the ancillary workers are a potentially difficult group. If Mr. Fowler's judgement is that there is a chance of settling at 4%, and that opening the bidding at less than 4% would make that chance smaller, then I think we ought to let Mr. Fowler have his way.

✓

1 March 1982

1. The table below sets out my proposals for the NHS staff groups which should receive pay increases in excess of four per cent.

Staff Group	Estimated Paybill at 30.9.1982(GB) £m	Number of Staff WTEs 30.9.82(GB)	Possible Addition to Pay Factor of Group Paybill	
			£m(GB)	% increase
Nurses and Midwives	2609	466,000	63.6	2.4
Professions Supplementary to Medicine	200	30,250	4.9	2.4
Ambulancemen	121	17,000	1.2	1.0
Doctors and Dentists Hospital and CHS	776	51,000	16.5	2.1
(G.P.) Independent Contractors	664	45,000	14.2	2.1
Hospital Pharmacists	30	3,500	0.3	1.0
Sub-total			<u>£100.7</u>	
Employers Superannuation and NIC			<u>16.9</u>	
			<u>£117.6</u>	

2. The basis of my proposals for the inclusion of staff groups other than nurses and midwives is as follows:

a. Doctors and Dentists: The Doctors and Dentists Review Body last year recommended a nine per cent increase, which we cut back to six per cent. The best hope of maintaining satisfactory relations with the professions and, as I believe to be desirable, of securing the continuance of the review body system, lies in having available some money in excess of the four per cent pay factor. A confrontation with the doctors and dentists would otherwise be in prospect.

From P. J. Public...
P. J. Public...
P. J. Public...

CONFIDENTIAL

2.

cc: Mr. Hoskyns

PRIME MINISTER

Prime Minister
[Handwritten signature]
MA 26/2

The Pay Scene

I understand that the Chancellor has decided against circulating his colleagues with another assessment of the pay scene, but it may be useful if I set out the way in which events seem to be moving at the moment.

In a note earlier this week I said that there was no firm evidence for the start of an upward trend in pay settlements in the economy generally. Since then three new pieces of evidence have all combined to give a picture of some slight upward movement, perhaps of a percentage point or so. The latest Incomes Data Report reports a slightly upward drift between November and January, largely because the settlements early in the round were in the automobile and engineering industries where profitability is low; the latest Gallup Political Index notes that wage expectations over the next 12 months have increased just over 1% since November; and the Department of Employment's pay brief for Ministers, due for issue in a fortnight's time, reaches a similar conclusion on the basis of their own monitoring. There is nothing to be alarmed about here, particularly as low settlements in the public services over the next couple of months might bring the average down a bit; but I am afraid it does tend to show that the upward pressure of wage demands is always present in the economy, and will very quickly manifest itself if circumstances permit.

In the public sector, we are at present enjoying a brief hiatus between the negotiations with the Civil Servants, now in abeyance until the arbitration award, and the opening of serious negotiations with the Health Service. Next week further offers will be made in the gas and electricity industries, which everyone still expects to settle at about the level of the miners, and the NHS groups will be actively negotiating later in March. Towards the end of March, after the tribunal decision around 19 March, we shall have to face up to the ASLEF flexible rostering dispute again. There will be

/ another

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CONFIDENTIAL

- 2 -

another difficult period in mid April: the Civil Service Arbitrator has said he will be available to hear the parties to the dispute on 19 April, and the results should be known at the end of that week. At the same time the Government will have received the Report from the three Review Bodies, and by then the teachers may also have reached arbitration. There will be a series of inter-related decisions for Ministers.

JK

J M M Vereker
26 February 1982

CONFIDENTIAL



Prime Minister ⁽²⁾ ✓ JV.

MLS 2/3

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON
SEL 6BY

25 February 1982

Dear Norman,

NHS PAY

Your letter of 16 February to Leon Brittan, which you copied to me, invited my agreement to arrangements for financing the cost of pay settlements for selected groups of NHS staff, on the understanding that these may be concluded at the levels set out in the Annex to E(PSP) (82)2.

I understand that the Scottish component of the additional cost of settlements at these levels is £13.5m. I confirm that I am prepared to ask health authorities in Scotland to find savings of £4.5m provided the cash limit for my Health programme is correspondingly increased towards that figure by £9m to cover two-thirds of the additional cost of the proposed settlements. This would be on the understanding set out in the Chief Secretary's letter of 23 February that the total claim on the Reserve from NHS pay settlement (including family practitioner services) would not be allowed to exceed £83m and that, once settled by Ministers, that figure would not be affected by the outcome of negotiations.

I believe health authorities should be able to find the sum of £4.5m without serious cuts in services to patients, but I am not at all confident that they will accept a new commitment of this size without some degree of protest. There are already other pressures on the new money which we have made available to Boards for next year, notably an average increase in local authority rates of over 20%, and I think it likely therefore that we shall be told publicly that the provision made for growth in hospital services to give effect to our Manifesto undertaking has been substantially eroded. I wonder if it will not merely exacerbate the situation to say, as you propose, that the necessary savings will come mainly from increased efficiency: it might be better simply to emphasise the need to forgo some desirable growth in order to do justice to nurses.

CONFIDENTIAL

You also sent me a copy of your letter to Geoffrey Howe about arrangements for announcing the Government's proposals with regard to NHS pay settlements. I agree the importance of timing an announcement very carefully and I think that for the reasons you give a statement on 8 March would be desirable. I have copied this to the Prime Minister, Geoffrey Howe, Leon Brittan and Nicholas Edwards.

Yours wis,

Crawford.

2 MAR 1982

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



Prime Minister

ye 30
SS Emp 6

cc RTA
PGregson

John Vereker and Peter

*together with

Gregson are preparing notes for you on this. It may be that you will want to have a word with Norman Fowler* after the

Prime Minister

Geoffrey Howe
Norman Tebbit
Robin Ibbs

Civil Service meeting on Tuesday morning? ^{MUS 26/2} Yes No

NHS PAY ^{Copy of note}

In the light of the letter your Private Secretary sent to mine on 18 February, it may be convenient if I let you know how matters currently stand.

2. The Nurses and Midwives Whitley Council had a satisfactory meeting yesterday. The Management Side succeeded, without attracting serious criticism from the Staff Side, in refraining from making an offer. An offer on the basis approved in your Private Secretary's letter is likely to be made on 9 March, and there are indications that, although it is unlikely to be accepted immediately, there may not be undue delay. The meeting this week was in part devoted to discussion of how any offer might be structured, and I am hopeful that it may be possible to secure agreement to variable pay increases on the kind of lines we favour.

3. I shall be urging all Chairmen of Whitley Council Management Sides, both those which are being held to 4 per cent and those which are not, to consider using the money at their disposal in a selective way. I would expect many of them to be receptive to this approach, since it would merely be an extension of the practice which has been widely adopted in recent years of keeping back a limited amount of the available money for selective distribution. I cannot, however, guarantee what the outcome will be. NHS staff are employed by health authorities, not by the Government. Pay negotiations (including the structure of pay offers) are a matter for the Whitley Council Management Sides, and I have no power to direct them. There is of course also the question of what proves to be negotiable with the Staff Sides. But I shall certainly make clear to the Chairmen what our attitude is.



4. Against this background, perhaps I could comment on the specific points referred to in your Private Secretary's letter. First, ambulancemen. You will recall that last year's negotiations were difficult, and that there was some industrial action. Part of the problem was, and still is, that the ambulancemen see themselves as an integral part of the 999 services, along with the police and firemen; and the pay of the latter two groups, being indexed in various ways, has gone considerably ahead of theirs. Agreement was in the end reached on the basis of a 15-month settlement, involving moving the settlement date to 1 April, which allowed a pay increase in excess of the 6 per cent pay factor; and the Management Side also agreed, with the support of DHSS Ministers, to a joint examination of the scope for a new type of contract for ambulancemen. This was intended in effect to give them "professional" status, on the basis of an annual salary. It was made clear at the time that there could be no guarantee of extra money being available, should any be required.

5. The new type of contract would be of long-term advantage to the NHS, because it would reduce or even remove the need for the present system of special payments for out-of-hours work. Small extra costs would however be involved in introducing it. My proposals as agreed in principle last month by E(PSP) envisaged the provision of an extra £1.2 million in order to make possible the introduction of the new type of contract. I believe that this would both be desirable in itself and also increase the prospects of avoiding industrial action by a group of staff with whom pay negotiations are otherwise likely to be even more difficult this year than they were last. This is because last year's 15-month settlement cannot be repeated, while the ambulancemen will continue to look to the police and firemen (and, apart from that, will not forget that local government manual staff have secured a 7 per cent increase). Inability to introduce the new contract would be an additional adverse factor.



6. Second, hospital pharmacists. The proposal considered and agreed by E(PSP) was to provide £300,000 for financing the introduction of on-call payments for emergency work out of hours. There is no provision for such payments in the present agreement, and the pharmacists' organisation is at present advising its members not to undertake such work until payments are introduced.

7. Against this background, and bearing in mind the relatively small cost, I would like to suggest that there would be advantage in adhering to the original proposals for ambulancemen and hospital pharmacists.

8. Finally, the ancillary staff. Clearly our primary objective is to hold them to 4 per cent overall; and within that, I would hope that the Management Side would seize any opportunity which presented itself of securing a differential settlement. I believe however that it would be unwise to aim at a settlement costing less than 4 per cent of the pay bill for the group as a whole. This is purely a practical matter. The negotiations with the ancillaries will on this occasion be particularly difficult. Last year, by means of a $15\frac{1}{2}$ -month settlement, it was possible to maintain their long-standing link with local government manual workers. There is no scope for that on this occasion, and the ancillary staff will have to accept the breaking of the link and an increase of 4 per cent as against the 7 per cent secured in local government. This by itself would have made for a very difficult negotiation. Our proposals for the nurses will, unavoidably, tend to add to the problems: partly because some ancillaries work closely with some nurses in hospital wards and therefore will draw comparisons, and partly because the ancillaries will see part of the cost of the improved offer to nurses as likely to be met at the expense of their jobs. Against this background, my assessment is that a settlement at less than 4 per cent overall is not obtainable, and that to broach it with the Staff Side would cause an immediate explosion which would make it much more difficult than it would already have been even to achieve 4 per cent.



9. I am sending copies of this minute to the Chancellor of the Exchequer, the Chief Secretary, the Secretary of State for Scotland and the Secretary of State for Wales.

24 February 1982

N.F.

