

PREM 19/705

Public Sector Pay Policy

Economic Policy

Treasury Monitoring Reports

Part 1: July 1979

Part 7: April 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
27.4.82							
30.4.82							
6.5.82							
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24.6.82							
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1.7.82							

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~~ENDS~~

PART 7 ends:-

1st July 1982.

PART 8 begins:-

2nd July 1982.

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Record

PA

MR. INGHAM

cc Mr. Scholar
Mr. Mount
Mr. Walters
Mr. Mower

The Next Pay Round

As you know, E discussed the Chancellor's two papers on the next pay round this morning. Afterwards the Chancellor buttonholed me about a speech he intends to make at a lunch on Tuesday 6 July for a group of about 25 industrial and labour correspondents. I have agreed to help with - but not to draft - his speech, and to ask you to give it a push with the Lobby. The purpose of the speech is to start to set the atmosphere for the forthcoming pay round, along the lines endorsed by E. It may be helpful therefore if I let you have this brief résumé of the E discussion, but in a form rather different from the Cabinet Office minutes.

The Chancellor was not seeking decisions on the pay factors for the next pay round, and not even on whether there should be separate pay and price figures: that will come later. What he was after was a general endorsement of an objective for the next pay round for the economy as a whole, which he described as "lower still than last year", i.e. ~~as the~~ settlements at 4% (about 6% this year) and earnings at 6% (about 9% this year). He reminded his colleagues that for those in work, there had not so far been much reduction in living standards over the last two pay rounds, and that we still had earnings rising twice as fast as in US, Germany and Japan. We were still 30% less competitive than three years ago.

Only Mr. Heseltine tried to get a decision on the need for separate pay and price factors, on the entirely correct grounds that otherwise the figure that would get into circulation would be higher than the figure we were seeking for pay. John Sparrow supported this, and warned that 6% would otherwise remain in circulation. The Chancellor will clearly have a problem in trying to set the tone of the next pay round before he is able to talk about the Government's pay factors for the public services.

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The rest of the discussion focussed on only two issues: Mr. Heseltine's proposal for linking lower pay with higher public investment, and everybody's own suggestions for presenting the forthcoming pay message.

Mr. Heseltine got no support. Some colleagues were sympathetic with the objective, but none thought it would work. All experience showed that people would take the pay, and therefore the new investment would never be made. And it took John Sparrow to point out that capital expenditure should stand or fall on its own merits; and Mr. Fowler to remind everyone that it was central to our approach for pay to be related to the circumstances of a particular industry.

As for presentation, the Prime Minister's summary directed the Cabinet Office to prepare a record of the main points suggested. There was some difference of opinion about the message, ranging from a majority who thought it should be confined to a simple reminder of the link between pay and jobs, through those who felt that a major effort would be needed to counter pressure in the economy for bouncing back after two years of restraint, to the sophisticates who argued for the message to spell out the arguments for increased competitiveness and productivity, and lower unit costs. I detected a consensus that the CBI and the private sector would need to be stiffened up - there was much reference to the reported attitude of Lucas, who are contemplating opening at 5% and moving higher to compensate for the last two years.

There was a brief discussion of the special problems of pay in the public trading sector, and the conclusion was that sponsor Ministers would have to look even harder than before at the pay assumptions in EFLs.

J.M.M. VEREKER

1 July 1982

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P.0796

PRIME MINISTER

Pay in the Public Trading Sector
(E(82)54)

BACKGROUND

This note by the Chancellor of the Exchequer is a companion piece to the more general paper on the 1982-83 pay round E(82)53). The Committee's discussion of that paper should have established the broad approach to the next pay round and perhaps any special action needed towards the private sector or the public services. E(82)54 is concerned solely with the public trading sector (essentially the nationalised industries and the water industry).

2. In general terms, the 1981-82 round has not gone too badly in the public trading sector. All the main industries, apart from the railways, have settled without serious industrial action and at lower levels than in the previous round. However, as E(82)54 brings out, some of the industries in weaker financial positions and exposed to competition, who could have been expected to settle fairly low, have in fact settled quite near the average. British Shipbuilders and the bus industry are cases in point; and it could certainly be argued that the Post Office might have driven a harder bargain with the unions. In the Chancellor's minute of 29 June covering the latest monitoring report he refers to several points of concern and particularly to the increase in earnings in the settlement for British Telecommunication's engineers (in the range 8.6 - 9.9 per cent compared with an earnings increase of 7.4 per cent for the miners).

3. In essence, E(82)54 argues for a continuation of the Government's existing policy and methods towards the public trading sector, with some tightening up of the procedures. It appears to propose no significant new initiative.

Econ Pul

Prime Minister

In my short time at No 10 I have seen that this is an area which goes very badly at times. There are numerous suggestions here in Peter Grogan's brief about how to improve performance.
MLG 30/6

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MAIN ISSUES

4. It seems unlikely that any member of the Committee will wish to challenge the Chancellor of the Exchequer's main thesis (paragraph 5 of the note): that the Government should continue its 'arms length' relationship with the nationalised industries and should not become directly involved in negotiations. Such involvement would be unlikely to lead to better tactical management of disputes, and would give some elements in the trade union movement the opportunity they seek for political confrontation.

5. If this is right, it is a matter of seeing what can be done to improve existing methods or their application. The Chancellor of the Exchequer suggests the following:

- a. Be more explicit with boards about pay objectives, especially in the context of external financing limits (EFLs) and reach an understanding, at a formative stage, on the broad strategy for pay in each industry.
- b. Ensure that arrangements for securing information on pay negotiations from the industries are observed.
- c. Identify likely trouble spots and prepare, so far as possible, to deal with them.

Being more explicit

6. It is not altogether clear what "being more explicit" would mean in practice. Does it mean willingness to discuss quantified targets, at least in terms of a fairly narrow range, either for the pay round as a whole or for particular industries, despite the recommendation in E(82)53 that the Government should not set numerical targets?

7. The reference to EFLs might also be probed further. One of the disturbing features about the 1981-82 pay round has been that several industries have been able to finance significantly larger pay increases than expected within their EFLs without undue difficulty or any obvious exertions in the direction of greater efficiency and lower costs. Are preliminary discussions in September or October - when there is bound to be much uncertainty about the prospects - enough? Although the Government has never favoured splitting EFLs down (eg into pay and non-pay components) it may at least be worth asking whether there could be merit in being more explicit about pay assumptions and taking such



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measures as reducing EFLs if industries conclude settlements in excess of the stated assumption.

Procedure and Timing

8. E(82)54 suggests that there should be discussion with nationalised industry chairmen both collectively and between sponsor Ministers and individual chairmen. Judging by practice in previous years, that will probably mean the Chancellor seeing the Nationalised Industries Chairmen's Group for a general discussion of prospects for the next pay round, with subsequent discussions between individual chairmen and sponsoring Ministers. If an approach on these lines seems broadly acceptable, the Chancellor might be invited to concert detailed arrangements with the other Ministers concerned.

Better Observance of Information Arrangements


9. We understand from the Treasury and the Department of Employment that there have been a number of occasions on which information has not been provided with due notice (a minimum of seven days) or has been defective when it has been obtained. All that should be necessary is to ask sponsoring Ministers to impress on their chairmen the need to observe the agreed arrangements, unless there are very good reasons to the contrary, and to ensure that their departments are aware of the arrangements.

Likely Trouble Spots

10. There is unlikely to be any disagreement with the suggestion that officials, presumably under Treasury leadership, should assess likely trouble spots and what can be done about them. But you may wish to ask whether this goes far enough. During the 1981-82 pay round it has not, in general, been the big monopoly industries which have produced particularly disappointing results, but some of the smaller industries or industries which should have been able to drive a better bargain than they did. Officials might be invited to look at this aspect as well, with any others which the Committee may think appropriate.

HANDLING

11. You will wish to ask the Chancellor of the Exchequer to introduce his memorandum. Ministers with sponsoring responsibilities for the


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nationalised industries (Secretaries of State for Industry, Energy, Transport and Trade, plus Environment in respect of the water industry) will wish to comment either generally or with regard to their particular industries; the Secretary of State for Scotland* may also wish to comment, though he is not directly concerned with any major pay negotiations (the electricity supply industry negotiates on a GB basis). The Secretary of State for Employment and Mr Sparrow are likely to have general comments.

CONCLUSIONS

12. You will wish the Committee to reach conclusions on the following:

i. Does the Committee approve the proposals in paragraph 10 of E(82)54?

ii. If so, are there any points which require further clarification, for example:

- what kind of "clear understanding" with Chairmen collectively and individually is envisaged?
- what is meant by "being more explicit"?
- how precisely is the EFL to be used to enforce more discipline in pay settlements?

PLG
P L GREGSON

* to be represented by
Mr Allan Stewart

30 June 1982

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MR SCHOLAR

Prime Minister

For E. Tunonw.
MS 30/6

30 June 1982

THE NEXT PAY ROUND - THE TREASURY VIEW

1. The last two years

The Chancellor points to a remarkable deceleration in the rate of growth of earnings over the past 2 years (20% → 10% → 9%). He also points out a remarkably close grouping of pay rises within the public sector over the past year. Virtually all of the major settlements in the last public pay round have produced earnings rises between 7% and 8% - much the same as the average in the private sector. All settlements have been well below the year-on-year increase in the Retail Price Index.

2. The Chancellor rightly calls this a "not unsatisfactory" outcome. Equally rightly, he stresses that it is essential to aim for a "further deceleration in earnings growth" over the coming year. Our minimum target should be "a reduction in the growth of nominal earnings in line with the prospective rate of inflation". If the RPI is rising by 7% or less by the middle of next year, then we should aim for earnings growth of no more than 6%. That means settlements of little more than 4%.

~~_____~~
We believe that it would be more helpful for the reduction of inflation and unemployment if settlements were lower than this, at 2-3% which we would expect to drift up to an outcome of 4-5%. The lower we start, the lower we shall finish.

3. We do not, however, agree with the Chancellor in seeing public sector pay as "giving a lead" to the rest of the economy. The reality - which it is important for us to establish - is that the public sector tends to follow the lead of the private sector, and not the other way round. It is our firm belief that public sector pay should be determined primarily by the ease of recruitment, by whether there are substantial unfilled vacancies and by the labour turnover rate.

Indeed, the Chancellor seems himself to recognise this when he argues that there is a "risk of confrontation" in the public sector because of the widening gap between public and private

sector pay rates over the past 2 years; there will be "pressure to make up the lost ground".

This argument usually depends on the year from which you start measuring the lost ground. If we take the past 3 years - that is, including the Clegg year - there is little gap between public and private pay rises; if we go back further still, the gap widens again.

Now, in the longer term, it is true that public and private pay will tend to shuffle back into line with one another. But the process is and ought to be a gradual one. The Winter of Discontent in 1978-9 happened because the Treasury abruptly - and prematurely - picked the unrealistic figure of 5% which turned out to be way out of line with the going rate of more than 15% in the private sector.

By contrast, in the coming year it is an educated guess that earnings overall will rise by slightly less than in 1981-2. The London Business School forecasts 8% earnings growth.

4. The Chancellor mentions his intention to set the tone for pay restraint in the next round by a series of contacts with the CBI and other employers' organisations, and by his speech to the Industrial and Labour Correspondents Group. The psychological value of such exhortations is, however, surely somewhat weakened if the Government is seen to lack the will to announce pay bill targets within its own domain. Surely this was the lesson of 1979-80. The Treasury seems a little hesitant about announcing a pay factor for the coming year. And yet not to announce such a factor would almost certainly be taken as a signal that the Government was once again adopting a passive stance towards its own pay bill. That was how the unions interpreted the no-figure policy of 1979. It is surely important that union negotiators should be aware in the public sector that management is constrained by some clearly expressed limits beyond which it cannot and will not go. This is the only way to give genuine meaning to the phrase "there's no more money left". This planned housekeeping is quite distinct from giving a lead to the private sector.
5. One real difficulty not mentioned by the Chancellor is the problem of getting reductions in real pay at the lower end of the scale

where, as Frank Field pointed out so cogently in his letter some weeks ago in the Financial Times, a lower wage rate combined with indexed benefits, means that more people will find they are almost as well off or, indeed, better off on the dole than in work. This provides a floor to real wage reductions at the lower end. There is no easy solution to this, but we need to be aware of the problem.