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26 FEB 1982



CONFIDENTIAL

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cc: J. Verelker
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10 DOWNING STREET

From the Private Secretary

18 February 1982

NHS Pay

The Prime Minister has seen copies of your letters of 16 February to the Chancellor of the Exchequer and the Chief Secretary about National Health Service pay.

The Prime Minister agrees to an announcement on 8 March by your Secretary of State. She believes that this will be a sufficient delay after the Government's offer for the Civil Service so as not to affect the pay climate adversely. She also agrees that Nurses, Midwives and Professions Supplementary to Medicine - apart from those in the most senior grades - may be offered 6.4%. She considers, however, that the other NHS groups should be held to 4% of the pay bill as is the Civil Service; and that your Secretary of State ought to consider offering the NHS ancillary workers - or some of them - less than 4% (this would not be out of line with recent offers to the teachers - 3.4%, and to a substantial proportion of the Civil Service).

The Prime Minister is content with the agreement between your Secretary of State and Treasury Ministers on the financing of any increases over 4%.

I am sending copies of this letter to John Kerr (H.M. Treasury), Terry Mathews (Chief Secretary's Office), Muir Russell (Scottish Office) and John Craig (Welsh Office).

cc (Employment)

M. C. SCHOLAR

David Clark, Esq.,
Department of Health and Social Security.

SECRET

Prime Minister

Yes

Agree that we should write to the
DASS on the lines suggested below ~~by~~ M
Verker (with which I must say I very much
agree)?

MR. SCHOLAR

not

c.c. Mr. Hoskyns

NHS Pay

17/2/82

attached

I think the Prime Minister should see Mr. Fowler's two letters of 16 February, to the Chancellor and to the Chief Secretary.

The Prime Minister will recall that at her meeting on 4 February it was agreed that the structure, presentation and timing of the pay offer to the NHS would need to come back to her after Mr. Fowler's discussions with Treasury Ministers; and she made it clear at that meeting that she was not convinced of the case for pay offers in excess of 4% for NHS groups other than nurses, midwives and professions supplementary to medicine; and that even within those groups, the most senior grades probably did not merit special treatment. The Prime Minister also suggested that there might be a case for less than 4% for the Health Service ancillaries.

Although Mr. Fowler appears to have reached agreement with the Chief Secretary about the financing of the extra amounts, he makes it clear in his letter to the Chancellor that he is still pursuing the pay awards proposed in his paper for the Ministerial Group. For the Prime Minister's convenience I attach a copy of these proposals. The Prime Minister will see that, as well as the extra 2.4% for the nurses, midwives and PSMS, those proposals include 1% extra for ambulancemen and hospital pharmacists, and 2.1% extra for doctors and dentists.

Mr. Fowler proposes to announce this complete package, other than the extra amount for doctors and dentists, on 8 March. I suggest that, if the Prime Minister agrees, you could write to his Private Secretary along the following lines:-

SECRET

/ (i)

- (i) The Prime Minister agrees with an announcement on 8 March, that is sufficiently delayed after the Government's offer to the civil servants not to affect the climate more than it has to anyway.
- (ii) The Prime Minister agrees that nurses, midwives and PSMS other than those in the most senior grades may be offered 6.4%.
- (iii) But the other NHS groups should be held to 4% of the pay bill, as is the civil service, and
- (iv) Mr. Fowler ought to consider offering the NHS ancillary workers less than 4%, or at least some of them: he will have noticed, for instance, that the teachers were offered only 3.4% yesterday.
- (v) The Prime Minister is content to endorse whatever arrangements Mr. Fowler may have reached with Treasury Ministers on the financing of any increases over 4%.

17 February, 1982.

1. The table below sets out my proposals for the NHS staff groups which should receive pay increases in excess of four per cent.

Staff Group	Estimated Paybill at 30.9.1982(GB) £m	Number of Staff WTEs 30.9.82(GB)	Possible Addition to Pay Factor of Group Paybill	
			£m(GB)	% increase
Nurses and Midwives	2609	466,000	63.6	2.4
Professions Supplementary to Medicine	200	30,250	4.9	2.4
Ambulancemen	121	17,000	1.2	1.0
Doctors and Dentists				
Hospital and CHS	776	51,000	16.5	2.1
(GPs) Independent Contractors	664	45,000	14.2	2.1
Hospital Pharmacists	30	3,500	0.3	1.0
Sub-total			<u>£100.7</u>	
Employers Superannuation and NIC			16.9	
			<u>£117.6</u>	

2. The basis of my proposals for the inclusion of staff groups other than nurses and midwives is as follows:

a. Doctors and Dentists: The Doctors and Dentists Review Body last year recommended a nine per cent increase, which we cut back to six per cent. The best hope of maintaining satisfactory relations with the professions and, as I believe to be desirable, of securing the continuance of the review body system, lies in having available some money in excess of the four per cent pay factor. A confrontation with the doctors and dentists would otherwise be in prospect.



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT

Copy 3 of 15

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AD

SECRET

The Rt Hon Sir Geoffrey Howe
Chancellor of the Exchequer
Treasury Chambers
Great George Street
LONDON SW1

16 February 1982

Sean Geoffrey

NHS PAY

P.5
I have already written to Leon Brittan (copy of my letter enclosed) agreeing that for the cash limited services one-third of the cost of the pay awards proposed in E(PSP)(82)2 should in England be financed from savings by health authorities, leaving £67 million (GB) to be provided from the contingency reserve. Costs to the non-cash limited services can be considered in the normal way at the winter supplementary stage. I said I would write to you separately about how such a package should be presented.

The first point is that I do not want to say anything about the doctors and dentists at this stage. The DDRB are working on the basis of a pay factor of 4 per cent, and the right moment to make our proposals public will be in response to their report. Meanwhile we will ensure that, as a matter of prudence, Health Authorities set some money aside to meet a share of the cost of any award exceeding 4 per cent for hospital doctors and dentists.

For all other staff groups, I think we should announce our decisions as a complete package. We should explain that we are making specific additional sums available for selected groups, and why. We should state that two-thirds of this money is to be met from the contingency fund by an increase to cash limits, and one-third from savings in health services. It would be for Health Authorities to say how these savings are to be secured but I would say that I was satisfied that they would come mainly from increased efficiency. Such an announcement would have the following advantages:-

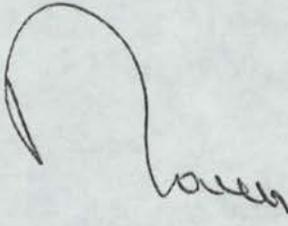
- a. There would, I think, be widespread public support for our selective approach and for asking the NHS to contribute part of the cost.
- b. The selected groups would realise they had been treated favourably as a deliberate act of Government policy, and our announcement would make it clear that no more Government money could be afforded from the contingency reserve. This should give us the best chance of getting settlements without industrial action (but see below).
- c. The health authorities would know before the beginning of the financial year what extra savings they had to make (apart from something unspecified for hospital doctors and dentists) and could plan to do so in the least damaging way possible.

The non-selected groups will, of course, be very angry, because they will be doing less well than others in the NHS and comparable groups in central and local government and one must expect some turbulence which will in turn be affected by our actions with regard to the Civil Service. But (a) we shall have I judge public support and (b) if the nurses settle at 6.4% we shall have broken the TUC affiliated unions' attempt to achieve concerted action throughout the NHS.

The key Whitley Council meetings are those with the nurses; the next two are on 23 February and 9 March. I think there would be some advantage in announcing our package just before the second meeting, ie on 8 March. I would propose to do this through a written Parliamentary answer and press release. I should also inform the Regional Health Authority Chairmen and all the Whitley Council Management Side Chairmen of our proposals, in confidence, earlier that day.

I should be glad to know whether these proposals are acceptable to you, and also to George Younger and Nicholas Edwards to whom I am copying this letter. I am also sending a copy of this letter to the Prime Minister.

Yours ever.



NORMAN FOWLER





DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE
LONDON S.E.1

TELEPHONE: 01-407 5522

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
London SW1

16 February 1982

Dear Leon.

NHS PAY

At our meeting yesterday, you said that you would be prepared to agree that selected groups of NHS staff should be offered extra money in addition to the 4 per cent pay factor, as set out in the Annex to E(PSP)(82)2, provided one-third of the money was found by the NHS.

I have considered this further and, subject to the point I make below, I think it should be possible for the NHS in England to find its share of the cost without serious and politically damaging cuts in services to patients. For the cash limited services provided by health authorities, I propose that the cash limit for the NHS (GB) should be increased by £67 million, and health authorities asked to find savings of £34 million.

I cannot, however, sensibly ask the health authorities (who provide hospital and community health services) to make extra savings to finance additional pay for doctors and dentists in the family practitioner services who are independent contractors. The authorities and their staff would be hostile to this, and I should risk endangering their co-operation in making savings in their services in as acceptable a way as possible, particularly through greater efficiency. I will of course continue to do everything I can to get further savings in the family practitioner services to offset these and other costs. No additional provision need be made for the General Medical Service and General Dental Service at this stage; we can judge what supplementary provision may be needed this year in the light of this and other factors when we come to the winter supplementary.

This agreement is of course only in respect of the England share of these figures, and I am copying this letter to George Younger and Nicholas Edwards to seek their agreement also to what is proposed.

I am writing separately to Geoffrey Howe with a copy of this letter about how all this should be presented.

Norman Fowler

NORMAN FOWLER

Econ. Pol.

CONFIDENTIAL

✓ Econ. Policy

MR. SCHOLAR

cc: Mr. Hoskyns
Mr. Duguid

MONITORING REPORT: PUBLIC TRADING SECTOR

I think there are no points for decision arising from the latest monitoring report on the public trading sector sent to the Prime Minister under cover of the Chancellor's note of 15 February. But the Prime Minister may want to note the way in which negotiations in the gas and electricity supply industries are moving. We always feared that allowing the NCB to present their offer to the miners as being over 9 per cent, when it in fact averaged about 7½ per cent, would result in the other public utilities following the higher figure. That has already been the case with gas, and electricity supply is moving in the same direction. It is perhaps a point to note for the future that whatever we may say to the Nationalised Industry Chairmen about using the lower figure as a comparator, it is the higher one which always has the most influence.

J.V.

16 February 1982

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Public Sector Pay

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Prime Minister

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To note.

MUS 15/2

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

PRIME MINISTER

MS

MONITORING REPORT : PUBLIC TRADING SECTOR

... I attach the latest monitoring report on the public trading sector.

2. There are no specific issues to which I need draw attention. But I would reiterate what I said in my minute of 25 January about the importance of the agreed 7 days' notice of pay offers in the sector. In view of the involvement of the civil service unions, this would have been particularly useful in the case of the 6 per cent offer by the British Airports Authority on which we await an assessment. At the present critical stage in relation to the main group of public service pay negotiations, I would ask colleagues to make a special effort to see that the agreed arrangements for prior consultation are observed.