6. We have commented before (Alan Walters' minute to ^{you} of 2 June) ^{attached} on the Secretary of State for the Environment's suggestion about relating investment in infrastructure to pay restraint. It is wrong in principle and pernicious in practice. Investment in essential public projects should be undertaken on their own merit and within responsible totals of public expenditure. What happens if the trade unions abandon pay restraint after the infrastructure scheme has been started? Is the scheme to be abandoned half-finished?

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FERDINAND MOUNT

AW

ALAN WALTERS



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P.0795

PRIME MINISTER

Pay in the coming year
(E(82)53)

BACKGROUND

Although the current pay round (usually regarded as running from August 1981 to August 1982) is not yet over, it seems likely that the final outturn will be reasonably close to the cumulative level of settlements so far. The figures given in the current Department of Employment pay brief (based on a large, but not in all respects completely representative, sample) are as follows:

Private manufacturing: just over 6 per cent
Private non-manufacturing: just over $7\frac{1}{2}$ per cent
Public trading sector: just under $7\frac{1}{2}$ per cent
Public services: just over $6\frac{1}{2}$ per cent
Whole economy: 7 per cent

To these figures must be added an allowance for drift. This may be of the order of 1 or 2 per cent for the whole economy.

2. The figures are lower than those for the 1980-81 pay round, for which the level of settlements in the whole economy was around $8\frac{1}{2}$ per cent, with drift bringing the increase in earnings up to something over 10 per cent. All the major industries in the public trading sector settled lower than in the previous pay round; and the same is true in general of the public services - the only likely exception is the National Health Service. (The industrial civil service and the local government white-collar workers have yet to settle; but they seem likely to do so at around 6 per cent). However, there was a far smaller improvement between pay rounds than there was between 1979-80 and 1980-81: between those two rounds, the rate of increase in earnings fell from over 20 per cent to just over 10 per cent.



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3. Ministers will now wish to consider their approach to the pay round beginning in August 1982. This is the subject of the memorandum by the Chancellor of the Exchequer (E(82)53). The memorandum also refers to the suggestion which has been advanced, mainly by the Secretary of State for the Environment, for a deal with the public sector trade unions under which public investment would be increased in return for pay restraint. A scheme on these lines was discussed in more detail in the minute of 10 May, and the attached note, from the Chancellor of the Exchequer to you. A larger and less well-defined scheme was put forward by the Secretary of State for the Environment in his minute of 27 May; you suggested that this should be discussed by the Committee.

4. The Chancellor of the Exchequer has also circulated a separate memorandum about pay in the public trading sector (E(82)54).

MAIN ISSUES

5. There is hardly likely to be any dissent from the proposition that the Government should aim at a further reduction in the level of pay settlements: that is always desirable, and the larger the reduction, the better. The real questions are how large a reduction it is realistic to aim at; what are the best methods for achieving it; and what are the risks involved?

Size of reduction

6. The Chancellor of the Exchequer suggests that the aim should be a reduction in settlements from 7 per cent to 4 per cent and in the earnings increase from say 8½ or 9 per cent to 6 per cent. This would be a larger reduction in both absolute and percentage terms than was achieved between the 1980-81 and 1981-82 pay rounds: indeed, the reduction in the rate of pay settlements since December 1980 is only of the order of 2 or 3 percentage points. As paragraph 5 of E(82)53 brings out, there are a number of factors in the economic situation which will tend to produce an increase, rather than a decrease, in pay settlements. We understand that the informal monitoring by the Department of Employment suggests that many employers in the private sector are expecting such an increase.

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but without papers and without preparation by officials. MCS

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7. No doubt it can be replied that without a demanding objective nothing will be achieved. Against that, there is the danger that if the objective is too ambitious, unduly drastic methods, involving a high risk of failure, will have to be used; and that if the Government appears to be failing in its objectives it may lose all control of events. It may be that the Chancellor's suggestion that no figures should be mentioned is partly a reflection of these dangers.

8. An alternative line of thought which you may wish to explore at the meeting is that the Government should concentrate its efforts on securing some further reduction in pay settlements, with the amount of the reduction being regarded as secondary. There is a widespread belief among pay bargainers that pay restraint lasts for only two years and that in the third year there is always a rebound. If events early in the 1982-83 round seem to bear out that belief it could have serious consequences. By contrast, a third year of deceleration could have a valuable effect on attitudes.

Methods

9. E(82)53 discusses two areas in which Government action could affect the 1982-83 pay round - getting an appropriate economic message across; and policy towards the public sector, especially the public services. It may, in addition, be worth asking whether there is anything more specific the Government could do in the private sector.

The economic message and getting it across

10. The propositions set out in paragraphs 6 and 8 of E(82)53 are all true. They are also utterly familiar to likely audiences. Is there anything that can and should be done to increase their impact: for example, can a number of suitably convincing examples, whether on a national or an international level, be produced of pay restraint generating extra jobs? Is there more that the Government should be doing to convince union leaders of the need for a higher level of profits?

11. Suggestions of this nature might be looked at by the group of officials suggested in paragraph 9 of E(82)53, which we assume that the Treasury would lead.

The public services

12. As the Chancellor points out the Government has deliberately used public service



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pay to give a lead to the economy in the last two rounds. The method has been to give a signal by publishing the pay factor used in setting cash limits. The 4 per cent pay factor announced on 15 September last year has undoubtedly helped to keep public service settlements (except for the police and firemen) below the average for the economy as a whole and to condition expectations generally. It is however doubtful whether it is realistic to seek below average settlements in the public services for the third year running. It would also be difficult to set a satisfactory pay factor. If the message is to be one of deceleration, the pay factor ought to be less than 4 per cent but that might well be thought unrealistic.

13. The position at present is that public expenditure plans for 1983-84 have already been drawn up on the basis of a published general inflation factor, between *File C* 1982-83 and 1983-84, of 6 per cent. In the Chief Secretary's minute of 26 March 1982 about the conduct of the 1982 Public Expenditure Survey, approved by the Cabinet on *File D* 1st April (CC(82)13th Conclusions, Minute 5), it was stated (paragraph 3 of the Annex) that:

"Ministers should consider in September whether in addition to or instead of any departmental bids a general revision should be made of the plans because of changed prospects for inflation, and whether to choose and publish a separate assumption for pay in 1983-84."

If no separate pay factor is published this year, the existing published general inflation factor of 6 per cent may be taken as the implicit "norm". Alternatively, the conclusion may be drawn that the Government is less concerned than in the previous two rounds with restraining public service pay.

14. There is no need for Ministers to settle this difficult issue now and it would be undesirable to do so until the autumn when up-to-date information about prospects for pay and prices is available. It is nevertheless desirable that the problem should be recognised and Ministers may wish to offer some preliminary thoughts on the strategy, in the light of experience in the 1981-82 pay round and the efforts being made by the public service trade unions to achieve greater coordination.

Mr Heseltine's scheme

15. The trade-off between increased public investment and pay restraint advocated

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by the Secretary of State for the Environment is particularly relevant here since it would largely be directed to the public services (and, to a lesser extent, the public trading sector). The Secretary of State has not set out his ideas in detail; but it is not easy to see how they avoid the objections that have been regarded as decisive when previous versions have been considered.

a. They depend on a clear "norm": if the Government simply asks for pay restraint rather than pay increases not exceeding a stated figure it is impossible to establish the sort of trade-off outlined by the Secretary of State in his minute of 27 May.

b. They imply that there is money available beyond the Government's published expenditure plans and that it is up to the unions to decide whether to spend it on pay or on investment. It is usually an essential part of the resistance to pay claims to argue that there is no more money available.

c. There is no necessary link between pay restraint in a particular service and additional investment in that service. The unions therefore have no good argument of self-interest to use to their members.

The Secretary of State for the Environment might be asked to develop his ideas and indicate how he would meet these objections. It will not be possible for the Committee to reach a considered view on the proposals: the aim will be to determine whether they are sufficiently attractive to be worth working up further.

The private sector

16. Particularly if Ministers were to decide against giving a lead through the public services, the general tone of the pay round, so far as that is a valid concept, would tend to be set by the early settlements, which are largely in the private sector. There are obvious risks involved; but the Committee might wish to consider whether there is any way of influencing employers who settle early in the pay round, either directly or through the CBI.

HANDLING

17. It may be convenient to divide the discussion into two main parts:

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- i. the 1982-83 pay round generally; and
- ii. the particular problems of the public services (this could include discussion of the suggestion by the Secretary of State for the Environment).

On the first part, the Chancellor of the Exchequer and the Secretary of State for Employment are likely to be the main speakers, with contributions from the Secretaries of State for Trade and Industry. The Chancellor of the Duchy of Lancaster and the Lord President of the Council may have particular comments on presentation. Mr Sparrow may wish to comment generally, as indeed may other members of the Committee.

18. In the second part, again, the Chancellor of the Exchequer could be invited to open the discussion. The Home Secretary and the Secretaries of State for Education and Science, the Environment, and Social Services (and possibly the Secretary of State for Defence) may all have departmental points to make. Again, the Secretary of State for Employment and Mr Sparrow may have general comments.

19. At an appropriate point in the discussion, you will wish to ask the Secretary of State for the Environment to develop the suggestion in his minute of 27 May.

CONCLUSIONS

20. You will wish the Committee to reach conclusions on the following:

- i. What should be the Government's objectives for the 1982-83 pay round?
- ii. What are the best methods for achieving that objective?
- iii. Is the Government's message, as suggested by the Chancellor of the Exchequer, broadly right? If so, how best can it be got across?
- iv. Does the Committee wish officials, presumably under Treasury leadership, to draw up a programme for urgent action to put the message across? Is there any guidance which the Committee wishes to give officials?



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- v. Is there any action which needs to be put in hand now in preparation for the next pay round in the public services?
- vi. Is there any action beyond that suggested in E(82)53 which should be taken towards private sector employers?
- vii. Does the Committee wish the ideas advanced by the Secretary of State for the Environment to be developed further?

PL
P L GREGSON

30 June 1982

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Prime Minister (2)

cc Mr. Mount
Mr. Walters
Mr. Ingham

You may like to see John

Vercher's ideas before the main papers on

1985-84 pay - MUs 25/6

E, 1 JULY: THE NEXT PAY ROUND

MR. SCHOLAR

Will discuss with
the Chancellor,
mf

Because I expect to be away at the beginning of next week, observing the NUR Conference, I shall not be able to provide a brief for this E discussion on the basis of the papers yet to be circulated. But I have seen and been consulted on the draft papers now circulating in the Treasury, which have some endorsement from the Chancellor, and I detect that the Treasury's approach to the next pay round represents a distinct change of tactics on pay, which may amount in practice to a significant softening in its attitude. I would like to offer comments on four of the major issues that E must address.

The public services as an example. The Treasury has been arguing that the direct effect of the last two years of public service pay policy has been to hold back pay more in the public services than elsewhere; and that drift has been lower, compounding the disparity. Therefore they ask whether it is right to continue to use public service pay in order to give a lead to the rest of the economy. That would seem to me an extraordinary reversal of policy. We have hitherto based our approach to public service pay on the twin principles of what we need to pay in order to satisfy the labour market, and on what we can afford to pay given the country's economic circumstances. If the outcome has been that the public services have settled slightly below the average, that reflects recruitment and retention factors and public expenditure constraints. We should not now set those principles aside because we do not like their effect. And it is both highly desirable and inevitable that, in the absence of an incomes policy, the Government will continue to set an example to the rest of the economy by its stance on public service pay.

The desirability of an announced pay factor. The Treasury have doubts - unresolved at the time I am writing this - as to whether the Government should again announce a provisional pay factor for cash planning purposes. I believe that they are moving towards holding to the existing cash plans (based on a composite factor of 6% for both pay and non-pay items) and treating each pay issue

/separately

separately as it arises. In the last two years the announcement of the pay factors for the Rate Support Grant and other public services has been one of the principal ingredients in setting the tone of the new pay round. Properly co-ordinated with the CBI and with the Chancellor's programme of speeches, it can have a major impact. The 6% pay factor announced in September 1980 brought expectations down from over 20% into single figures almost overnight.

The Treasury fear that any figure low enough to meet our employment objective will offer too easy a target for a co-ordinated onslaught by the unions; but if we are to achieve such a figure at all, we must lower expectations from the start. A willingness to stand up to the unions will be an essential feature of the next round.