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

[Handwritten signature]

(G.H.)

15 February 1982

(CONFIDENTIAL)

PUBLIC TRADING SECTOR

PART 1. CURRENT AND FORTHCOMING NEGOTIATIONS

A: 1980/81 PAY ROUND

- 1 British Rail: Clerical and conciliation grades (150,000)
Settlement date: 20 April
Unions: NUR, ASLEF, TSSA

Following a recommendation of the Railway Staff National Tribunal on 16 July 1981 a pay increase of 8% from 20 April 1981 and a further increase of 3% from 1 August 1981 (payable from 4 January 1982) was agreed.

A parallel agreement on productivity provided for negotiations on a range of issues to be completed according to an agreed timetable by the end of 1981.

Satisfactory progress has been made in productivity talks with TSSA and NUR but not with ASLEF. ASLEF claim that payment of the 3% was not dependent upon completion of negotiations on the productivity issues. But BR claim, on the contrary, that this conditional nature was clearly understood by both parties and that therefore the union has failed to honour its commitment. BR have refused to pay the second stage increase to ^{ASLEF} footplate staff. Talks between BR and ASLEF and ACAS failed on 30 December. ASLEF began an overtime ban on 4 January, a strike every Sunday and 2 day strikes on selected days each week until the 3% is paid. Meanwhile BR are to pay the 3% to members of the NUR (including drivers) and TSSA.

Efforts by ACAS to resolve the dispute have been continuing. ACAS have announced on 2 February that as a way of ending the deadlock between the two sides, they (ACAS) have appointed a Committee of Inquiry to consider the pay and productivity understandings of the 1981 agreement and, taking account of the agreement to introduce a 39 hour week, to make recommendations to resolve the differences over payment of the 3% increase and of the productivity understanding on flexible rostering and related matters.

(CONFIDENTIAL)

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ASLEF has announced that it will not cooperate with the inquiry and rejects the terms of reference. In addition the union disapproves of the membership of the Committee which is drawn from the Railway Staff National Tribunal under whose recommendation the 1981 agreement was devised.

The Committee began taking evidence from BR, NUR and TSSA on 3 February, adjourned almost immediately, but reconvened on 9 February notwithstanding continuing non-cooperation from ASLEF. Against the background of further strike announcements from ASLEF, the Inquiry resumed its hearings on 10 February with further cross-questioning of BR, NUR and TSSA representatives. In earlier evidence the NUR emphasised that although the 2 August agreements were freestanding, their union Executive had clearly understood that the payment of the 3% was dependent upon agreement being reached on productivity. The ASLEF Secretary (who has been forbidden by his Executive to attend the Inquiry) has provided a number of documents and is understood to be prepared to answer questions from the Chairman outside the Inquiry, providing that the answers are not communicated to the other parties. The latter regard this as unsatisfactory. Lord McCarthy is likely to report early next week but in the light of ASLEF's boycott he may not be able to produce recommendations.

Some NUR guards in isolated areas have taken unofficial industrial action in the form of lightning strikes in protest over flexible rostering proposals which have already been agreed with the NUR executive. Some NUR guards in Southern Region have also taken unofficial action in protest at being laid off on Sundays because of the ASLEF dispute. The Board have reacted firmly by suspending guards who take part in unofficial action on all days on which ASLEF strikes.

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B: 1981/82 PAY ROUND

2 United Kingdom Atomic Energy Authority: Manuals (4,700)

Settlement date: 1 October

Unions: AUEW, TGWU, GMWU, EEPTU

The Authority's opening offer of a 4.5% increase on rates was rejected on 15 September. On 25 November management made a revised offer of 5% on rates (4.75% on the paybill) and agreed to consider a 1 hour reduction on the working week. The parties met again on 26 January when management made a slightly improved offer of just under 6% on rates (5.5% on pay bill) and agreed to the 1 hour reduction in return for the abolition of paid tea breaks which has

a nil effect on the pay bill. The unions are to consult their members about the offer without recommendation and will meet with management on 12 February.

3 British Steel Corporation: All grades (108,600)

Settlement date: 1 January

Unions: ISTC, GMWU, TGWU, NUB, NCCC, MATSA, SIMA

The BSC corporate plan announced in December 1980 involved 20,000 redundancies by March 1982. The corporation are now reported to require a further 15,000 redundancies by July 1982.

The plan envisaged no national pay award in 1982: any pay increases to be geared to local productivity deals. In their present situation BSC have also decided not to introduce a 39-hour week from 1 January 1982, as was conditionally agreed after the Lever Committee of Enquiry ended the 1980 strike. In addition, without prior union consultation, BSC recently issued nearly 500 redundancy notices to workers at the ~~East~~ Talbot plant.

Discussions between ISTC (with some 65,000 members) and BSC on this plan in November and December failed to produce an accommodation. ISTC were primarily concerned over the further planned redundancies and also the delay over the introduction of the 39-hour week and because the local productivity increases were not to be consolidated into basic rates. They subsequently instructed members to take no part in local productivity talks and on 8 January the ISTC executive ordered an overtime ban from 7 February.

CONFIDENTIAL

A meeting of management and several members of the ISTC on 26 January failed to produce any agreement.

Following further talks with management the ISTC signed an agreement with BSC on 3 February to pursue local productivity deals for 1982 increases and called off their proposed overtime ban from 7 February. Productivity gains will be achieved by negotiation on cuts in manning levels. A percentage of productivity payments may be consolidated into basic earnings over ^{the} previous six months of the year if the gains are judged to be permanent. The craft and service unions (NUB) and the management association (SIMA) (altogether some 48,000) have agreed for 1982 to negotiate local productivity deals. In return BSC agreed to consolidate some productivity payments into basic rates, to improve certain pension conditions from April 1982, and to introduce a 39-hour week from 1 January 1983.

BSC's Head Office staff increases for 1982 will be based on the average increase paid from local productivity deals in BSC's main businesses; there will be no guaranteed minimum payment.

- 4 British Airways: (a) All grades (excluding pilots) 50,000
(b) Pilots (3,500)

Settlement dates (a) 1 January (b) 1 April

Unions: TGWU, AUEW, EEPTU, NUSMWC, ACTSS, APEX, GMWU,
FTATU, UCATT

On 10 September British Airways announced a "rescue plan" aimed at stemming losses of some £100 millions in the current year and £250 millions in the two years period to April 1982. So far as staff and pay are concerned, the plan involves a reduction of 9,000 jobs by June 1982 by early retirement, voluntary severance and natural wastage and a pay freeze at least until September 1982 when the situation will be reviewed. Other features of the plan include the renegotiation of many working practices, cuts in routes, closure of some depots and offices and the sale of aircraft and property. An unexpectedly high response to the severance scheme has been reported.

For the purpose of negotiation on pay and conditions of employment staff are divided into 11 functional groups called National Sectional Panels on which all unions are represented. Although the delay of the annual settlement has been

generally accepted, 3 panels have submitted claims/ for substantial increases (Engineering and Maintenance, Ramp, Ground Service staff). These claims are thought to be aimed at keeping options open rather than to be a serious attempt to open negotiations in the immediate future.

The panel covering ramp staff (eg baggage handlers, cargo handlers and towing staff) have objected to the company's reorganisation of working practices for increased productivity. The company say that this will enable 300 staff who have opted for the voluntary severance scheme to go.

This caused some disruption on 27 January to European flights and again on 9 February onwards as management attempted to implement the new working practices.

Comment: Refusal by the group to implement the revised working arrangements could jeopardise those agreements already reached with other groups. Management are taking a firm line.

5 British Airports Authority: All grades (7,500)

Settlement date: 1 January

Unions: Staff - IPCS, SCPS, CPSA, CSU

Industrial grades - TGWU, AUEW, GMWU, EEPTU, NUSMWCH, UC

The unions have submitted a claim for an overall increase of 15% on average earnings slanted toward a larger proportional increase for the lower paid. The Authority have offered 6% on all elements of basic pay except London Weighting. The average earnings increase has not been costed but the effect on the paybill is thought to be between 5 and 6%. The offer has been rejected and there will be a full meeting of the Joint National Consultative Committee on 9 February.

Comment: Any settlement is usually influenced by that of British Airways. This year, however, BA have delayed all settlements until September 1982 (see item 4).

Municipal Buses: Platform and non craft maintenance staff (15,200)

Settlement date: 1st full pay week in January

Unions: TGWU, GMWU

An increased offer was made on 8 January worth 6.6% on basic rates and an extra £1 per shift to crew drivers and conductors (giving a 7.8% increase on average earnings), 2 additional days holiday and a one hour reduction in the working week from November 1982 (these additional benefits will have only a marginal effect on average earnings). The offer was referred to a regional delegate conference on 2 February and was accepted.

Comment: The settlement will inevitably influence the negotiations for the National Bus Company (SD: 1 March see item 7) and the Passenger Transport Executives (see item 8).

7. National Bus Company - Platform and non craft maintenance (34,328)

Settlement date: 1 March

Unions: TGWU, NUR, GMWU, AUEW(E), NCOI

The unions have submitted a claim for an 18% increase on rates, 1 week's extra holiday and progress toward a 35 hour week. The effect of the claim on average earnings has not been estimated. A management offer of 4.25% on rates has been rejected, but negotiators are due to meet again on 15 February.

8. Passenger Transport Executives - Platform staff

Settlement Dates: various

Unions: TGWU, GMWU

Three authorities have reached agreements as follows:

Greater Manchester (SD: 1 November)	7.8%	
West Midlands (SD: 6 November)	6.5%	increases on average earnings
Merseyside (SD: 1 January)	7.8%	

Comment: These settlements and that of the municipal undertakings will influence the remaining PTE's; Tyne and Wear (SD: 1 March), Strathclyde (SD: 27 April), West Yorkshire (SD: 1 May), South Yorkshire (SD: 1 April).

9. Gas Supply Manuals (41,200)

Settlement date: 17 January

Unions: GMSU, TGWU

The unions have submitted a claim to Management covering

- (1) An increase in rates to maintain the value of the pay packet - taking account of both inflation and taxation levels
- (2) A reduction in working hours (from 38 $\frac{3}{4}$ to 37 hours a week)
- (3) Consolidation into basic pay of bonus earnings and "general obligations payment", (the key issue)
- (4) Payment of average earnings during holidays
- (5) Improvements in shift and stagger pay
- (6) A change in the basis of awarding local holidays

At the meeting on 9 February BGC while continuing to refuse to consolidate bonus pay into basic pay offered further minor restructuring of the package: they increased their offer on basic rates to between 7.8% to 9.1% (average increase 8.5%). A further 50p per week was offered on the General Obligation Payment (for flexible work procedures). Together with the increase in holiday and "stagger" pay this represents an average earnings increase of about 6.8% during the settlement year (or 7% if the holiday pay applied throughout the year instead of from 1 June).

The unions still pressed for consolidation of bonus pay, drawing attention to the 'water manuals' settlement. They have not rejected the offer but they are not commending it to their membership who are now being consulted. When this consultation is complete a further meeting with BGC will be arranged.

Comment: The Gas, Water and Electricity industries closely watch each other's negotiations and are influenced by the miner's settlement. An agreement reached in the Gas industry will have repercussions for the Electricity supply manuals (SD: March)

10. Electricity Supply: Manuals (94,000)

Settlement date: 17 March

Unions EETPU, GMWU, AUEW, TGWU

The unions made the following 5 point claim at the NJIC meeting on 7 January:-

- (1) A substantial increase on basic rates
- (2) An additional increase on each pay band of the scale
- (3) Increased holidays
- (4) A shift and staggered hours pay increase (in line with the increase in basic)
- (5) A reduction in working hours

Comment: These settlements and that of the municipal undertakings will influence the remaining PTE's; Tyne and Wear (SD: 1 March), Strathclyde (SD: 27 April), West Yorkshire (SD: 1 May), South Yorkshire (SD: 1 April).

The total paybill increase of the claim has not been estimated.

The Electricity Council made a formal offer on 4 February of a cash increase on a scale basis ranging from £5 for a labourer to £6 for a craftsman at the top of the salary range. A willingness to agree to enhancement of shift payments was also indicated, but no offer was made on the claim for harmonization of holiday entitlement between manual, clerical and junior engineering staff.

The total package will represent a 5-7% increase in average earnings, depending on grade, overtime and shift pattern; and 5-6% on the salary bill. The next scheduled meeting is on 4 March.

Comment: Acceptance by the miners of an increase presented as 9.3% and water service manuals presented as 9.1% and any settlement in the gas industry will influence negotiations. The manual's settlement will influence the power engineers (SD: 1 February see item 11).

11. Electricity Supply: Power Engineers (29,300)

Settlement date: 1 February

Unions EPEA/EMA

At a National Joint Board meeting on 19 January, the EPEA submitted a 5 point claim as follows:

- (1) Preservation of links with NJIC scale
- (2) Even progression through NJB scales
- (3) Restoration of 1975 differentials at maxima of scales
- (4) Improvement in out-of-hours payments
- (5) 35 hour week as a long term objective

The total paybill increase of the claim has not been estimated.

The next NJB meeting is 16 February and the Electricity Council have said that they are unlikely to be able to make an offer at that time.

Comment: The power engineers settlement will be influenced by the outcome of the manual's claim (see item 10).

12. British Shipbuilders: Staff and manuals (67,000)

Settlement date: 1 April

Unions CSEU, SAIMA

Management have received an uncosted claim from the CSEU which comprises:

- (1) A substantial increase in basic rates not less than the rate of inflation
- (2) Consolidation of certain items from the previous pay agreement

CONFIDENTIAL

- (3) A substantial increase in overtime rates
 - (4) An increase in the Minimum Earnings level
 - (5) A phased reduction to a 35 hour week
 - (6) Increased holidays and holiday pay
- plus other minor benefits.

A formal meeting between management and the CSEU to discuss the precise details of the claim will take place during week commencing 15 February.

Management expect to receive a claim from SAIMA during week commencing 8 February.

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SETTLEMENTS CONCLUDED SINCE LAST REPORT

A 1981/82 PAY ROUND

- 1 Coalmining: Manuals (198,000)
Settlement date: 1 November
Union NUM

Following a pithead ballot, the NUM met the NCB on 26 January and accepted the offer of 8.57% on basic rates (£93.86 million on the paybill) and the introduction of a Service Bonus Scheme to be paid as a lump sum on the last pay day prior to Christmas each year (a further £8.29 million on the paybill). The settlement has been presented as 9.3% but the average earnings increase will be 7.44%.

- 2 Water Services: Manuals (30,000)
Settlement date: 7 December
Unions GMWU, TGWU, NUPE, NUAWW

The unions have accepted the offer of 9.1% increase on basic rates, worth 8.8% on average earnings and 1 additional day's holiday from April 1982 (the effect of this additional holiday on average earnings is minimal). There is a forward commitment for both sides to consider the position of the group in relation to the earnings of manual workers in the economy generally.

- 3 Water Services: Craftsmen (5,700)
Settlement date: 7 December
Unions CSEU

Following acceptance by water service manuals, the CSEU has accepted an identical offer of 9.1% on basic rates worth 8.8% on average earnings and one extra day's holiday for those not already on maximum holiday entitlement from 1 April 1982, (the effect of the additional holiday on average earnings is minimal).

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Prime Minister (2)

AD
JV.

Mus 12/2

Econ. Pol.SECRETARY OF STATE FOR ENERGY
THE HONORABLE OFFICE
MILBANK LONDON EC1A 3BE

01 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London
SW1P 3HE

12 February 1982

Dear Chancellor

The British Gas Corporation had a further meeting with the trade union side on 9 February in the negotiations on the gas manuals' pay claim.

The unions had previously rejected an offer comprising an increase in basic rates ranging from 6.8% to 8.1%; increases in holiday pay (from 1 June) and "staggered working" pay; an increase in "local holiday" entitlement; and proposals for the restructuring of bonus and other payments.

BGC increased the offer on basic rates to between 7.8% and 9.1% (not flowing through to bonus) and offered a maximum increase of 50 pence per week on the General Obligations Payment (a payment in respect of flexible working procedures). Together with the rest of the package this would increase average earnings by about 6.8% in the settlement year from 17 January (equating to 7% in a full year).

However, the unions emphasised again that they regard the request for consolidation of bonus earnings into basic pay as the most important element in their claim. BGC offered some minor modifications in the restructuring proposals tabled at the meeting on 28 January which BGC say would add nothing to the overall increase. The unions expressed disappointment with this offer and quoted concessions on bonus payments recently made to the water manuals and miners. They said they were looking for an offer which was more in line with "the miners' 9.3%" and the water manuals.

The negotiators are now consulting their membership on the latest offer. They are not specifically recommending rejection but the trade union side's feeling is that their members are unlikely to accept it. A further meeting will be arranged following this consultation process.

These developments clearly show the link with the miners' settlement about which you wrote to me on 3rd February. Both the gas and electricity employers kept in touch with the NCB during the miners' negotiations and they are fully aware of the figures behind the miners' settlement. They are, of course, very conscious of the need to keep their own settlements as low as possible.

You also mentioned the inter-action between the manuals' and white collar workers' settlements in the respective industries. So far as BGC are concerned, they have assured officials here that although they would take account of the manuals' settlement in considering differentials they would deal with the staffs' claim quite separately and would certainly not commit themselves as to matching the two settlements. Nevertheless it is undoubtedly the case that the staff will have the manuals' settlement very much in mind.

I do however find it difficult to share your optimism that BGC will be able to achieve a significantly lower settlement with their staff. The staff grades account for over 60% of BGC's manpower; they have recently shown themselves to be, if anything, more militant than the manuals and they have the whole national gas transmission system at their mercy should they choose to strike. On the other hand, BGC did not give in to the non-industrial shift workers when they staged a series of selected strikes last Autumn over shift pay and they are not in any doubt about the need to settle as low as possible.

The Electricity Council is equally aware of the desirability of keeping non-industrial pay settlements as low as possible. Nevertheless the power engineers have already lodged an unquantified claim which seeks preservation of the existing link with industrial scales, and indeed, by shifting the link point, seeks to achieve a higher percentage increase. The Council intend to resist the proposed change in the link point. Generally, they believe that the negotiations with the power engineers, who have the ability to shut down every power station in the land, are likely to be difficult this year, and I cannot at this stage give any assurance that their settlement will be lower than that for the industrial staff.

I am copying this to the Prime Minister and to Willie Whitelaw, Michael Heseltine, Patrick Jenkin, John Biffen, David Howell and Norman Tebbit as well as to Sir Robert Armstrong and Robin Ibbes.

Yours sincerely

David Humley

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

142 FEB 1982



CONFIDENTIAL

FILE

SW



Econ Rd

bcc: Mr. Vereker

10 DOWNING STREET

From the Private Secretary

12 February, 1982

Public Service Pay

The Prime Minister read with interest the Chancellor's minute of 3 February, following up a number of points raised at her meeting of 7 January.

The Prime Minister would be grateful if officials were to set in hand, as proposed in paragraph 14 of the Chancellor's minute, the preparation of:

- i) a list - which might consist of no more than a few cases - where the approach considered in paragraphs 4-14 of the Chancellor's minute might be relevant;
- ii) an analysis of how this approach might work in the particular cases listed.

M. C. SCHOLAR

John Kerr, Esq.,
H.M. Treasury

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CONFIDENTIAL

re TMP



re JV

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HWT
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WO.

10 DOWNING STREET

From the Private Secretary

11 February 1982

Dear Imogen,

The Prime Minister has seen a copy of your Secretary of State's letter of 10 February to the Chancellor of the Exchequer about teachers' pay.

The Prime Minister hopes that officials will stick to 4% and aim to settle at it; and that they should move to 5% only if they have to and if they are absolutely sure that to do so will achieve a settlement. She suggests, too, that they should air the possibility of a disaggregated offer, in which groups of teachers in shorter supply than other groups are offered somewhat more.

I am sending copies of this letter to the Private Secretaries to Members of E(PSP) and the Secretaries of State for Scotland and Wales.

Yours sincerely,

Michael Scholar

Mrs. Imogen Wilde,
Department of Education and Science.

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5

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CPJ What happened to
the ch (G) minutes?

2 pps

MR. SCHOLAR

c. Mr. Walters
Mr. Hoskyns

ah flap.

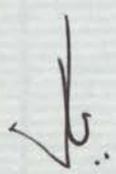
Public Service Pay: Earmarking part of the Contingency Reserve

We share the Chancellor's doubts whether the proposal outlined in his note of 3 February is likely to prove fruitful.

We think a clear distinction should be drawn between projects whose financing is naturally affected by pay settlements - such as electrification and Belvoir, where investment is justified only if certain productivity criteria are met - and projects where the pay settlement is totally unrelated (such as school books). In the latter case, the project ought to be decided on its own merits; and it would not be easy to establish a negotiating link any way.