The size of the figure. Of course the scope for bringing expectations down again does get more limited as the current settlement rate gets lower. The Treasury suggest that an overall earnings growth of 6% (including drift), which would be consistent with public service settlements at 4%, would be a reasonable target. That implies either a 4% pay factor which is adhered to, or a still lower pay factor which provides a margin for upward negotiation. But even a 6% growth in earnings is a very modest target. At that rate, the contribution to employment would be small, and visible only in the longer term. Clearly the figure chosen must be a compromise between what we would like to see (which is pretty close to zero) and what will not be too easily overridden by the unions.

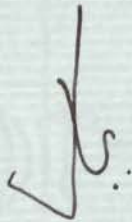
There is every reason to suppose that a 4% pay factor would drift up to the 6-7% range, just as it has this year; and that the lower we start, the lower we will finish. We suggest a 2% pay factor, in the knowledge that public service settlements tend to exceed the pay factor by 1-2%.

The public trading sector. Our approach to pay is at its weakest where we have least control over the outcome. Officials have been working at a number of ideas that will help. It is important to penalise, through the EFLs, those industries - such as

water - which have been settling unnecessarily high, even though the wage bill is a small proportion of costs. They will at least learn the lesson after the event. And we must be quite sure this year that the RSG settlement is not inadvertently so generous that it enables the local authorities, without any apparent pain at all, to start off the new pay round with a damagingly high offer to their manual workers.

Ferdinand Mount and Alan Walters have seen and agreed these comments. Ferdie will be offering his own assessment of the political implications of the next pay round, when we have seen the final versions of the papers.

24 June 1982


JOHN VEREKER

National Health Service (Pay)

3.31 pm

The Secretary of State for Social Services (Mr. Norman Fowler): With permission, Mr. Speaker, I should like to make a statement on pay negotiations in the National Health Service.

On 10 June I told the House that the Government were considering the points made by the Royal College of Nursing following the ballot on the pay offer of 6.4 per cent. I reported also the initiative I had taken in asking Mr. Lowry to undertake consultations with the Health Service unions affiliated to the TUC to establish if there was any common ground between us. My objective has been to secure agreement so that negotiations can be resumed in the respective Whitley councils.

Following careful consideration of the position and after consultation with some of the chairmen of the management sides of the Whitley councils I entered discussions with the representatives of the Health Service unions and professional bodies. I was able to tell them that the Government had decided that a further £90 million would be available in negotiating a new pay offer—partly from the Government and partly from the existing Health Service budget. Together with the additional resources made available in March this year, this would increase the average pay of nurses and midwives and the professions supplementary to medicine by 7½ per cent., ambulance men and hospital pharmacists by 6½ per cent. and other groups of staff by 6 per cent. The increases for particular grades would be for negotiation within the Whitley councils. These improved offers both maintain the special position of nurses and other staff providing direct patient care and bring offers to all groups of staff on a par with other recent awards in the public sector.

My hon. and learned Friend the Minister for Health and I have been in discussions over the last two days with the Royal College of Nursing and the Health Service unions affiliated to the TUC. I am glad to report to the House that the Royal College of Nursing, the Royal College of Midwives, the Health Visitors Association and the Association of Nurse Administrators have agreed to recommend to their responsible bodies that their negotiators be authorised to return to the negotiating table. I hope that their Whitley council will resume discussions very shortly.

Regrettably, the representatives of the Health Service unions rejected the improved offers out of hand and were unwilling to resume any negotiations. They intend to report that back to the full TUC health services committee with the proposal that industrial action should continue.

The Government have moved substantially to improve the offers to the Health Service. The average increases in pay offered for Health Service staff range between 6 per cent. and 7.5 per cent. That compares with 5.9 per cent. for civil servants, 6 per cent. for teachers and 6.1 per cent. for the armed services.

I do not believe that the Health Service unions are justified in rejecting this offer and I deplore their decision to continue a campaign of industrial action, which can only harm patient care. I hope that they, and in particular their members, will reconsider the position very carefully and I urge them to return to negotiations in the Whitley councils.

Mr. Bruce Millan (Glasgow, Craigton): Is the Secretary of State aware that it is no use regretting the chaos and disruption in the National Health Service, which we all deeply regret, when that chaos and disruption has been caused directly by his pigheaded, maladroit and provocative behaviour? For evidence of that behaviour we need look no further than what happened yesterday, when the right hon. Gentleman attempted to reach an agreement with the Royal College of Nursing—which represents only a minority of the workers concerned in the present dispute—while letting the TUC unions kick their heels for no less than four hours, with the result that they had to find out the details of the new offer from the press conference that was held by the Royal College of Nursing. If the Minister behaves in such a way, does he not understand that he is bound to increase the anger and bitterness that are felt already in the National Health Service?

Is it not a fact that the present offer, apart from its divisive nature, will still mean a real reduction in the standard of living of some of the lowest-paid workers in the country? It is no use the Secretary of State mentioning carefully selected other groups of workers and omitting to mention some higher-paid sections of the community, such as judges and higher grades of civil servants, not to mention the police services, which have had vastly higher offers than those made to the National Health Service. Is it not also a fact that in any case much of the money for the new offer will have to be paid directly from cuts in the services to patients, about which the Minister keeps weeping crocodile tears during the industrial action?

All through the dispute the Secretary of State has refused to allow general negotiations in the Whitley councils. He is still doing that. He has refused to go to independent arbitration, which is completely indefensible. He has failed to persuade—because he cannot persuade—the workers in the National Health Service that there is any sense of justice or fairness in the way in which the Government are treating different groups of workers. As long as that continues, is not the dispute likely to be prolonged? If that happens, does not the Secretary of State bear a heavy responsibility for the damage that is being caused to the National Health Service?

Mr. Fowler: I totally reject virtually everything that the right hon. Gentleman said. He should know that two separate negotiations were taking place from the beginning. The Royal College of Nursing and the other professional organisations are not affiliated to the TUC and the TUC does not negotiate for them. Therefore, it is necessary that two sets of negotiations take place.

I asked the unions yesterday whether it was procedure or handling that was keeping us apart. They said that that was not so and that they rejected the substance of the offers. Let us have no more of such nonsense. The fact is that at no stage did the unions mention any other figure than 12 per cent., which is totally unrealistic.

We have made a fair offer. It means an average increase of at least 6 per cent. It is on a par with the offers that were made to civil servants, teachers and the Armed Forces. [HON. MEMBERS: "Top salaries?"] I do not believe that industrial action can conceivably be justified in the context of the new offer. I hope above all that the Opposition will now take the opportunity of condemning industrial action that harms patient care.

Several Hon. Members rose—

Mr. Speaker: Order. The House is aware that the main business today falls under the allocation of time motion. Therefore, we must be fair to those who wish to debate the Northern Ireland Bill. I suggest that questions are finished in a quarter of an hour, at five minutes to four.

Mrs. Jill Knight (Birmingham, Edgbaston): Will my right hon. Friend be assured that the vast majority of hon. Members reject utterly the accusations that he is either pigheaded or maladroit? On the contrary, they recognise that he has listened most carefully and sympathetically to the case made by the National Health Service employees and has gone as far as possible to meet their demands. He has not only offered them the maximum that the country can afford but has also kept wisely in line with other groups of workers so that inflation shall not start again.

Mr. Fowler: I am grateful to my hon. Friend. What she says is absolutely right. We are offering a 7.5 per cent. average increase to the Royal College of Nursing and to nurses in general. We want to see new permanent arrangements for nurses' pay in operation by 1 April 1983. The Government will do their utmost to achieve that.

Mr. William Hamilton (Fife, Central): Is the Minister aware that I have just returned from a big demonstration across the river on this matter, when it was evident that every union in the country, including the National Union of Mineworkers, the firemen and so on, were behind the National Health Service workers, who are low-paid workers by the Government's own definition? We on the Opposition Benches are determined to carry on the campaign of industrial action until the Government come to their senses. It makes no sense to reduce the standard of living of those who are among the most loyal and moderate of workers. The sooner that the Government and the Minister realise that we are determined to win the campaign for 12 per cent., the better. It is not an extravagant claim. Those concerned are merely asking to stand still. The Minister had better be warned that much more drastic action will be taken unless he is much more flexible.

Mr. Fowler: The hon. Gentleman has confirmed exactly what I said. He is sustaining a case for a 12 per cent. increase in pay, which will cost an additional £750 million. That is an utterly ludicrous claim for the hon. Gentleman to support. The hon. Gentleman must decide, when he mentions the other supporters, whether it is a dispute about pay or a political dispute.

Mr. Hamilton: It is both.

Mr. Fowler: I believe that the hon. Gentleman will lose any remaining credibility if he turns this into a political dispute.

Mr. David Alton (Liverpool, Edge Hill): Is the Secretary of State aware that there is anxiety among some members of the Royal College of Nursing that the impression has been given—before local consultations take place tomorrow—that the offer has in some way been accepted? Will the Secretary of State say something about the long-term consequences of the divide-and-rule policy of coming to an agreement with one set of people and not another?

Mr. Fowler: It is in no sense a divide-and-rule policy. We are meeting the special case of the nurses. I should have thought that the Liberal Party—for whom I assume

the hon. Gentleman speaks—would be in favour of that. I said that the professional bodies have agreed to recommend to their responsible bodies that their negotiators be authorised to return to the negotiating table, which means the Whitley council. I hope that the Liberal Party will support that.

Mr. Anthony Nelson (Chichester): May I assure my right hon. Friend that he enjoys widespread support for the way in which he has managed what have been undeniably difficult negotiations? Does the Secretary of State agree that the guidelines for the Conservative Party and the Government should be that the patient comes first? It is no way forward for increased provision for the National Health Service to be consistently pre-empted by excessive wage settlements.

Mr. Fowler: I entirely agree with my hon. Friend. The Government have increased the resources available to the National Health Service over the past two and a half years. We are spending over £12 billion on the National Health Service, and it is a matter of regret that some of the money for the additional pay will have to come from the National Health Service. There is no way round that.

Mrs. Renée Short (Wolverhampton, North-East): Is the Secretary of State aware that no less than 62 per cent. of full-time staff employed in the National Health Service earn less than £100 a week? Within that figure, 7.4 per cent. earn less than £60 a week. It is phoney to compare the miserable increase of 6 per cent. that he is offering them with the increase that was offered to teachers and civil servants who are on much higher salaries. Will he look at this again in all equity and produce more money to make them a better offer?

Mr. Fowler: I want to make it absolutely clear that this is the Government's final decision. Industrial action will not force us into providing more money. The sooner that that is taken on board the better it will be.

Mr. Mike Thomas (Newcastle upon Tyne, East): If the nurses and hospital workers are a special case, can the Secretary of State explain why they are not on a par with the miners and the power workers, who are not special cases?

Mr. Fowler: What I have just said to the House—it is an important part of what we are offering the Royal College of Nursing and the nursing profession in general—is that we want a new permanent arrangement for nurses' pay in operation by 1 April 1983.

I also said to the trade unions—this is a point that the hon. Gentleman raised with me on a previous occasion—that if they want to talk to me about new arrangements for pay, I am perfectly willing to do so. We have had no response to that offer.

Mr. Thomas: Why are they not on a par with the miners?

Mrs. Sheila Faith (Belper): Does the Secretary of State agree that, although the House is delighted that the nurses have been made a special case, it is always unwise for them to link their pay claim with that of the ancillary workers? Although ancillary workers do important work, they do not have the long training that nurses have, nor do they have the life and death responsibility. Also, they have often not taken due notice of patient care when pursuing their pay claims.

SECRET

Original filed on: -

Transport: BR Fater: Pt 4.

Ref. A08797

PRIME MINISTER

Industrial Affairs

Under Industrial Affairs, the main items for discussion will be:

- i. the NHS dispute;
- ii. industrial action affecting London Transport and British Rail.

NHS dispute

2. You will wish to invite the Secretary of State for Social Services to report on the latest position in the NHS dispute. In addition the Secretary of State for Employment will be ready to report on picketing by other unions in support of the NHS unions, and what might be done about that.

3. On picketing the Secretary of State for Employment and the Chancellor of the Exchequer have been giving urgent consideration to what should be done about civil servants who engage in this activity in support of NHS unions. They have commissioned an urgent report on how civil service disciplinary procedures can be brought to bear most effectively in this situation. Officials, in the shape of the Group on Industrial Action chaired by the Minister of State, Treasury, will be reporting to Ministers next week with specific proposals for consideration.

Railways

4. You will wish to invite the Secretary of State for Transport to report on the latest position regarding industrial action affecting both London Transport and British Rail. In addition the Home Secretary will be ready to give an oral report on contingency plans following his meeting of the Civil Contingencies Unit at Ministerial level this afternoon.