So the most fruitful area for a pay/investment negotiating link is likely to be in the nationalised industries, where we would certainly welcome any new factor which shifts the bargaining balance our way. As the Chancellor says, the scope for action within a single year is limited, because investment is likely to go well beyond the current year's contingency reserve. And the trouble with linking it to longer term investments is that the whole mechanism will be tending towards greater expenditure - when the pay settlement is under the cash limit, investment is increased to compensate; when it is over the cash limit, there is presumably no compensating adjustment.

We conclude that we should continue to keep our eyes open for obvious negotiating links, such as BR electrification; but that no general scheme, whether using the contingency reserve or not, is worth pursuing. The Prime Minister may feel that it would be helpful to ask the Treasury to examine whether there are other promising-looking links which we here have not so far identified.



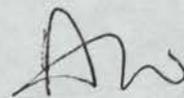
J.M.M. VEREKER
10 February 1982

CONFIDENTIAL

MR. VEREKER

PUBLIC SERVICE PAY: EARMARKING PART OF THE CONTINGENCY RESERVE

1. I am not at all convinced that we can get any mileage out of the association of investment with pay settlements. In fact I think it may well be used to our disadvantage.
2. The point is that with new investment the commitment is made virtually in year one for many, many years ahead. The deal with the unions, however, is only done for one year. And in any case the agreement is not enforceable. Once the investment is in place, however, the unions know that there is a higher demand for labour and so they can collect their pound of flesh. Unless we can bind the unions to an agreement over many, many years, it seems not worth a candle.
3. I saw an example of this in Brazil where a new urban railway line, I think in Salvador, was sanctioned on the basis that unions would cut their manning levels by more than 50%. As soon as the railways were built, the manning levels returned to the normal levels.
4. We really haven't had much luck with British Railway electrification. In order to satisfy Peter Parker and give him an additional bargaining counter, we allowed the Norwich electrification to go ahead. And of course it got us nowhere with ASLEF except that we are committed now to Norwich electrification. We lost our counter and gained nothing. The unions on the other hand gained a sure-fire guarantee that the Norwich line is hardly likely to close. They are set up for life.
5. The Prime Minister's view was that we should not sanction the Norwich electrification. I on the other hand thought it was worth giving Parker his bargaining counter. I am quite sure now the Prime Minister was right and I was wrong.



10 February 1982

ALAN WALTERS

CONFIDENTIAL



✓ AD
JV

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

10 February 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3HE

It was agreed in E(PSP) on 27 January that I should report to colleagues on the outcome of my discussion with leaders of the Burnham Management Panels, and the line my officials will take within the Management Panels, before the first main Burnham negotiating meetings of this pay round take place. Colleagues will recall that the teachers' unions are claiming pay rises broadly in line with increases in the cost of living. The Management Panels will be responding, and making initial offers, on 16 February (school teachers) and 22 February (further education teachers). The Management Panels are meeting separately on 12 February to consider what their line should be.

I discussed the position this morning with the leaders of the two panels - both from the Association of County Councils. They believe, and I agree with their judgement, that an acceptable settlement (ie below or very close to 4%) is unlikely to be reached on either 16 or 22 February, if only because at that stage the teachers will have the local authority manuals 6.9% settlement in mind, and be unwilling to settle for much less at least before they see what the Civil Service and the nurses get. They are likely at some stage during the 16 or 22 February meetings to want to make an offer worth 4% (possibly as a combination of an across-the-board sum and a percentage increase), because they believe public opinion would favour the teachers if they do not. But I judge that the Association of County Councils will not at this stage suggest, or agree to, any offer being made above 4% unless they are confident that an offer slightly above this level would be accepted, and that even then they would not agree to an offer more than 5%. Equally they will not accept any requests from the teachers to go to arbitration at this stage. Their firm view is that they do not have the money. The position of the Association of Metropolitan Authorities is less clear, although the indications are that they would not wish, at least at this stage, to go much further. In later stages, much may depend on progress with the Civil Service negotiations.

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My aim is to obtain the lowest possible settlement. This aim must take precedence over questions of how details of a settlement may affect the pay of different groups of teachers. While I hope for a settlement costing no more than 4%, I nevertheless believe that if a settlement of 5% could be achieved on either 16 or 22 February we should agree to it. Not to do so might cost us more in the end. My officials will therefore argue and vote on 12 February against any offer being made on either 16 or 22 February above 4% unless the Management Panel has good reason to suppose that an offer slightly above 4% would be accepted - though I think this is a very unlikely eventuality. Even in this case they will not agree to an offer above 5%. On this basis the question of using "the veto" will not arise, because there will be no disposition among the representatives of the Association of County Councils to make an offer we could not accept. Similarly my officials will oppose any reference to arbitration at this stage.

The prospects are therefore that no settlement will be reached at these February meetings, and that further meetings will be necessary in due course, possibly after offers have been made to the Civil Servants and the nurses whether or not they have been accepted.

Copies of this letter go to the Prime Minister, members of E(PSP), the Secretary of State for Scotland and the Secretary of State for Wales.

Gonover
Kew

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CONFIDENTIAL

11-2-82



MR SCHOLAR

cc:- Mr Hoskyns

Prime Minister

(1)

Agree to X overleaf? (but how can officials
be sure that a 5% offer will gain acceptance?)

MCS 10/2

TEACHERS' PAY

Yes not

(attached)
MCS
The Prime Minister ought to see Sir Keith Joseph's letter of today's date to the Chancellor about the handling of the forthcoming teachers' pay negotiations. It raises the difficult question of what authority should be given to the DES officials who sit on the Burnham Management Panels.

The Prime Minister will recall that, at her meeting of Ministers on 7 January, there was some confusion about the extent to which the Government is able to control the offer made by local authority employers. The position is that the Government has, by informal agreement with the employers, a veto over the total cost of any offer; and it may, if both Houses of Parliament resolve that national economic circumstances so require, override an arbitration award. Mr Carlisle did, of course, withdraw the right of unilateral access to arbitration, but the employers could nonetheless agree to it.

Although Sir Keith says that his aim is to obtain the lowest possible settlement, he defines this as "no more than 4%", and indicates that he would in fact be content to settle at 5%. This contrasts strongly with the general feeling in the Prime Minister's meeting that of all the public service groups, the teachers had the weakest claim for 4%. If the doctrine that "some will get more, and some will get less", means anything, it ought to mean that teachers get less - because we have far too many of them. And, given the constraints that have been placed on Mr Fowler in his desire to offer some Health Service groups more than 4%, it would look very odd if we were to agree to 5% for the teachers: indeed, it would create significant difficulties for the negotiations with the Civil Servants and NHS.

But intervention in these circumstances, certainly to the extent of arguing for an offer much lower than 4%, would involve the Government in taking a high profile. Officials would have to use the veto; the claim might go to arbitration; and public support for the teachers - of who there are nearly $\frac{1}{2}$ million - would probably grow. Both the employers and the unions know that very few settlements this pay round

have been achieved below 5%.

I conclude that an opening of the negotiations at 4%, and an eventual settlement at 5%, is just about acceptable. What we have to avoid is allowing the negotiations to start at 5% and drift up further. Our general experience is that negotiators go to the limit of their discretion far too early in negotiations. The Prime Minister may feel that it would be wise to tell Sir Keith that his officials should stick to 4%, and hope to settle at it; they should move to 5% only if they have to, and if they are absolutely sure that to do so will achieve a settlement. They should also air the possibility of a disaggregated offer, in which groups of teachers in shorter supply than other groups are offered somewhat more.

J.

10 February, 1982



10 DOWNING STREET

From the Private Secretary

5 February 1982

NHS PAY

The Prime Minister had a discussion on 4 February about the Chancellor of the Exchequer's minute to her of 1 February reporting on the conclusions of the Ministerial sub-Committee on Public Service Pay about the pay offer to the National Health Service. The others present were the Secretaries of State for Defence, Social Services and Employment, the Chancellor of the Duchy of Lancaster, the Minister of State, HM Treasury (Mr. Heyhoe), Mr. Le Cheminant (HM Treasury) and Sir Robert Armstrong.

The following points were made in discussion:

(a) There was a strong case for a pay offer to the nurses of more than 4 per cent. It was, however, doubtful whether such increases should be available to the most senior nursing grades or to all the NHS groups earmarked for special treatment in the Secretary of State for Social Services' proposals. So far as the other NHS employees were concerned, the proposal was for an increase of 4 per cent. There might, however, be a case for an increase of less than 4 per cent on recruitment and retention grounds, for example for some administrative, clerical and ancillary grades. It was recognised that the Government was not involved in the detail of the negotiation but it might be possible to indicate to the Whitley Council the Government's views on where the extra money should be directed.

(b) Although discussions were still in progress between the Secretary of State for Social Services and the Chief Secretary on the public expenditure implications, it would be difficult to accommodate the proposals within cash limits. Further work would need to be done to minimise as far as possible any excess over cash limits. In addition to the desired restructuring of the offer it would be necessary to examine the scope for further economies, for example through reduced manpower, especially in non-medical grades, and improved efficiency.

SUBJECT

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(c) If the outcome of the pay negotiations with the NHS involved a substantial increase over cash limits, it might be necessary to consider announcing a corresponding increase in revenue, for example from an increase in the National Health charge, even though this could not take effect for some time.

(d) The presentation and timing of the NHS offer could have a considerable impact on the Civil Service pay negotiations. There were clear difficulties in the proposal that the NHS and Civil Service pay offers should be announced simultaneously.

The Prime Minister, summing up the discussion, said that, in addition to his discussions with the Chief Secretary about the public expenditure implications, the Secretary of State for Social Services should consider urgently with the Chancellor of the Exchequer the structure, presentation and timing of the pay offer to the National Health Service. In the light of the outcome of these further consultations, the issues would need to be considered again by the Prime Minister and the other Ministers principally concerned.

I am sending copies of this letter to the Private Secretaries to the members of E(PSP) and to David Omand (Ministry of Defence), Muir Russell (Scottish Office), Terry Mathews (HM Treasury) and Robin Ibbs and Sir Robert Armstrong.

John Kerr, Esq.,
HM Treasury.

CONFIDENTIAL

c. Mr. Walters
Mr. Scholar
Mr. Duguid

MR. HOSKYNS

PUBLIC SERVICE PAY

The Chancellor's note of 3 February to the Prime Minister, attached, raises an issue on which I think we ought to concert a view; and Michael Scholar has agreed to wait until we do so before putting the papers in to the Prime Minister.

You will recall that the Prime Minister was very keen at her meeting on 7 January that the Treasury should consider a way of earmarking part of the contingency reserve for attractive capital expenditure projects, which could be released when and if the pay of the related public sector group were settled at a reasonable level. The Chancellor quite rightly explains the draw-backs to doing that with the current year's contingency reserve; the proposition we need to think about is the one outlined in paragraphs 8-13 of his note, under which a more or less explicit link is created between pay negotiations and public sector investment projects.

I would suggest that our advice might be along the following lines:

(1) We ought to distinguish between projects whose financing is naturally affected by pay settlements (electrification and Belvoir, the natural examples, where investment is justified only if certain productivity criteria are met) and projects where the pay settlement is totally unrelated (such as the Prime Minister's example of school books). It is not logical to attempt to create a link in the latter category, even if it were possible, because the project ought to be decided on its own merits.

(2) The main cases where the pay/investment negotiating link may be possible will arise in the nationalised industries, and indeed they could provide a useful addition to our otherwise weak armoury in dealing with pay claims in that sector. (We ought if possible to think whether there are good examples other than

CONFIDENTIAL

/the two

the two mentioned above. Any suggestions?) But the way in which the linking might be deployed - and whether explicitly or implicitly - needs to be further considered.

(3) There is a similar link in the public services, which the Chancellor does not mention, which is between pay and manpower. This however only operates on the down side, i.e. there is a manpower penalty to be paid if pay rises are excessive. That also might be made more explicit.

J. M. M. VEREKER

3 February 1982

✓ JV AD



Prime Minister

①

Do you wish to
Commission officials to

Treasury Chambers, Parliament Street, SW1P 3AG draw up a list of
01-233 3000

PRIME MINISTER

Let us see
a few cases
not.

← cases where this approach
might apply - costed?

Or do you believe that this
approach has now been shown to
be not worth further
pursuit?

PUBLIC SERVICE PAY

At the meeting under your chairmanship on 7 January I was
asked to consider a number of points.

University and School Teachers Pay

MCS 5/2

2. If the universities can settle with the university
teachers at less than the 4 per cent on which the grant-in-
aid will be based, the money so saved can be used by the
universities for other purposes, including redundancy and
slimming costs. (The only qualification is that the
universities must not do anything which would make it
impossible to live within the expenditure plans for years
after 1982-83).

3. As I understand the position regarding school teachers,
the Government cannot prevent access to arbitration, if the
unions and the employers agree to it; but it does have power,
subject to the approval of both Houses of Parliament, to
override an arbitration award.

Earmarking of part of the Contingency Reserve

4. I was asked also to consider the practicability of
earmarking part of the Contingency Reserve for capital spending
so as to provide an inducement for moderate pay settlements.

5. The present cash limit system is set up to give some
incentive of this kind. Where a public service group settles



below the 4 per cent which we have allowed for in the cash programmes, then the balance can be made available to finance additional expenditure within the year. (There are some technical problems about switching money from pay to non-pay Votes but these can be overcome). The position within nationalised industry EFL's is similar.

6. The scope for action within a single year is limited. Luckily, most public sector pay negotiations are either completed before the financial year begins or are concentrated into the first few months. If a suitably low settlement were reached, the "savings" could be used to finance expenditure in the rest of the year. This would not usually extend to major capital projects. The lead times are too long. But it would allow minor maintenance and current expenditure. (The example of school books which was used at your meeting on 7 January happens to be a bad one, because this is local authority expenditure. I turn to this below).

7. But we need to think in a longer-term framework. I see little prospect of devising a scheme involving the use of the Contingency Reserve. In essence, such a scheme would be bound to refer to money over and above the cash limit for certain services, and urge on the unions that it should be used for capital expenditure, not pay. The unions would be unlikely to be attracted; importantly, we should have undermined our fundamental argument that pay increases should be contained within cash limits.

8. It may therefore be better to think in terms of expenditure programmes for future years. The British Railways Board had some success in securing a settlement (albeit at 11 per cent) with the NUR, because they deployed the half-promise of Government approval for major new capital developments, including electrification, thus safeguarding NUR jobs in future. This involved making promises of capital expenditure in future years.



9. I think it would be possible to devise a scheme, formal or informal, which allowed similar negotiating tactics in other cases. For example, we could tell the negotiators that there is a notional Contingency Reserve in future years in the Public Expenditure Survey, which could be used to finance additional capital projects. It would probably be necessary to specify such projects in some detail to make such an offer convincing and attractive. If and when a settlement was reached at an acceptable figure (which would also have to be specified in advance) an appropriate amount of cash could formally be transferred from the Contingency Reserve to the relevant spending programme.

10. Alternatively, and less formally, we could simply reach an agreement that a suitable addition to the relevant programmes would be made in the following year's Public Expenditure Survey. It would then form part of the annual re-examination of the level of expenditure in that programme. There would be an implied commitment to make funds available for the particular projects which had been offered as part of the pay negotiation, and not to offset this by reductions in other parts of the relevant programmes.

11. Any scheme of this kind would, I am afraid, present a number of problems. It would reduce our room for manoeuvre and prejudice decisions on priorities in future Public Expenditure Surveys. It would involve commitments in future years in return for good behaviour on pay in the first year only. It would be usually difficult to reverse the process once the promise had been given. It would often be wasteful to cancel the new projects; and to cut other parts of the programme (which had originally been regarded as of higher priority) could produce serious distortions.



12. The concession to be offered would have to be tailored fairly closely to the interests of the unions concerned. The NUR had a genuine interest in securing approval of electrification, because it preserved jobs. The offer of improved office accommodation in Cardiff might be less persuasive to civil service unions representing people who work elsewhere, and who may in any event not regard even their own office accommodation as a high priority. Much would depend on the skill of the negotiators in deploying these arguments.

13. Such a scheme would have to be confined to areas where Government can deliver. The Government has no power to direct where local authorities should spend any additional funds made available. In practice, I think this confines any such scheme to those areas where we have more direct control, or there is a natural trade-off between pay and other forms of expenditure: the central Government, the National Health Service, nationalised industries (including the Water authorities) and perhaps the universities. These groups together constitute a large part of the total public sector; but the local authority area, which is particularly sensitive, would not be covered.

14. If you wish to pursue any of these options we could ask officials to draw up detailed lists of the cases where this approach might be relevant, and of the size of concessions it would be necessary to offer. Treasury officials will set this in hand, in consultation with other departments, if you wish. But I confess to some doubts whether it is a fruitful line.

(G.H.)

3 February 1982



- 3 FEB 1957



COMPTON

151



Prime Minister

Mus 5/2

②

cc JV AD

Econ.
Policy

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 3 February 1982

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

ms

Nigel

GAS AND ELECTRICITY MANUALS' PAY

Thank you for your minutes of 28 and 20 January on the pay negotiations with the gas and electricity manuals respectively. *TPM*

No doubt both of these groups will be aiming for a settlement in line with what the miners have secured. I believe that the respective employers have for their part kept in touch with the NCB and should therefore be aware of the details of that settlement. It might nevertheless be worth making sure that they are both well aware of the estimated effect of the miners' settlement on earnings (7.4 per cent), and are not just focusing on the effect on basic rates of 9.3 per cent which has been generally publicised. The objective should clearly be an earnings effect in both cases within the 7.4 per cent figure (and lower if possible), not one related to the 9.3 per cent figure.

The offers made in the case of the gas manuals and proposed for the electricity manuals seem broadly consistent with this approach, and I have no comment on them. But further negotiation is envisaged, and it would be unfortunate if the employers were influenced by avoidable misunderstanding.

Another point which is perhaps worth mentioning even at this early stage is that whatever the manuals get in these two industries should not necessarily be regarded as setting the tone for subsequent settlements with their non-manual workforces. It would seem worth putting the thought to the employers that they should do nothing to encourage any such expectations as negotiations with the manuals develop. I would have thought that significantly lower settlements with non-manual grades should be possible.



I am copying this letter to the Prime Minister, other members of E, George Younger, Robin Ibbs and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G. Howe", written over a horizontal line.

GEOFFREY HOWE

A red circular postmark with the numbers "1 2 3 4 5 6 7 8 9 10 11 12" around the perimeter and a central dot. To its right is a red rectangular date stamp that reads "E 3 FEB 1982".

Prime Minister

(2)

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✓ AD
JV

Econ Pol
Pub Sec Plan

01-211-6402

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3HE

2 February 1982

In my letter to you of 28 January I explained something of the complexities of the current gas manuals' negotiations.

As expected, the negotiations on the 28th were largely devoted to a discussion of proposals tabled by BGC for a restructuring of bonus and other payments. These of course fell far short of the unions' claim for consolidation of bonus earnings into basic pay and there were several clauses which the unions did not like. However they have agreed to continue the discussions and BGC hope that they have convinced the unions that there is no prospect of achieving consolidation.

Towards the end of a long meeting BGC offered a marginal improvement on their previous offer - an increase in basic rates of between 6.8% and 8.1%, averaging 7.5%. (The previous offer gave an average increase of 7% on basic rates.) With the rest of the package offered last time this would represent an increase in average earnings of about 6%. (The restructuring proposals are difficult to quantify but they might add another 0.4%). The Unions were apparently not very impressed with the suggested increase having regard to the level and type of settlements already agreed for the miners and water manuals.

The negotiations will be resumed on 9 February.

I am copying this to the Prime Minister and to Willie Whitelaw, Michael Heseltine, Patrick Jenkin, John Biffen, David Howell and Norman Tebbit as well as to Sir Robert Armstrong and Mr Ibbs.

NIGEL LAWSON

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*Conceded to
Nat Health MS2
Nurses Pay*



B
MS 1/2
JV
Prime Minister

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

PRIME MINISTER

NHS PAY

The Ministerial Sub-Committee on Public Service Pay (E(PSP)) discussed two papers by the Secretary of State for Social Services at its meeting last Wednesday, one on the prospects for pay in the National Health Service (NHS) in the current pay round (E(PSP)(82)2) and the other on long term arrangements for settling nurses' pay (E(PSP)(82)1). You will want to consider the important issues concerning both pay and public expenditure which these papers raise.

Current pay round

2. You will recall that the Secretary of State first put forward proposals for increases above 4 per cent for certain key NHS groups last October, when E(PSP) approved them in principle. It was subsequently decided in the context of the Cabinet's public expenditure discussions that these proposals should not be pursued, although the Secretary of State warned that he might need to come back to colleagues, depending on developments.