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5. You should also be receiving this evening two minutes from the Chancellor of the Exchequer about the legal aspects of the British Rail dispute, following the remit you gave him at your informal meeting on Monday. One of these minutes, which has been given a very restricted circulation, discusses the relevance of legislation on lay-off to the BR situation. These matters, and particularly lay-off, are probably better pursued by you and the Ministers directly concerned rather than in Cabinet.

REA

ROBERT ARMSTRONG

23 June 1982

010
Ecom PR

Mr. M. SCHOLAR

(1)

Prime Minister

To see

mes 21/6



NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, HM TREASURY ON MONDAY 21ST JUNE, 1982

Present:-

Chancellor of the Exchequer
Chief Secretary

Secretary of State for Employment
Secretary of State for Social Services
Parliamentary Under Secretary of State
(Health and Social Security)

NATIONAL HEALTH SERVICE PAY

The Secretary of State for Social Services said that he would be seeing representatives of the Health Service unions and the Royal College of Nursing later that day. There were two aims in the negotiations:-

- (i) To seek to settle the dispute if possible on the basis of the package agreed by Ministers and set out in Mr. Scholar's letter of 17 June, and
- (ii) if this was not possible to improve the Government's position and the public reception of it by showing that it had made a manifestly reasonable offer to end the dispute.

He proposed first to meet the Group of Ten in the TUC Health Committee, and then to remit discussion of the ancillaries' claim to a smaller group under Mr. Kenneth Clarke, and himself to hold separate discussions with the representatives of the Royal College of Nursing. The aim here was to persuade the nurses' representatives to take the Government's offer to the Industrial Relations Committee in a few days' time, and then to the next meeting of the Whitley Council on 13 July. He was certain that the full offer of 7.4 per cent would be necessary to secure agreement.



2. On the ancillaries, where there was authority to go up to 6 per cent, he proposed a slightly different tactical line. There was something to be said for not going all the way to the maximum possible offer in order to keep something in reserve. If it became clear in the course of the discussions that Mr. Spanswick was going to stick on his three conditions - which were not acceptable - he would propose not going beyond 5½ per cent. If however the negotiations seemed to be going well then he would propose going to the limit. Going to 6 per cent would help with the public presentation of the Government's case, and might also help in persuading other workers, such as civil servants, who had received less than 6 per cent themselves, not to support the health workers' case.

3. In discussion it was noted that further industrial action by the Health unions was likely to be highly selective, aimed at laundries, sterile supplies, and so on. The unions could not afford more general strike action, and in any case probably took the view that selective action would be most effective. There was quite a strong chance that the nurses would settle, but not the ancillaries. In this event, there would be no alternative but to fight the strike to the end, since if the nurses had settled for 7.4 per cent, the offer to the ancillary workers could not be improved beyond 6 per cent - even if the Government wanted to - without a narrowing of the differential which would be unacceptable to the nurses. This was an argument for not going beyond 5½ per cent at this stage with the ancillaries.

4. The Secretary of State for Employment pointed out that the political aims of some of the union leaders were an important dimension of the dispute. The question of picketing needed very careful watching. At the moment while the letter of the law was being flouted it was little more than political teasing, but if large numbers of miners, for example, took part in flying pickets, it would be necessary to take a very firm line. He had given instructions that picketing by his own staff should be treated as a disciplinary offence.



5. The Chancellor, summing up, said there was general agreement with the Secretary of State for Social Services' proposed tactics for the negotiations. It was important for him to seek to keep talks in play and if possible it would be desirable to consult the Prime Minister again before they were allowed to break down. This argued for keeping the talks going over two days, and for not going beyond 5½ per cent initially with the ancillaries.

PSJ

P.S. JENKINS

Circulation:-

Those present
Minister of State (C)
Sir Douglas Wass
Sir Anthony Rawlinson
Sir William Ryrrie
Mr. Pearce
Mr. Quinlan
Mr. Dixon
Mr. Monger
Mr. Ridley
Mr. Burr



21 JUN 1982

CONFIDENTIAL

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FILE

10 DOWNING STREET

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HO	DEmp
LPS	HMT
21 June, 1982	

From the Private Secretary

CREEPING CLEGGERY

I attach a note, prepared here by the Policy Unit, which, with the Prime Minister's authority, I am circulating to the Private Secretaries to the other members of E Committee.

I am copying this letter accordingly.

M. C. SCHOLAR

P Jenkins, Esq
HM Treasury

CONFIDENTIAL

PRIME MINISTER

MS 18/6

CREEPING CLEGGERY

John Vereker has kept me informed about your discussions with your colleagues on the handling of NHS pay, and in particular about whether we should commit ourselves now to some form of independent determination of NHS pay next year. I strongly support the line which you have taken, and which I understand has now been agreed, that no such commitment be given; and I think this raises wider questions which ought to be settled before the next pay round begins.

We have prepared the attached summary of pay determination arrangements in the public services, and I think you should see it. The picture is terrifying. The only large groups of public service employees without access to some arrangement which is independent of Government (arbitration, a review body, or indexation) are the local authority manual workers and the NHS. This year we gave arbitration to the Civil Service non-industrials, and that effectively applies to the industrialstoo. We were, in practice, unable to prevent the teachers from getting arbitration. The Review Bodies were all allowed to report normally, and our ability to override them was limited. We are still hooked on indexation for the police and the firemen. Were we to have granted arbitration to the NHS workers for next year, it would have been very difficult indeed not to have given it to the Civil Service, and we would have had precious little left of our criteria of market factors and affordability. Most symbolically damaging of all, we now appear to be moving towards some sort of institutionalised comparability for Members of Parliament.

The temptation to avoid a winter of discontent next year by running to independent arbitrators is seductive. But it is important that we face the implications of that. This Government has struggled tenaciously over the last 2 years, for good reason, to get rid of unilateral access to arbitration wherever possible. This was because we recognised that it is a delusion to think that we could ever control the outcome of arbitration - either by selection of the arbitrator, or by limiting his terms of reference. Of its very nature, arbitration is independent of Government. If the market factors - as expressed in recruitment and retention rates - are

dominant, then no arbitrator is needed. Arbitration must introduce notions of fairness and compromise; an arbitrator who never "splits the difference" is no true arbitrator. ??

After 2 years in which most members of the public service have seen their pay rise by less than inflation, there will therefore be considerable pressures on arbitrators to give catching-up awards. We must not let this year's satisfactory experience of the Civil Service Arbitration Tribunal blind us to the inherent danger of independent arbitration.

The extension of arbitration and index-linking amounts to creeping Cleggery. The belief that we can circumvent problems with the unions in a pre-Election year by handing responsibility for pay over to someone else is badly mistaken. The uncommitted public do see us as standing for firmness against union pressure, and a pre-Election giveaway pay round would destroy much of what we stand for. There is everything still to play for in the next pay round. The largest groups of workers - in the NHS and the Civil Service, and the manual workers in the local authorities - have still not secured arbitration for next year. We have to decide how to handle the Megaw Report, and what new system to design for the Civil Service. We shall have decisions to make about the extent, if any, to which that can apply to other public service groups. And we have decisions to make about pay factors and the objectives we are setting ourselves - these are planned for discussion in E on 1 July. In taking those decisions, we ought to stick to our belief that the Government cannot shrug off its responsibility for determining public service pay, and has been right to approach it on the basis of market factors and affordability.

If you agree, I should like to circulate this note (without the attachment) to colleagues on E, by way of background to their discussion.

FM

FERDINAND MOUNT

Yes - should be pleased if you would not

<u>Group</u>	<u>No.</u>	<u>Present Arrangement</u>	<u>Probable Future Arrangement</u>
Ambulance Drivers	17,000	No arbitration unless by consent	NF wants arbitration
Armed Forces	320,000	Review Body	Review Body
Civil Service Non-Industrials	560,000	Arbitration	Megaw: ? arbitration
Civil Service Industrials	165,000	No arbitration, but link with non-industrials	Megaw: ? arbitration
Doctors and Dentists	87,000	Review Body	Review Body
Fire Service	36,000	Index-linking	Index-linking
Judiciary	2,000	Review Body	Review Body
Local Authority Manuals	1,100,000	No arbitration unless by consent	No arbitration
Local Authority White Collar	630,000	Arbitration	Arbitration
Nurses and Midwives	492,000	No arbitration unless by consent	NF wants arbitration
NHS Admin. and Clerical	123,000	No arbitration unless by consent	NF wants arbitration
NHS Ancillaries	211,000	No arbitration unless by consent	NF wants arbitration
Police	135,000	Indexation	Indexation
Teachers (Primary and Secondary)	480,000	Government cannot block arbitration	Arbitration
Top Salaries	500	Review Body	Review Body
University Teachers	38,000	No arbitration	No arbitration

SECRET



Eron Pobje
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(2)

Prime Minister

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

As agreed, MW

Fowler is discussing

tactics with the

Chancellor and

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

MW

18 June 1982 Mr Tebbit.

Geo Geoffrey.

hus 18/6

NATIONAL HEALTH SERVICE PAY

This letter describes the latest developments in the NHS pay dispute and outlines my views on some crucial handling questions in preparation for our meeting on Monday morning.

2. I yesterday met Mr Lowry, who reported on the outcome of his informal explorations. The crucial issue is the improvement of the current pay offers. As I reported in my minute to the Prime Minister of 15 June, Mr Lowry had difficulty in securing more than a negotiating position from the trade union side. His best assessment is that they are looking at least for an increase of between 7½ per cent and 8 per cent, with some of the leaders aiming even higher; and it is clear that they want the same increase for all groups - ie no differential in favour of the nurses. But he emphasised that, faced with the hard facts of an actual negotiation with Government, these aims and expectations might be modified. He is, however, quite clear that the trade unions are buoyed up by the belief that they are in a strong position, largely because they see public opinion as being on their side; and a major element in this is the belief that the public regard the 4 per cent offers as unreasonable because they are so far below the 6 per cent which has been secured by a number of major groups in the public sector. I agree with this assessment that they are being buoyed-up by their belief that public opinion is on their side. This may offer an important guide to what our tactics should be.

3. It is important to find the right tactics for handling the Royal College of Nursing, who have indicated that at this stage they wish for separate discussions with me rather than to negotiate jointly with the TUC-affiliated trade unions. Because any pay agreement with the nurses has to emerge from the Nurses and Midwives Whitley Council, on the Staff Side of which both affiliated and non-affiliated unions are represented; it is not possible to conclude a preferential deal with the RCN - the same offer must be made to all nurses. But my aim would be to seek to lead the RCN to the conclusion that the increased cash I

E.R.

can now make available for nurses' pay justifies their pressing for a resumption of negotiations in the Whitley Council. If they could carry with them the other non-affiliated bodies, together with the Health Visitors Association which, while affiliated to the TUC, is essentially a professional organisation which frequently follows the RCN line, a majority could be found on the Staff Side.

4. My aim is to bring matters to a head in time for a public statement to be made on Tuesday, and thus be in sufficient time to influence the decisions which the TUC Health Services Committee will be taking at their meeting on Thursday. I therefore propose to seek meetings on Monday afternoon or Tuesday with representatives of the affiliated trade unions and with the RCN. With the RCN, I would work towards the outcome I have just described. So far as the affiliated unions are concerned, our aim, if we find that a settlement cannot at this stage be secured within the available money, must be to establish a public position which will improve our present stance and give us a favourable prospect of ultimately succeeding in a prolonged confrontation - with the imposition of the enhanced pay offers as a possible ultimate outcome.

5. Establishing our public position gives rise to a question of crucial importance: whether to go to the limit of what is available (6 per cent for those now being offered 4 per cent, 6 1/4 per cent for ambulancemen and hospital pharmacists, and 7.4 per cent for nurses and professions supplementary to medicine); or whether, if agreement cannot be reached now, to hold something back - say 1/2 per cent - for a further improvement in the offer in a few weeks' time. The main reason for holding something back is that experience of other disputes suggests that, when a return to normal work is finally secured, an extra price, even if a small one, usually has to be paid, and that it would be wise to keep something back for this specific purpose. The arguments in favour of going publicly to the limit are, first, that there will otherwise be no chance of using the RCN to split the Staff Side front - a figure of 6.9 per cent or 7.0 per cent would not do the trick. Secondly, the public will see an offer of 6 per cent as reasonable. A lower figure, say 5 1/2 per cent, would not demonstrably bring the NHS groups concerned up to the going rate which is widely regarded as having been established in the public services, and would therefore be considerably less effective. It would almost certainly be rejected immediately by them. Thirdly, the constitutional position in Whitley negotiations is that the Government determines its financial interest - ie settles the amount of money it can make available - and then leaves it to the Whitley Councils to negotiate agreements within that financial limit. I believe it is most important for us to adhere to this principle and not to allow the Government to become involved in detailed pay negotiations with the trade unions. Fourthly, there is advantage in announcing our decision and sticking to it, rather than, as the other course would imply, having to make two or more "final offers", which would surely be seen as a sign of weakness.


6. I therefore propose to put the offer that has been authorised by my colleagues in as skilful a way as possible to the Royal College of Nursing and the TUC - affiliated unions on Monday. I am not at this stage in a position to say which way the reaction is likely to go. If a settlement is achieved I believe it will be at an acceptable cost.

EO.

If the dispute remains my understanding of the conclusions of the last meeting was that colleagues were prepared to fight this dispute for as long as it takes to reach a successful conclusion.

7. I am copying this letter to the Prime Minister, Norman Tebbit, Jim Prior, George Younger, Nicholas Edwards, Leon Brittan and Sir Robert Armstrong.

Yours ever



1987 JUN 11 8 4

NORMAN FOWLER

SUBJECT

File



10 DOWNING STREET

From the Private Secretary

17 June 1982

SC SV/DW

NHS PAY DISPUTE

The Prime Minister discussed the next steps in the National Health Service pay dispute with your Secretary of State yesterday evening. The Chancellor of the Exchequer, the Secretary of State for Wales, the Chief Secretary, the Secretary of State for Employment and Mr. Kenneth Clark, Minister of State (Health) were also present.

Your Secretary of State said that the TUC Health Service Committee met next on 24 June and, if no further progress in negotiations was made by then, escalation of the industrial action could be expected, with increasing politicisation of the dispute. The rejection by the Royal College of Nursing of the 6.4 per cent pay offer had weakened the Government's position. The offer of 4 per cent to 40 per cent of the NHS staff was seen by many as unrealistically low compared with the 6 per cent which was becoming established in the public services generally. The discussions with Mr. Pat Lowry were likely to come to an end shortly, and it was necessary to maintain progress through a meeting with the trade union leaders, probably this week. He believed that it was necessary to improve the Government's public stance, and that four new elements were required: a new pay offer, new arrangements for determining the pay for the NHS staff groups other than nurses and midwives (the long term arrangements for the latter groups already being under discussion), agreement in advance that arbitration could figure in the pay procedure for 1983, and manpower ceilings for the Health Service. On pay it would be possible, taking account of the £45 million which the Chief Secretary had made available from the Contingency Reserve together with the savings which would accrue from the new regional manpower ceilings, to envisage a maximum offer of 7.4 per cent for nurses and the professions supplementary to medicine, 6.25 per cent for ambulance-men and the groups which had received intermediate offers, and 6 per cent for those which had been offered 4 per cent.

The Prime Minister said that 7.4 per cent for the nurses would make them very clearly a special case this year, given the concentration of public service pay settlements around 6 per cent. It would be essential, if this were conceded, to make it clear that, having been a special case this year, nurses and midwives could not expect special treatment next year. With growing NHS staff numbers, a settlement at the level proposed was not compatible, as it was in the case of groups whose numbers were reducing, with the 4 per cent pay factor. The new offer which the Secretary of State was proposing, therefore, was a generous one.

/ On the

On the proposal for talks on new arrangements for settling the pay of NHS groups generally, the Prime Minister said that she was strongly opposed to the extension of any special arrangements to groups other than nurses and midwives. The commitment on the long term arrangements for the latter groups arose out of Clegg, and was confined to those groups. There must be no implication that the Government was contemplating arrangements of the kind which had been conceded for the armed forces or the police. Your Secretary of State said that the present arrangements were wholly unsatisfactory. The Management Side in Whitley councils had, on occasions, actively worked against the Government's efforts to secure acceptance of the pay offer. Some new arrangement was necessary. It should be devised in the wake of the post-Megaw arrangements for the Civil Service. The emphasis would need to be on market factors and affordability. After discussion, the Prime Minister said that there would be no objection to your Secretary of State holding talks about improving the arrangements for pay discussions in the NHS generally, providing it were made clear that there was no question of favourable treatment for these groups, and no move towards indexation or automaticity in links with other groups.

There followed some discussion about the arrangements for 1983. On the one hand, it would be a great prize to settle now an acceptable arrangement, given the risk of damaging industrial disputes as the General Election approached. The arrangement could be on the lines of that which had operated with reasonable success for the Civil Service this year. It would be a question of securing the right arbiter; and there would be the protection that his arbitration, like that of the Civil Service arbiter, would be subject to Parliamentary override. Against this it was argued that it would be most difficult to override an arbitration in the run-up to the Election. There were great risks in the choice of an arbiter. Further, to agree now to an arbitration procedure would in effect be to give up responsibility for securing an acceptable pay settlement next year.

On manpower numbers, your Secretary of State outlined the absence of controls and of information which had been revealed in the NHS at large. The regional manpower ceilings he proposed to introduce would show immediate financial benefit, but it would take a little longer, perhaps twelve to eighteen months, to secure effective control of manpower. In discussion, it was argued that the cash limit system had disguised an unacceptable and deteriorating position on manpower in the Health Service. It was necessary to reduce numbers and at the same time to improve the services offered: the Health Service should not be isolated from the pressures applying elsewhere in the economy. The Prime Minister said that she hoped that DHSS Ministers would make much use of the manpower figures which had been revealed by Mr. Ralph Howell, MP and Mr. Peter Hordern, MP. There was little point in claiming credit for the imposition of a manpower ceiling if that ceiling was clearly far too high.

/ Concluding

Concluding the discussion, the Prime Minister said that it was agreed that Mr. Fowler could make a new pay offer as he proposed. This was to be the maximum offer, and the tactics for extending it should be determined accordingly. This offer would provide manifestly defensible ground on which the Government could stand for however long it was necessary to settle the dispute. But she hoped it would be seen as a fair offer, and would settle the dispute quickly. On the longer-term pay arrangements, Mr. Fowler should avoid any commitment to arbitration in 1983, but he could offer discussions designed to investigate the scope for long term improvement in the arrangements for negotiating NHS pay, on the conditions agreed earlier in the discussion. She welcomed the moves that were now being made to introduce a proper system of manpower control. These were long overdue, and their first fruits, the savings in 1982/83 (together with the £45 million from the Contingency Reserve) were to finance the higher pay offer. She would be grateful if Mr. Fowler would consult her as necessary at any critical point in the dispute; she intended to convene again the Ministers most closely involved if this need should arise.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Wales and Employment, the Chief Secretary and Minister of State (Health); and to Muir Russell (Scottish Office) and David Wright (Cabinet Office).

M. C. SCHOLAR

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



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Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

16 June 1982

Dear Michael

For the meeting at 7.15 this evening you wanted
a list of the settlement of major public sector
... groups so far this round. This is attached.

I am copying this to the PS's to the Chancellor,
Secretary of State for Social Services, Secretary
of State for Wales, the Chief Secretary and
Minister of State (Health).

Yours ever
Baroness

J B SHAW
Principal Private Secretary

Settlements in the Public Sector Since 1 August 1981

Public Sector Pay

Group	Estimated % effect of settlement on average earnings in the year from the settlement date	Comments
SERVICES		
Police	13.2	
Fire Service	9.7	
Local Authority manuals	- 6.9	
Further Education Teachers (Scot)	- 5.5	
Civil Service non-industrials	- 5.9	arbitration award
Armed Forces	- 6.1	
Teachers (E & W) and (Scotland)	- 6.0	arbitration award
LA Building Trade Operatives	- 6.3	
TRADING		
Water Service manuals	8.8	includes 0.4% holiday
Coalmining	7.44	
National Bus Co. Platform Staff	7.5	includes 0.8% holiday
British Shipbuilders	6.5	
Post Office, postal workers	7.6	
BBC staff	6.9	
Electricity supply manuals	7.4	
Gas supply manuals	7.6	

Cumulative average level of settlements monitored by DE up to mid-June

Public:	Trading	7.5
	Services	6.7
	Total	6.9
Private:	Total	7.0
Public and Private:	Total	7.0



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Prime Minister

NHS Pay Dispute

You asked for a note as a basis for discussion at your meeting tomorrow evening.

The background to the present position on pay and industrial action in the National Health Service was set out in my minute of 10 June.

The TUC Health Services Committee next meets on 24 June and, if no further progress in negotiations is made by then, we can expect escalation of the industrial action. There will also be increasing politicisation of the dispute, with sympathetic action by other industries and issues being raised about the application of the Employment Act 1980 and about the principles of the further legislation now before Parliament.

The main weaknesses of the Government's stance are:-

1. The rejection of the 6.4 per cent pay offer by the Royal College of Nursing. Acceptance would have greatly helped us, though it would not necessarily have secured an agreement because the RCN does not command a majority on the Staff Side of the Nurses Whitley Council. The leaders of the RCN did not expect rejection, which was probably caused largely by the erosion of special treatment for nurses by later pay awards, eg. to the Civil Service.
2. The offer of 4 per cent to 40 per cent of the staff is seen by many of the public as unrealistically low compared with the 6 per cent which is becoming established in the public services generally. It is becoming clear that a number of our colleagues in the House share this view.



I believe that by 24 June we should aim either to have made sufficient progress towards a settlement to enable industrial action to be called off or restrained, or - if a settlement cannot be achieved - to enable us to improve our public stance and therefore our prospects of winning a prolonged confrontation.

Mr Lowry does not believe that he will be able to secure from the trade unions any more than a negotiating position as to the extent of the improvements in this year's offers which are needed to achieve a settlement. He considers that progress can be made only through a meeting between myself and the trade union leaders. It should take place this week if the desired time-table is to be possible.

I believe that we need to include in any package all the elements referred to in my minute of 10 June. They each support one another, and the longer-term elements will help to hold down the price we shall have to pay in this round, as well as removing NHS pay from the political arena next year.

The Chief Secretary said this afternoon that he was prepared to make available £45m. from the contingency reserve and I am grateful for this. A further £30m. would come from the regional manpower ceilings which I propose to impose this year. One effect, however, will be that further new hospital beds will have to remain unopened - because the squeeze we are already applying has already largely exhausted the scope for improving efficiency within the time-scale of which we are talking. There will also be other effects which will lay us open to criticism.

Turning to the figures the position is that it would be possible at a cost of £90 million to envisage a maximum offer this round of 7½ per cent to nurses and the professions supplementary to medicine, 6 per cent for the groups which have been offered 4 per cent, and say 6½ per cent for the groups - ambulancemen is the

m



only important one - which have received intermediate offers. This would imply us finding another £15 million. To the extent that the money available fell below £90m, these figures would have to be reduced. The prospects of securing a settlement would necessarily also be reduced.

If we are able to reach a settlement then most NHS staff groups would receive pay increases at a level no higher than has applied in the public services generally. The fact that the NHS has during the past months firmly adhered to the 4 per cent offer, has been a major factor enabling other groups to be settled at acceptable levels. We would also pave the way for a new system of manpower control.

I am copying this minute to Geoffrey Howe, Norman Tebbit, George Younger, Nicholas Edwards, Leon Brittan and Sir Robert Armstrong.

CONQUEROR

15 June 1982

N.F.

SECRET

cc: J. Vereker BK

SUBJECT



Yt

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10 DOWNING STREET

Econ Pol

From the Private Secretary

15 June 1982

NHS PAY

The Prime Minister held a meeting this afternoon to discuss NHS pay, and in particular the proposals in the Secretary of State for Health and Social Security's minute of 10 June. Apart from the Chancellor and Mr. Fowler, there were present the Secretary of State for Wales, the Chief Secretary, the Secretary of State for Employment and Mr. Kenneth Clarke, Minister for Health. The Prime Minister had to leave the meeting before it was concluded, and the Chancellor remained in the chair.

Mr. Fowler explained that the unions had called a further day of industrial action for 23 June; and that the TUC Health Services Committee would be meeting again on 24 June. No major escalation of the industrial action was expected, but in the aftermath of the rejection by the Royal College of Nurses of their pay offer, some general increase in the pay offer to NHS groups was necessary. He suggested that there should be two elements in the package, both of which were discussed.