3. The Secretary of State argued in E(PSP)(82)2 that the already appreciable risk of industrial trouble in the NHS this year had been exacerbated by the pay settlement of 6.9 per cent for the local government manuals and roughly 10 per cent for the electrical contracting industry, with whom NHS electricians (and through them other NHS craftsmen) have a firm link. The danger of widespread industrial trouble would be avoided only by offering increases of broadly 2-2½ per cent above the 4 per cent limit to certain key NHS groups -



principally nurses, doctors and dentists - whose support in the face of industrial action by others would be essential. He would seek to hold other NHS groups to pay increases of 4 per cent, although this would be far from easy; there was no prospect of their accepting less.

4. The cost of the Secretary of State's proposals would be £118 million in 1982-83, which the Secretary of State argued could not be offset by savings on other NHS expenditure or by increased productivity or manpower reductions on the part of the groups concerned. The proposals are therefore conditional on a satisfactory understanding being reached in bilateral discussions between the Secretary of State for Social Services and the Chief Secretary, Treasury on how the additional expenditure can be met.

5. The Secretary of State argued, and the Sub-Committee agreed, that an early announcement was desirable; to delay could well lead eventually to higher settlements and also create the impression that the Government had given in to pressure from the nurses' pay campaign. It is clear however that the timing will need to take account of the timing and nature of the Government's offer to the non-industrial civil service. This is something which you will no doubt wish to discuss at the meeting which we are to have on 2 February.

Doctors and Dentists Review Body

6. There is a related issue concerning the Doctors and Dentists Review Body to whom DHSS are giving oral evidence on **3** February. The Secretary of State argued that it was important that his officials should be able to indicate then at least in general terms that there was some flexibility in the Government's position on the pay of doctors and dentists. His view was that if the DDRB were given assurances of this sort they would make recommendations broadly acceptable to the



Government and in which the professions would be prepared at least to acquiesce; but that if the DDRB was led to believe that the Government intended the 4 per cent cash limit pay factor to apply equally to the doctors and dentists as to other NHS groups the result would probably be unacceptably high recommendations, the subsequent rejection of which could well undermine the review body system. There was, in his view, no danger that this information would become public prematurely.

7. The Sub-Committee agreed on balance with the Secretary of State, that provided that the public expenditure issues could be resolved in time, DHSS officials should indicate a degree of flexibility on the Government's part about the pay of doctors and dentists, but in such a way that the Government's position was fully reserved if, in the event, the DDRB were to produce unacceptably high recommendations. This is of course a modification of the policy of letting all three Review Bodies report in the normal way, which was set out in my minute to you of 30 October 1981, following an earlier discussion in E(PSP) and approved by you in your Private Secretary's letter of 11 November.

Long term arrangements for nurses pay

8. As for the long term arrangements for settling nurses' pay, you will recall that it was agreed at your meeting with the Nurses and Midwives Whitley Council on 18 December that the Secretary of State for Social Services should chair a further meeting of the Whitley Council early in the New Year with the aim of identifying a programme of work which could usefully be pursued by the Staff Side between now and the autumn, by which time we should have received and reached broad conclusions on the Megaw Report, and that the Secretary of State would circulate in advance of this meeting a paper suggesting the fields in which work might most usefully be pursued. A draft was annexed to E(PSP)(82)1.



9. The Sub-Committee endorsed the tactic of commissioning a study by management consultants of the main technical questions which arise. But it felt that the paper as drafted did not adopt a sufficiently neutral tone in describing the various options for the comparability aspect of a new system and that it did not adequately emphasise the importance of taking full account of market factors and affordability in whatever pay system is finally devised. Officials are now revising the draft to reflect the Sub-Committee's view and the Secretary of State will clear the revised version in correspondence with E(PSP) before it is circulated to the Whitley Council. The Secretary of State will also consult the Sub-Committee about the terms of reference for the proposed study by management consultants following the meeting of the Whitley Council.

10. I am sending a copy of this minute to the members of E(PSP), the Secretaries of State for Scotland and for Defence, Mr Ibbs and Sir Robert Armstrong.

(G.H.)

1 February 1982

21 FEB 1952



COORDINATOR



CONFIDENTIAL

Prime Minister ②
MUS 2/2

CG JV
AD

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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Secretary of State for Industry

29 January 1982

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1

Dear Norman,

ARBITRATION ARRANGEMENTS IN THE PUBLIC SECTOR

On 30 November E Committee invited me to discuss further with the chairmen concerned the arrangements for arbitration in British Telecom and in the British Steel Corporation.

When I raised the matter with Sir George Jefferson he assured me that he too wants to eliminate the unilateral rights of access to arbitration enjoyed by unions within British Telecom. His Board will be considering this shortly. I shall let you know what they decide.

An approach has also been made to BSC about the possibility of altering their little used arbitration arrangements which apply to only a limited number of their employees. The Corporation judge that it may well be counterproductive to seek to renegotiate these arrangements now especially as the relevant unions (unlike the Iron & Steel Trades Confederation) have accepted the management's tough proposals for the 1982 pay round. In the past the unions have not insisted on arbitration against management wishes and are, in the Corporation's view, extremely unlikely to do so in future. Hence the chances of arbitration being used to circumvent a firm management stance are very slim and the Corporation would prefer to let matters rest. I think that we should respect their judgement.

I am sending copies of this letter to the other members of E Committee and to Sir Robert Armstrong.

Your ever
Ratcliffe

FEB 2 1982

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Prime Minister

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Sec of
Public Sector

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M

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3HE

28 January 1982

John Scott

In submitting to the Prime Minister on 25 January the latest monitoring report on pay in the public trading sector you asked me for a report on the current negotiations in the gas and electricity supply industries. This letter deals with the gas manuals' pay.

The British Gas Corporation have described these negotiations as the most complex that they can remember. The particularly difficult area is the unions' request for consolidation of bonus earnings into basic pay, which the unions have made clear is a key element of their claim. In support of this they have made the point that in the case of certain grades the basic rate on its own actually falls below the supplementary benefits threshold. The unions have been pressing for consolidation of bonus for a number of years but BGC have rejected it on the grounds that it would inevitably result in loss of performance. They argue that payment of bonus must remain linked to productivity.

However, following last year's pay settlement a joint study group was set up to review the pay structure generally and BGC see some scope for adjustments in the way in which bonus is paid without agreeing to consolidation. The resumed negotiations today will therefore depend crucially on whether and to what extent the unions are prepared to discuss alternative ways of solving this problem, and until BGC have the answer to that they will not be able to decide how they might frame any improved offer. BGC have confirmed that they are very much aware of the wider implications of any offer they may make and they certainly intend to settle for as low a figure as they can.

They have been reluctant to quote ceiling percentages in advance because there are so many variables and because such figures are liable to be misrepresented or used out of context. They have said, however, that they are unlikely to be offering more than a further 2% on average earnings (the present offer represents 5.2% on average earnings).

I will of course let you and colleagues know the progress made in today's negotiations as soon as possible.

I am copying this to the Prime Minister and to Willie Whitelaw, Michael Heseltine, Patrick Jenkin, John Biffen, David Howell and Norman Tebbit as well as to Sir Robert Armstrong and Mr Ibbs.

I hope Mr. Allen & White by now know about the position on the electricity supply situation.

NIGEL LAWSON

*Yours
Nigel*



Prime Minister

To note.

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(2)

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

MUS 25/1

PRIME MINISTER

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..... I attach the latest monitoring report on the public trading sector.

2. The main development is the rejection in the mineworkers' ballot of their National Executive's recommendation against the NCB offer and in favour of strike action if necessary. The water workers have also settled, though at the high figure of 8.8 per cent on earnings.
3. The report is, I think, the first indication we have seen of the offer to the gas industry manuals, which was evidently an increase of 7 per cent on basic rates, worth 5.2 per cent on earnings. No doubt Nigel Lawson will let us have an early report on this, and an indication of the offer which the electricity supply industry employers intend to make on 4 February. Perhaps I could reiterate the importance of advance warning of such offers: we agreed to aim at seven days' notice wherever possible.
4. An overtime ban is threatened in British Steel from 7 February. Patrick Jenkin has already reported generally on the industrial relations situation at BSC in his minute of 23 November, and will doubtless keep us in touch with any significant developments.
5. I am sending copies of this minute to the Home Secretary, the Secretaries of State for the Environment, Industry, Trade, Transport, Energy, and Employment, and to Sir Robert Armstrong and Mr. Ibbs.

G.H.

25 January 1982

PUBLIC TRADING SECTOR

PART I: CURRENT AND FORTHCOMING NEGOTIATIONS

A: 1980/1 Pay Round

- 1 British Rail: Clerical and conciliation grades (150,000)
 Settlement date: 20 April
 Unions: NUR, ASLEF, TSSA

Following a recommendation of the Railway Staff National Tribunal on 16 July 1981, a pay increase of 8% from 20 April 1981 and a further increase of 3% payable from 4 January 1982 but backdated to 1 August 1981 was agreed.

A parallel agreement on productivity provided for negotiations on a range of issues to be completed according to an agreed timetable by the end of 1981.

Sufficiently satisfactory progress has been made in productivity talks with TSSA and NUR but not with ASLEF. ASLEF claim that payment of the 3% was not dependent upon completion of negotiations on the productivity issues. But BR claim, on the contrary, that this conditional nature was clearly understood by both parties and that therefore the union has failed to honour its commitment. BR have therefore refused to pay the second stage increase to footplate staff. Talks between BR and ASLEF and ACAS failed on 30 December. ASLEF began an overtime ban on 4 January and held two day strikes on 13-14 and 20-21 January.

It is reported that ASLEF leaders have now decided to call strikes every Sunday and to have a further 2-day strike on 27 and 28 January. There is evidence of sympathetic action by some NUR members who have also not been paid the 3% increase. ACAS continue efforts to get the parties together to discuss a solution, including the possibility of arbitration.

B: 1981/2 Pay Round

- 2 United Kingdom Atomic Energy Authority: Manuals (4,700)
 Settlement date: 1 October 1981
 Unions: AUEW, TGWU, GMWU, EETPU

The Authority's opening offer of a 4.5% increase on rates was rejected on 15 September. At the meeting on 25 November, Management improved the offer to 5% on rates and agreed to consider a possible 1 hour reduction in the working week. Union negotiators reserved their reply. The parties agreed to meet again, on 26 January.

3 Coalmining: Manuals (198,000)
 Settlement date: 1 November 1981
 Union: NUM

On 6 October the NUM presented the NCB with a claim for-

£100 a week basic minimum for surface workers (an increase of 23.7% on present rates); payment on a salary basis; improved differentials; reduced hours, preferably in the form of a 4-day week; improved holiday pay; and earlier option retirement, at age 55.