(i) An increased pay offer for this year

Mr. Fowler said that the maximum offer that he envisaged encompassed 7½% for the nurses, 6½% for the ambulancemen, and 6% for the ancillaries. He would of course endeavour to settle for less. The cost would be up to £90 million (for Great Britain). The extent to which the proposed extra £90 million could be accommodated within the existing NHS cash limit by the imposition of a manpower ceiling was discussed. It was left that this would have to be further discussed with the Prime Minister present, but that the Treasury would be prepared to meet up to £45 million from the Contingency Reserve, whereas Mr. Fowler could not undertake to find more than £30 million from manpower savings. In further discussion, it was suggested that there could be no certainty of a settlement at these levels, and that there was therefore a risk of offers being made, rejected, and subsequently having to be increased.

/ (ii)

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(ii) The longer term

Mr. Fowler suggested that an essential ingredient in a settlement on the basis he proposed would be better arrangements in the longer term for settling NHS pay. For the nurses, the arrangements now under negotiation might be in place by 1 April 1983; no such arrangements could be made by that time for other NHS groups, and in order to reach a settlement it would be necessary to offer the NHS access to arbitration, subject to override by Parliament, next year. Mr. Fowler thought that Mr. John Wood, Chairman of the Central Arbitration Committee, would be suitable. In discussion it was noted that this proposal could be expensive in terms of next year's pay settlement and ran counter to the Government's preference for avoiding unilateral access to arbitration.

In further discussion, it was noted that the climate of opinion among the unions was worsening. Initially they had not been expected to be able to make much of an issue of NHS pay, but the rejection by the nurses of their offer had given the unions a cause. As the dispute lengthened, militants could be expected to support it. Furthermore, the unions would be resistant to a settlement which was clearly at the cost of resources elsewhere in the NHS. These arguments might point towards the advantage of an early settlement. As against this, it was recognised that even the increases suggested by Mr. Fowler, if they would produce a settlement, would be damaging to the credibility of the Government's approach to pay, and that the damage would be considerably worse were the ultimate settlement to be at a higher level.

Concluding the discussion, the Chancellor said that Ministers should meet again tomorrow, under the Prime Minister's chairmanship, to discuss these issues further. I have now arranged this meeting for 1915 today.

I am sending a copy of this letter to David Clark (DHSS) Adam Peat (Welsh Office), Terry Mathews (Chief Secretary's Office), Barnaby Shaw (Department of Employment), Muir Russell (Scottish Office), Craig Muir (Minister for Health's Office) and David Wright (Cabinet Office).

John Kerr, Esq.,
HM Treasury

M. C. SCHOLAR
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SECRET

Prime Minister

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MS

Please see Mr Fowler's minute (attached).

What he wants is a private meeting with you.

Mr. Scholar

c.c. Mr. Walters
Mr. Mount

But should not be Chief

Secretary, Mr Tebbit, and perhaps also the Welsh and

Scottish Secretaries be invited? Shall I arrange a meeting on that basis? M/S 11/6

I will see Mr Fowler
close - but will
do see him with the
others later

I have seen Mr. Fowler's note of 10 June to the Prime Minister, explaining and attempting to justify some of the activity that was going on behind our backs earlier this week. I have also seen from Hansard that your and my efforts yesterday to ensure that not too much was given away on long-term arrangements for NHS pay were successful. But I think the Prime Minister should be left in no doubt about what the Government has become committed to, as a result of these developments, and without collective discussion among either officials or Ministers:-

(a) The introduction of Mr. Pat Lowry, on however a personal and informal basis, is tantamount to arbitration because he is bound to reach a recommendation for a settlement, and that is bound to become public knowledge; and because we asked him in in the first place, we shall be under pressure to accept it. Mr. Fowler has already mentioned 7½% for the nurses, and the eventual outcome may well be higher. So we have lost the principles of affordability, of market forces, and of the Government's responsibility for determining public service pay.

(b) Despite Mr. Fowler's caution in the debate yesterday, both he (on Tuesday in discussion after his PNQ) and Mr. Clarke (on the Today programme yesterday) have effectively committed the Government to negotiation of a new pay determination system for all NHS staff, comparable to that proposed for the nurses. That cuts right across our plans to establish a new system for the Civil Service on the basis of the Megaw recommendations, and then to see whether it could be applied more widely in the public services.

The transcript went
into last night's
Box
M/S

SECRET

/ And

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And it is clear from Mr. Fowler's note that he also wants:-

- (a) to give more money to the ancillaries ("some very limited improvements");
- (b) an increase for the doctors and dentists; and
- (c) to give the whole of the NHS access to arbitration next year, since no new arrangements could be worked out in time.

In my view these proposals amount to the exact opposite of the objections he set out in his third paragraph: a surrender to industrial action, and pay outside the limits of available resources.

There must certainly be a Ministerial discussion, as suggested by Mr. Fowler. I would hope that at such a discussion, his proposals might be viewed in the wider context of the damage they threaten to our approach to pay in the public sector as a whole:-

- (a) Far too much is now finding its way into the hands of independent judges of what pay levels should be. This year, the Civil Servants, teachers, armed forces, doctors and dentists, policemen, firemen, and gas workers have all had their pay set by arbitration, review bodies, or indexation. Mr. Fowler proposes to add the health service. It would be ludicrous for a Government committed to determining pay on the basis of affordability and market factors to end up handing over responsibility for almost the whole of the public service to outside agents.

/ (b)

SECRET

- (b) As I commented at an earlier stage, our handling of the end of this year's public service pay round is bound to set the tone for the next one. If we are seen to be giving in to totally unjustified claims by essentially weak groups not carrying much public support, such as the NHS ancillaries, what chance do we have of convincing tougher unions, some of them with stronger claims, of our determination in the next pay round?

ck.

11 June, 1982.

Example
Public Sector
Party

RESTRICTED



MS
cc JL

10 June 1982

PRIME MINISTER

PAY RESTRAINT AND ADDITIONAL CAPITAL INVESTMENT

I am grateful to the Chancellor for his willingness to look at the ideas in my minute of 27 May. ^{TPM}

I agree that we need something more precise in the way of proposals than was included in my letter. I would therefore be happy for my officials to collaborate with those from the Treasury and other Departments.

Unless therefore you see any objection, I shall instruct my officials accordingly.

I am sending a copy of this minute to the other members of E Committee and to Sir Robert Armstrong.

Prime Minister

This crosses with a letter from me recording your view that, rather than have officials working up these ideas, they would best be dealt with in a general pay discussion based on the Chancellor's paper.

Mush

MH

MCS 11/6

Note

Told David Edwards that this had crossed with my letter that officials should work up the MH ideas.

MCS 14/6

P.A.



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11 JUL 1982

COMMUNICATIONS

COMMUNICATIONS

PRIME MINISTER

My private secretary has already been in touch with yours about pay and industrial action in the National Health Service.

Industrial action is continuing to cause damage to patients. The response to the national day of action on 8 June was uneven, but overall it was at a somewhat higher level than on previous occasions and a number of hospitals were severely affected. Locally organised action will continue, and again we can expect that there will be serious damage to patients' services in some places.

Against this general background, the public will expect us to be active in seeing whether there is any scope for a settlement, within the limit of the available resources, which would enable the service to return to normal. Our backbench supporters will, I believe, see it as sensible for us to do this, provided that it is clear that we are not contemplating a surrender to industrial action.

Before taking this any further, I thought it necessary to await the outcome of yesterday's meeting of the TUC Health Services Committee, which was taking decisions about the future course of industrial action in the NHS. In the event, they have called for another national day of action on 23 June, but have refrained from seeking any significant escalation in the meantime, although action will, as hitherto, continue at local level. Escalation does, however, seem likely after 23 June, in the absence of any development which would persuade the Committee that it would be inappropriate. The outcome of yesterday's meeting shows that the moderates were able - though I gather with considerable difficulty - to turn aside the proposals of the extremists for an immediate all out strike.

The TUC Health Services Committee have now, as we expected and had prepared for, asked for a meeting with me. It will be right to see them; but such a meeting will not be helpful without some prior preparation, and better knowledge than we now have, of the trade

E.R.

unions' thinking. There is no problem in relation to the non-affiliated trade unions. I had a useful meeting with the Royal College of Nursing yesterday, and may see them again when I have considered the points they made. It is, however, much more difficult to establish useful contact with the affiliated trade unions, and I believe that for this purpose we need the help of an intermediary. As you know, I therefore announced in today's debate in the House of Commons that I had asked Mr Pat Lowry to be ready to perform this function and that he is now starting work. His remit is merely to explore the ground and to report back. He is not empowered to undertake negotiation or conciliation (he is not aware of the possible offer which I have discussed with the Chancellor and Chief Secretary and which were reported to you) nor authorised to table any offers. He will be acting confidentially, informally and in his personal capacity, rather than as Chairman of ACAS.

I envisage that any settlement might contain four main elements:-

- (i) an undertaking to discuss with the trade union side the scope for long term improvements in the arrangements for negotiating pay in the NHS;
- (ii) on the basis that such arrangements cannot in practice be in place for the 1983 pay round, an agreed interim procedure for handling NHS pay in that year. Arbitration subject to parliamentary override might be an answer on the same basis as for the Civil Service;
- (iii) some very limited improvements in this year's pay offers - which would have to preserve the differentials we have established in favour of nurses and a few other groups;
- (iv) to help in financing these improvements, regional ceilings on NHS manpower for the rest of this year. These would then be succeeded by improved arrangements for NHS manpower planning and control.

E. R.

It would be particularly helpful to secure agreement on pay for this year and next year, taken together, and thus remove the issue from the political arena in 1983. I do not need to underline the practical and presentational usefulness of a control on manpower. I do not have any precise figures in mind in relation to the current pay round. Whether there would be any implications for doctors and dentists and how they might best be handled are secondary questions which we cannot address at this stage.

I shall, of course, report back to colleagues on the scope for progress on these lines as soon as Mr Lowry has completed his informal explorations. I hope that these will take no more than a few days.

I know how heavy are the pressures upon you, but I should much appreciate an opportunity of a short discussion with you if a suitable time can be found.

I am sending copies of this minute to the Chancellor of the Exchequer, the Secretaries of State for Employment, Scotland and Wales, the Chief Secretary, with all of whom I had, as you know, already discussed this approach to a solution, and to Sir Robert Armstrong.



10 June 1982

N F



c/c SV
Prime Minister (2)
To note.

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

MUS 10/6

PRIME MINISTER



MONITORING REPORT: PUBLIC TRADING SECTOR

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

2. Issues arising on British Rail are being separately pursued- but you will know that an offer of 5 per cent was made on 28 May (to take effect from 6 September, not the normal date of 20 April) which is conditional on agreement about productivity and an avoidance of industrial action.

3. A settlement worth 7.4 per cent on earnings has been reached with electricity supply manuals as reported in David Mellor's letter of 1 June. In the circumstances this was perhaps as good as could be expected, given that a 7.1 per cent offer had previously been rejected in a ballot. Patrick Jenkin's letter of 25 May reported that a settlement had been reached at British Telecom. There is a good deal of doubt about British Telecom's estimate that this is worth only 6 per cent, and officials are looking at the figuring.

4. Following Giles Shaw's letter of 19 May, the water industry employers offered their staff 6.5 per cent. I agree with him that we would not want the employers to go much (if at all) higher than this, inspite of their earlier 8.8 per cent settlement with the manuals, and should impress this on them. As regards the manuals, it has been reported



in the press that they are seeking a special 15 per cent comparability increase. If there is a prospect of serious pressure for such an increase, Michael Heseltine will no doubt let us know.

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.)

9 June 1982

CONFIDENTIAL

PUBLIC TRADING SECTOR

PART I 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

The report of the Railway Staffs National Tribunal on flexible rostering for train drivers was published on 7 May. The Tribunal found in favour of a 7-9 hours system of flexible rostering subject to a number of safeguards and criteria designed to meet the objections of ASLEF. In addition, the Tribunal recommended that, as a consequence of flexible rostering being introduced, the current manning agreement should be changed to allow shifts up to 9 hours to be single-manned. The new arrangements should permit the introduction of a 39 hour week. The report recommends that the implementation of new arrangements should be the subject of local negotiations and, where disagreement exists, should be resolved through the normal negotiating machinery. The Tribunal's recommendations are not binding on either side.

The reaction of the British Railways Board has been that the findings open the way for a national agreement to be negotiated. The Executive of ASLEF rejected the recommendations as unworkable and their decision was endorsed by the union's annual conference which took place last week.