After 5 negotiating meetings the Board's final offer was equivalent to 9.3% on basic rates, and involved total payments of £102 million. The

Board has allocated £93.6 million to increasing basic rates and the remainder to the provision of service payments as a Christmas bonus, instead of a holiday bonus next year. This arrangement would result in some long serving employees in the lowest grade receiving up to 10.5%. The effect of the offer on average earnings is estimated to be 7.4%. This offer was rejected by the National Executive Committee which convened a national delegate Conference. The Conference confirmed rejection of the offer and decided to hold a pit-head ballot on 14 and 15 January to ratify this and to authorise the NEC to call for strike action in support of the claim if necessary.

The result of the ballot was 45% in favour of the NEC recommendation against the offer and for strike action if necessary. In these circumstances the NUM will have little choice but to accept the Board's offer.

Comment

The miner's settlement can be expected to influence the general shape of the round despite the fact that most other unions recognise that they may not be able to achieve the same level. In particular the settlement will be taken as a benchmark for other major groups in the public utilities.

The 9.3% figure as presented by the NCB has been widely quoted rather than the lower (around 7½%) figure on actual earnings. The higher figure has become a target for other powerful groups in the public utilities, and has already been matched by the water workers who have accepted 9.1 per cent on basic rates with an earnings effect estimated at 8.8 per cent.

4. Water Services: Manuals
 Settlement date: 7 December 1981
 Unions: GMWU, TGWU, NUPE, NUAAW

The unions have accepted the employers' offer of 9.1% on basic rates and one day's holiday. The effect of the offer on average earnings is estimated at 8.8%. The settlement also includes a commitment to consider jointly the position of this group in relation to the earnings of manual workers in the economy generally.

Comment

This settlement, together with that now in prospect for the miners, will set a target which other unions in the public utilities (Gas 18 January, Electricity, February/March) will expect to match. In addition the forward commitment to examine indexation may influence negotiations towards higher settlement levels in future years.

5. Water Service: Craftsmen (5,700)
 Settlement date: 7 December
 Union: CSEU

Negotiations for this group take place in a committee of the manuals NJIC. The unions have submitted a claim which varied from that of the manuals only in detail. Now that the manuals have reached a settlement the craftsmen's union are expected to accept an offer of similar increases in basic rates and holiday entitlements when the executive meets on 5 February. There is no commitment to a study of relative earnings for this group.

6. British Steel Corporation: All grades (108,600)
 Settlement date: 1 January 1982
 Unions: ISTC, GMWU, TGWU, NUB, NCCC, MATSA, SIMA

The BSC corporate plan announced in December 1980 involved 20,000 redundancies by March 1982. The corporation are now reported to require a further 15,000 redundancies by July 1982.

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The plan envisaged no national pay award in 1982: any pay increases to be geared to local productivity deals. In their present situation BSC have also decided not to introduce a 39-hour week from 1 January 1982, as was conditionally agreed after the Lever Committee of Enquiry ended the 1980 strike. In addition, without prior union consultation, BSC recently issued nearly 500 redundancy notices to workers at the Port Talbot plant.

Discussions between ISTC (with some 65,000 members) and BSC on this plan in November and December failed to produce an accommodation. ISTC are primarily concerned over the further planned redundancies, ^{and} also the delay over the introduction of the 39-hour week and because the local productivity increases are not to be consolidated into basic rates. Therefore on 8 January the ISTC executive ordered an overtime ban from 7 February. They have also instructed members to take no part in local productivity talks. BSC management have not been formally notified of this decision. Press reports earlier this week indicated that the ban may be postponed because of the need to re-activate certain plants affected by bad weather and the rail strike. Unlike ISTC, the craft and service unions (NUB) and the management association (SIMA) (altogether 48,000) have agreed for 1982 to negotiate local productivity deals. In return BSC agreed to consolidate some productivity payment into basic rates, to improve certain pension conditions from April 1982, and to introduce the 39-hour week from 1 January 1983.

7. British Airways: (a) All grades (excluding pilots) - 50,000
(b) Pilots 3,500
Settlement dates: (a) 1 January 1982 (b) 1 April 1982
Unions: TGWU, AUEW, EETPU, NUSMWC, ACTSS, APEX, ASTMS, GMWU,
FIATU, UCATT

On 10 September British Airways announced a "rescue plan" aimed at stemming losses of some £100 millions in the current year and £250 millions in the two year period

10 April 1982.

So far as staff and pay are concerned the plan involves a reduction of 9,000 jobs by June 1982, by early retirement, voluntary severance and natural wastage, and a pay freeze at least until September 1982, when the situation will be reviewed. Other features of the plan include the renegotiation of many working practices, cuts in routes, closure of some depots and offices and the sale of aircraft and property. An unexpectedly high response to the severance scheme has been reported and so far there is no indication of union resistance to the proposals.

8 National Freight Company: All grades (27,800)
 Settlement date: 1 January
 Main unions: TGWU, URTU, AUEW, EETPU, NUR

The TGWU are taking the lead in negotiations on behalf of all the unions. Their claim to the company submitted in November was for £100 a week basic rate; a 35 hour week; subsistence increases; holiday increases and other improvements which is estimated to be worth 45-50%.

The Company are not negotiating centrally; each subsidiary is to conduct separate negotiations.

to put the matter to a regional level vote.

- (a) BRS have offered 7%. This has been rejected by the negotiators, who are/
- (b) Roadline have offered 7% to drivers, 3% to others. The TGWU want the same treatment for all groups.
- (c) Pickfords. An offer of 5% for drivers, 3% for others has been rejected.

The fixing of a future meeting is likely to be delayed because of the unavailability of NUR representatives.

Comment

The unions, having declared their position in negotiations as not less than 8%, seem likely to wait to see what is happening in the road haulage industry generally, where settlements have so far been reached in 6 of the 21 separate negotiations in the range 5.6% to 6.9%. In other areas offers between 2.5% and 8.6% have so far been rejected, in four areas with threats of industrial action. The employers remain optimistic that similar settlements can be reached in the remaining areas, and have discounted strike threats.

9 Municipal Buses: Platform and non-craft maintenance staff (15,200)
Settlement date: 1st full pay week in January 1982
Unions: TGWU, GMWU

The unions have submitted in writing to the Employers' Side of the NJIC for the Passenger Transport Industry a detailed case in support of a national claim for:

- (1) A substantial increase in basic rates
- (2) Extension of current holiday entitlement to 5 weeks
- (3) Bank holidays to be treated as annual holidays for pay purposes
- (4) Consolidation into basic rates of current supplement for S/S and U/S Maintenance workers coupled with a restoration of the differential with Municipal Passenger Transport Undertaking Craftsmen
- (5) A reduction without loss of earnings in the scheduled working week

On 4 December the employers offered a 4% increase on rates which was rejected, with threats of industrial action unless an improvement is forthcoming.

On 8 January, the employers increased their offer to 6.6% on basic rates plus £1 per shift extra for conductors; a 1 hour reduction in the working week from November 1982 (paid for by extra productivity); and 2 days extra leave. This is estimated to be worth about 7.8% on earnings. An informal meeting between lead representatives of the 2 sides is taking place on 21 January followed by a meeting of the employers' side on 25 January. The unions are thought likely to accept the offer, and the national strike threat appears to have receded.

Comment

The municipal bus settlement is closely followed by the National Bus Company (March 1982) and influences settlements in the Passenger Transport Executives of whom only two (Greater Manchester: 7.8%; West Midlands: 6.5%) have settled so far.

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- (3) Increased holidays
- (4) A shift and staggered hours pay increase (in line with the increase in basic)
- (5) A reduction in working hours

The employers intend to give their response on 4 February.

Comment

It seems clear that both sides are waiting to see what happens with the miners' dispute. The manuals' settlement will set the pattern for the electricity engineers (settlement date: 1 February).

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SETTLEMENTS CONCLUDED SINCE LAST REPORT

A 1980/1 PAY ROUND

- 1 British Telecom: HCO, EO and HEO grades (7,000)
Settlement date: 1 July
Union: SCPS

The union has accepted an increase of 10% on earnings. (9% on basic rates, 1% productivity bonus consolidation as agreed in 1980; and adjustments to the self-financing productivity scheme).

- 2 Post Office: Supervisors (14,800)
Settlement date: 1 July
Union: CMA

Both sides have accepted the Post Office Arbitration Tribunal's award of 14.5% on earnings to apply from 1 July 1981 to 31 March 1982 (9 month settlement; change of settlement date).

~~CONFIDENTIAL~~

25 JAN 1964

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Subsper copy
filed on Nat Health
Act, Nurses pay.

CONFIDENTIAL

Prime Minister

Do you wish to be consulted before
decisions are taken by E(PSP)

cc: Mr. Hoskyns

about nurses' pay?

PLS 25/1

MR. SCHOLAR

NURSES AND NHS PAY

You may have seen that E(PSP) is considering this Wednesday morning two papers by Mr. Fowler: on pay in the NHS, and on long term arrangements for handling nurses pay. I am sure that the Prime Minister will wish to be aware of the outcome of these discussions, and you may wish to consider whether it would be right for you to ask the Chancellor's Office to arrange for the Chancellor (as Chairman of E(PSP)) to consult the Prime Minister before final decisions are taken.

Briefly, the issue on the nurses is the drafting of a paper to be handed to the Whitley Council which Mr. Fowler will be chairing early next month. The Prime Minister will recall that this paper was promised at her meeting of the nurses on 18 December. This paper has been discussed among officials, and many - including myself - felt that although it now makes the appropriate noises about market factors and job security, it is still oriented towards far too mechanistic a system, which will tend to generate pay scales according to some agreed formula. It is proposed that consultants be retained to work out the details, and my own feeling is that in their present form the proposed terms of reference for the consultants (paragraph 13) may well lead us into considerable difficulty later this year.

In his paper on NHS pay, Mr. Fowler returns to the proposal he put to E in October, under which most of the Health Service, apart from the 400,000 ancillaries, would be allowed to get away with an increase of between 1% and 2½% on top of the 4% cash limit. From a wider pay point of view, I think we could probably sustain some small special increase for the nurses, in view of the effective way in which they have articulated their case and mobilised public opinion; and the most important point is to see that the ancillaries are not offered more than the civil servants. But Mr. Fowler's proposal to tell the DDRB

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to work on the assumption of 6% requires very careful handling indeed: on the one hand, if they are not told that, they may resign when their report is ignored; on the other hand, if they are, we run the risk of a leak which would cause endless difficulties elsewhere (and with the TSRB).

MCS pp JV.

25 January 1982

CONFIDENTIAL

PART 5 ends:-

22.1.82

PART 6 begins:-

25.1.82