B 1981/82 PAY ROUND

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

CONFIDENTIAL

At the Railway Staff National Council last Friday, the Board made a 5% offer, payable from 6 September, provided that negotiations on productivity items outstanding from the 1981 settlement have been completed by 30 July. The Board emphasised that they would be able to manage this pay increase only if they could provide a full and continuous service to their customers. Initial union reactions describe the offer as "derisory"; ASLEF are meeting today to discuss a formal response to the offer.

Comment: Together with action likely to be taken by ASLEF following the report of the RSNT, there is a possibility of total disruption of the rail network.

3 Gas Supply: Manuals - 41,300
 Settlement date: 17 January
 Union: GMWU, TGWU

The unions rejected BGC's offer of basic rate increases ranging from 7.8% to 9.1% not flowing through to bonus, an increase of 80 pence per week in the General Obligations Payment and increases to holiday pay staggered working pay and local holiday entitlement. The offer is worth 7.6% on average earnings in the settlement year and 7.9% in the full year.

Following rejection of the offer, the unions expressed their wish to refer their claim to arbitration. Although management did not support this proposal, the constitution of the National Joint Industrial Council allows unilateral access to arbitration and the reference proceeded on this basis. The unions did, however, informally consult BGC on the terms of reference. The arbitration hearing took place on 12 May and the award, which is expected shortly, will be binding on both sides.

Comment: Both sides are anxious for a settlement to be achieved quickly. Attention has been drawn to the water service settlement of 9.1% on basic rates and the miner's settlement presented at 9.3% on earnings. The final settlement will have repercussions for Gas Staff and Senior Officers (see item 4).

4 Gas Supply: Staff and Senior Officers - 57,700
 Settlement Date: 1 June
 Unions: NJC - NALGO, GMWU, MATSA

BGC made an offer worth 5% to 5.1% on average earnings at a meeting on 20 May. The offer comprises increases ranging from 4% for those in the lower grades to 6% for the middle and higher grades. The unions are considering the offer. The next negotiating meeting is now planned to take place on 17 June.

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- 6 Electricity Supply - Power Engineers - 29,300
Settlement date - 1 February
Unions - EPEA/EMA

The union submitted an uncosted claim in January ^{which} included the preservation of links with industrial scales, restoration of 1975 differentials and other improvements. Although expected to make an offer at a National Joint Board meeting on 18 May, the Electricity Council postponed their response in the light of the manual's recent ballot. The next NJB meeting will take place on 15 June.

Comment Engineers are keen to preserve their long standing differentials over manual workers and have threatened industrial action to preserve them. At the upper end of the engineer's pay scales, however, this might result in reverse differentials with some Area Board Deputy Chairmen. Negotiations are, therefore, likely to be influenced by Government decisions on pay increases for board members.

- 7 West Yorkshire Passenger Transport Executive: Platform Staff (2,751)
Settlement Date: 1 May
Union: TGWU

An offer worth 6.9% on average earnings was rejected by ballot on 29 April. At a meeting on 11 May, management additionally proposed the introduction of a self financing attendance bonus. The unions referred this latest offer to Branch Committees with a recommendation to reject it and, if so, to authorise strike action. A ballot of the membership was held on 27-28 May and resulted in rejection. Industrial action now seems likely.

- 8 London Transport - Rail

- (a) 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 7 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:-

- (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 from 39 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 of the 1982/83 budget.

In response the unions were critical but asked to see details of the offer in writing so they could consider it more carefully. The next negotiating meeting will be on 10 June.

Comment: The "flexible rostering dispute" between British Rail and ASLEF and the possibility of action by the NUR on separate issues could have repercussions for London Transport.

A call for action by ASLEF and the NUR to BR employees could, in the current climate of proposed reductions in services and manning levels, receive a sympathetic response from members of the Unions employed by LTE.

(b) Rail Workshop grades (3,550)

Settlement date: 22 April

Unions; ASBSBSW, AUEW, EETPU, FTATU, NSMM, NJSMWCHDE, TGWU, UCATT, NUR

At a meeting on 20 April management offered a 5% increase on basic rates (worth around 5% on average earnings also) which the unions are considering. No further negotiating meetings have so far been arranged.

9 London Transport Executive - Road(a) Bus Platform Staff (19,800)

Settlement date: 29 March

Union: TGWU

At a meeting on 27 April management received an uncosted claim for substantial increases to basic rates and for 4 additional day's holiday entitlement. Management have said that cuts in the London Transport bus budget would severely constrain any offer. At a meeting on 11 May an oral offer of 5% on basic rates, consideration of additional holiday entitlement and a working party to consider the scope for a productivity bonus, was rejected by union negotiators who appear to be in no hurry to settle. The effect of the offer on average earnings is not known. A further meeting took place on 25 May, when an increased offer worth 7% (including 0.5% self-financing productivity, plus changes to leave arrangements) was made. This was recommended for acceptance at a delegates conference on 3 June, but was surprisingly rejected. LT are awaiting an explanation of the reason for rejection.

(b) Road Workshop grades (3,300)

Settlement date: 22 April

Unions: ASBSBSW, AUEW, EETPU, FTAT, NSMM, NUSMWHDE, TGWU, UCATT

Management received a claim for substantial increases to basic rates at a meeting on 11 May but refrained from tabling an offer in view of the continuing non-cooperation in several garages over minor schedule changes implemented in April. A further meeting on 27 May was inconclusive, and further developments will await the outcome of the offer to platform staff.

(c) Road Operating Supervisory grades (2,500)

Settlement date: 28 March

Union: TGWU

Negotiations traditionally follow those of the bus platform staff (see item (a)).

Comment: Cuts in services, rescheduling and proposed reductions in manning led to industrial action at some garages which had only a limited effect. On the understanding that no compulsory redundancies would take place as a result of the forthcoming schedule changes in July, all unofficial action has now ceased.

- 10 British Transport Docks Board: Manual grades - 3,120
 Settlement date: 22 April
 Unions: NUR, CSEU, EEPTU, UVATT, TGWU

The unions rejected an ^{offer} ~~offer~~ 4% on basic rates. At a meeting on 5 May, management improved their offer to 5% on rates which the unions are considering. The effect on average earnings has not been estimated. A further meeting should take place within the next two weeks.

Comment: The recent settlement in British Shipbuilders of an increase worth 6½% on average earnings is causing concern to BTDB management who are endeavouring to limit increases to their employees to 5% in the current round. The Board are, however, "not pessimistic" about settling at this level and have made it clear that they can afford no more than 5%.

- 11 Water Service: Staff (35,300)
 Settlement date: 1 July
 Unions: NALGO, GMWU, NUPE, GLCSA, TWSA

A claim was received at a National Joint Council meeting on 22 April for increase in line with the RPI, a 1 hour reduction in the work week (to 36 hours) and 1 day's additional holiday. The effect of the claim on average earnings has not been estimated. Negotiations resumed on 21 May when management offered an increase of 6.5% across the board; worth 6.5% on average earnings also. The offer was rejected and a further meeting will take place on 10 June.

Comment: Negotiations will be influenced by the manual's settlement effective from December 1981 when increases worth 8.8% on average earnings were awarded. Staff consider the restoration of differentials to be a main issue in their claim. The Water ^{Combined} ~~Employer's~~ Committee have advised their negotiators that an offer of up to 7½% may be made.

- 12 Post Office:
 (a) Postal Supervisors, Executives and Supervisory catering grades (14,800)
 Settlement date: 1 April
 Union: --- CMA

It is understood that a meeting between the Post Office and the union has taken place but the Department of Industry does not know whether a claim has been received or whether an offer has been made.

CONFIDENTIAL

(b) Post Office - National Girobank

Clerical, Typing and Secretarial grades (5200)

Union: CPSA

HCO, EO, HEO and Information grades etc. (900)

Union SCPS

Settlement date: 1 July

Management are to offer a 6% increase in salaries and a productivity scheme which, it is estimated, will provide a further 3% on earnings.

13. British Telecom: Settlement dates: 1 July

(a) Engineers, Technicians etc (130,000)

Union: POEU

(b) Executive engineers, Inspectors, Technical grades (22,500)

Union: SPOE

(c) Telephone, Telegraph and Radio Supervisors (6,000)

Union: CMA

(d) Clerical, Typing and Secretarial grades (35,000)

Union: CPSA

The Secretary of State for Industry wrote to colleagues on 25 May informing them that British Telecom has reached a provisional settlement with the POEU and SPOE. In the letter he says inter alia that the settlement increases basic pay by 6.75% for a 12 months settlement with certain other minor improvements and ^{that} BT estimate that the overall effect of this settlement will be to increase average gross pay by 6% over the 12 month period from the settlement date of 1 July".

Comment: At first sight it seems difficult to understand how this settlement leads to an increase in average earnings of no more than 6% but the Department of Employment is pursuing the detailed costing with the Department of Industry.

14. British Airways: All grades (excluding pilots) - 40,000

Normal settlement date: 1 January

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

On 10 September 1981 British Airways announced a "rescue plan" aimed at stemming large financial losses. The plan included a reduction of 9000 jobs by June 1982, the reorganisation of many working practices and a pay freeze at least until 1 October 1982.

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 postponement of the annual settlement was accepted, 3 panels (Engineering and maintenance, Ramp and Ground Service Staff) submitted claims for substantial increases although there was no immediate pressure to open negotiations.

Staff in the engineering and ground services groups employed at Terminal 3 have recently held separate lightning strikes to press a claim for an interim pay increase before 1 October. Staff at other Heathrow terminals are unlikely to take industrial action. Management have taken a firm line. However a moderate increase from 1 October is becoming likely, and current pressures may lead to this date being advanced with a corresponding lowering of the percentage figure.

MAJOR GROUPS YET TO COMMENCE NEGOTIATIONS IN THIS PAY ROUND

15 Electricity Supply: Clericals - 47,400 SD: 1 May Unions: NALGO
The group traditionally awaits the outcome of the manual's settlement.

16 British Nuclear Fuels Ltd: Industrials - 9,190 SD: 1 July Unions: GMWU
AUEW, TGWU, EETPU.

SETTLEMENTS CONCLUDED SINCE THE LAST REPORT

17 Coalmining: Deputies - 18,200
Settlement date: 1 November 1981
Union : NACODS

Following a ballot of the membership, the group have finally accepted the NCB's offer as accepted by manuals and all other groups (8.57% on basic rates and length of service bonus worth in total 7.4% on average earnings). The union (NACODS) had sought to have the money available for the service bonus allocated to basic rates and divided equally among it's members.

18 British Nuclear Fuels Ltd: Non-industrials - 7,000
Settlement date : 1 April
Unions : IPCS, CPSA, SCPS, AGSRO, CSU

Following a ballot of the membership, the unions have accepted an offer worth 7.5% on average earnings.

19 Tyne and Wear Passenger Transport Executive: Platform Staff (1,700)
Settlement Date : 1 March
Union : TGWU

Platform staff have accepted an offer of 4.1% on basic rates and 2 day's additional holiday. The effect of the offer on average earnings has not been precisely calculated.

20 Strathclyde Passenger Transport Executive: Platform staff - (1,900)
Settlement date: 18 April
Union : TGWU

Management's offer worth approximately 6.6% on average earnings has been accepted by the platform staff.

21 West Midlands Passenger Transport Executive: Platform Staff - (4112)
Settlement Date: 6 November; changed to 1 April Union: TGWU

Platform staff received increases worth 6.5% on average earnings from 6 November 1981 (the due settlement date) with an agreement that the settlement would apply for 5 months until 1 April 1982 when wages would be reviewed again.

In the light of ^{threatened} industrial action, an increase of slightly less than 7% on average earnings (incorporating a basic rate increase, improved shift allowance, holiday pay and productivity) has been agreed from 1 April 1982 and will run for 12 months to 1 April 1983 - the new annual settlement date.

RESTRICTED

vb

*From Pol
P.S. [unclear]*



10 DOWNING STREET

c. HO	
FCO	D/TRANSPORT
HMT	CS, HMT
DES	CDL
NIO	D/N
MOD	D/M
MAFF	CO
LPSO	CPRS
D/I	bc: JV & AW
D/TRADE	

From the Private Secretary

9 June 1982

Pay Restraint and Additional Capital Investment

The Prime Minister was grateful for your Secretary of State's minute of 27 May. She has also seen the Chancellor of the Exchequer's minute on the same subject of 3 June.

The Prime Minister has noted your Secretary of State's ideas about a possible trade-off between pay restraint and capital expenditure stimulus. She is doubtful about the Chancellor's proposal that officials should work up in detail a scheme on the lines of that favoured by your Secretary of State, and would prefer to have a general discussion of these ideas when E Committee considers the 1982/83 pay round, on the basis of the paper promised by the Chancellor.

I am sending a copy of this letter to the Private Secretaries to other members of E Committee and to David Wright (Cabinet Office) and Gerry Spence (CPRS).

M.C. SCHOLAR

David Edmonds, Esq.,
Department of the Environment.

RESTRICTED

SECRET

Prime Minister

(2)

5

MR. SCHOLAR

I am not so sure that we should stick indefinitely to the present offer: it c. Mr. Mount is an offer which Mr. Ingham looked a lot different once the civil service 5.9% was

A STRATEGY FOR NHS PAY

Mr. Fowler's letter of 3 June to the Chancellor leaves much unsaid. I do not question the tactic of waiting to see the developments of the next few days; but we need to have some strategy for handling the various NHS pay disputes over the next few weeks.

The nurses ballot result is disappointing: the earlier indications were that it would be close, but it does seem as if the balance shifted sharply against acceptance over the last few days - Mr. Fowler will argue that this was because of the TSRB decision. None-the-less, we should not be panicked by the ballot result: it was a very low poll (30%) and the question was asked in such a way (by not seeking authority for industrial action) that it was easy for nurses to vote no.

We shall have to see how public opinion reacts to this in the next few days. Much of the media gave an unqualified welcome to our increase in the offer from 4% to 6.4%, and may regard its rejection as ingratitude. That is certainly the line I would hope we might take publicly. Subject to the media not mounting a further campaign for an increase, I think our strategy for handling the NHS - both the nurses and the other groups - over the next few weeks, should be to take as unyielding a line as possible for as long as possible. This is because:

- (i) there is at present no sign that raising the offer, at least for the ancillaries, would achieve a settlement - and it is the worst possible negotiating tactic to go on raising the offer each time it is rejected;

/(ii)

SECRET

Ev... Dd

[Handwritten signature]

accepted. The issue is one of timing.

MWS 4/6

I doubt it MWS

SECRET

- 2 -

(ii) there is at present no sign that NHS industrial action is particularly effective: I am told that today there have been no reports of miners picketing hospitals, and no serious risks to the community's health (health authorities have been given general guidance about the provisions of the Employment Bill in the event of secondary picketing by the miners; but it is considered very unlikely that miners' pickets will cause a hospital to shut that would otherwise have been open);

The media will say it is damaging even if it is not; and I believe it will be.

MS

(iii) the public is generally sharply opposed to NUPE, and the Health Service unions are by no means united;

(iv) and most important of all, our handling of NHS pay, and to a lesser extent BR pay, will set the tone for the next pay round. If the Government is seen to be prepared to make substantial and widespread increases in the pay offers, outside the cash limits, in the face of the threat of industrial action, that will be widely noted by all the public service unions. So any advance on the offer must only be made -

- (a) after a long struggle, and
- (b) as far as possible within the cash limit.

4 June 1982

SECRET

PRIME MINISTER

①

Pay Restraint and Additional Capital Investment

It is not at all clear what Mr. Heseltine expects to happen as a result of sending you this (Flag A) personal minute. This is a familiar theme for him, it is reminiscent of the social contract approach to pay policy, but it is an unfocussed proposal.

I would have suggested that you simply noted it. But we have now a minute from the Chancellor (Flag B), which raises no enthusiasm at all in this kind of idea, but proposes discussing it at E. Alan Walters (Flag C) has also written a note, arguing that Mr. Heseltine's note is ill-conceived, impractical and likely to lead to an undesirable result.

If you agree with Alan's approach, it would not be worth while for officials to work up the Heseltine scheme in detail, as proposed by the Chancellor. On this basis, the best way of responding to Michael Heseltine's minute might be to say that you have noted it, and that there will be a general opportunity to discuss these and other ideas about pay when E Committee looks at the 1982/83 pay round on the basis of the paper promised by the Chancellor.

Do you agree that I should respond in this way?

MCS

Yes. - I agree
with Alan
Walters note
not

4 June, 1982.

RESTRICTED



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

PRIME MINISTER

PAY RESTRAINT AND ADDITIONAL CAPITAL INVESTMENT

The Secretary of State for the Environment sent me a copy of his minute to you dated 27 May. ^{Tpm}

2. The Scheme he proposes is larger, and less specific, than the one considered in my note to you of 10 May. Something of this kind has been considered in the past, but not pursued. I am sceptical about it, but should be ready to look at it again.

3. The best time to do this might be at the proposed meeting of E Committee to discuss the 1982-83 pay round. I shall be circulating a paper about this soon. If you agree, I suggest that Michael Heseltine arranges for his officials to work up his scheme in more detail, in consultation with officials from the Treasury, the Department of Employment and (if you wish) the CPRS. That would give Ministers a clearer and more precise set of proposals on which to focus.

4. I am sending a copy of this minute to the other members of E Committee and to Sir Robert Armstrong.

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

(G.H.)

3 June 1982

03 JUN 1962



Library of Congress, Washington, D.C. 20540

CORDING

CONFIDENTIAL

cc Mr. Scholar ✓
Mr. Mount

MR. VEREKER

1. The confusions in the Secretary of State for Environment's memorandum to the Prime Minister of 27 May are so dense that it is difficult to sort out the compounding of one confusion on top of another. However, we can begin with a soft sell.
2. In the public sector, in so far as we operate cash limits, there is already the sort of trade-off he is seeking. We calculate pay according to the norm, then fix the cash limits taking into account any other expenditure. If workers settle below the norm then there is that much more cash which can be spent on other things, including investment. For example a lower settlement for health workers would enable more funds to be available for building hospitals. Whether it is a good idea to build more hospitals, etc is another matter.
3. But seemingly the Secretary of State's idea has rather grander intent. It is an offer to a whole raft of workers in the whole scope of public sector activities, that if they "cool it" then we will build all these jolly good things, like roads, hospitals, houses etc. It is the idea of the "social contract". What is not explained is why NUPE for example would regard more road space or more schools, say in the Toxteth district of Liverpool, as a good trade-off in exchange for a smaller wage packet.
4. The Secretary of State is mistaken, however, in his analysis. The reason for the low pay settlements being helpful is not because they are required "to force inflation down". The Secretary of State has swallowed a crude incomes policy or wage push theory of inflation. Inflation is coming down because of our monetary and fiscal policies. The point is, as James Meade has argued so cogently in his recent book, low wage settlements are necessary in order to promote employment and to reduce the pool of unemployed.
5. Our general policy in the public sector should be to offer wages sufficient and only just sufficient to attract the appropriate amount of labour and to maintain a suitable turnover. These wage rates will depend upon those which are settled in the private sector under the exigencies of local, national and international market forces. We should make sure the public sector unions appreciate this point.

CONFIDENTIAL

/We should not

CONFIDENTIAL

- 2 -

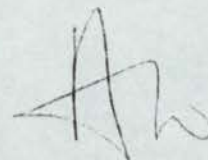
We should not fog the issue with social contract type of deals with investment traded off against lower wages.

6. The Secretary of State also proposes that any additional investment should be directed to high unemployment areas through the construction industry. This seems to me quite wrong. If there are more investable funds available, then they should be disposed where their rate of return is highest, and it is not clear to me that building more and more infrastructure in declining areas is the appropriate way to invest our funds. But apart from that point, it seems to me that our policy is, and should be, to promote private investment, not public expenditure, in housing and hospitals and perhaps also schools. I thought in particular we had set our face against an expansion of public sector housing and on my understanding there are excess supplies of school buildings and in many places hospitals also. Now perhaps the drains are another matter, but not one with great appeal to NUPE or the General and Municipal Workers.

CONCLUSION

- (a) The analytical background of Secretary of State's memorandum is wrong.
- (b) The policy is implausible and impracticable.
- (c) If, however, it were implemented, it would have very undesirable results.

2 June 1982



ALAN WALTERS

CONFIDENTIAL

*Mus 2/6*

27 May 1982

Prime Minister

I have considered Geoffrey Howe's letter of 10 May about the scheme I originally proposed to link restraint in pay for additional capital investment.

I agree his conclusions in the context of the scheme he examined of trying to trade a specific additional investment in a given industry in return for restraint by workers in that industry. I do not believe that such a scheme is a starter because it is based on the inherently unsustainable concept that you can ask workers in an industry to forgo pay increases to enhance investment from which they may not benefit (with enhanced efficiency might actually lose jobs) but which benefit the community at large, many members of which were showing no equivalent restraint. My proposals would have no prospect of success on such a basis.

I wish to return however to my original concept which seems to me urgent and particularly against an electoral timetable attractive.

We are achieving - so far- most helpful pay settlements in this round. As we have pointed out they represent a real reduction in living standards. That has to be if we are to force inflation down. Within only a few months we have to start again. The next pay round also will be aimed at below inflation levels and must be if it is to continue our progress.

I want to show tangibly and visibly by government decision that there is a prize. I want to put very obvious arguments before our supporters that are more than just an act of faith in long term economic improvements. It seems to me that an offer to increase investment in the nation's roads, schools, hospitals, houses and other economic and social infrastructure in return for continuing pay restraint has everything to commend it.

You will remember that the equation rests on a specific capital boost for broad acceptance of pay restraint within the Chancellor's assumed pay factor. The sums of cash must be significant - at least £1bn - to have the necessary impact but the off-sets are equally dramatic. Today, a 1% pay increase is worth £400m in the public sector alone and because our offer would largely affect private sector demand I believe it would spill over and moderate pay settlements there as well. 1% on private sector settlements adds £900m to industrial and commercial costs.

Of course it is impossible to guarantee a perfect trade off between the stimulus and the lower pay claim. But it would be possible to phase the actual release of the actual cash throughout the year making it generally dependent on the progress of the pay round. And the more careful we are with the actual projects we select the more we can direct them to high unemployment areas particularly through the construction industry where a fair proportion of the extra cost could actually be financed by lower levels of unemployment pay.

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

mmj



21 JUN 1962



[Faint, illegible handwriting or stamp on the lower half of the page]

NHS Pay

Mr. Fowler had quite a tough time in the House.

For the Opposition, Mrs. Dunwoody, strident as ever, said that the Government had left itself with this year's problem by abolishing Clegg. ACAS was the best available machinery to resolve the problem. The Government had done nothing about low pay in the health services. Even the regional chairmen were opposed to the Government's stance (a point on which she was in fact misinformed). In reply, Mr. Fowler ruled out arbitration on the grounds that the Government could not sub-contract to an arbitrator the decision on what the nation could afford.

From the Opposition benches, the Government came under fierce attack from the predictable hard-liners like Willie Hamilton, Reg Race, Doug Hoyle, and Martin Flannery. The Government had treated health services workers shabbily, and was insisting on a further lowering of their living standards. The Government's niggardliness had driven them to industrial action. For the Liberals, Clement Freud found that the statement gave neither hope nor credit to the nurses. For the SDP, Mike Thomas wanted to see a fair incomes policy. Lawrence Cunliffe argued that the Government was widely out of touch with public opinion. Sooner or later, the health service unions would have to have a meeting with the Secretary of State and the Prime Minister, to hammer out an improved offer. ^{Allen} ~~Alan~~ McKay pointed to the growing support from the miners, the seamen, the water workers and the power workers. The Government must go to arbitration.

There was some uncertainty even on the Government benches. Edward Du Cann spoke of some sympathy with the low paid, but argued fiercely that doctors alone should judge emergencies - a point picked up by Jill Knight and Brian Mawhinney. Nicholas Winterton said that the Government had given a commitment before the election to treat various groups as special cases. This had

been honoured for the police and the armed forces, but many people found the offer to the nurses inadequate.

Peter Emery pressed for the use of volunteers during the dispute. Sheila Faith stressed the value of job security by comparison with the private sector. Ralph Howell wished Mr. Fowler to agree with him that the health service was seriously overmanned.

Concluding, Mrs. Dunwoody came back to comparability. Mr. Fowler stood on the importance of the Government's search for new permanent arrangements, yet the Government had destroyed Clegg which could provide this. If the Government were so confident, they should take their case to ACAS.

The fact is that the health workers got much more sympathy from the House than Mr. Fowler would have wished to see. The Government still has an uphill battle on this one.

Duty Clerk.

PP M Pattison

27 May, 1982.



10 DOWNING STREET

From the Private Secretary

27 May, 1982

NHS PAY AND THE TSRB

It occurred to me today that it might be helpful to your Secretary of State to have a copy of the briefing which the Prime Minister asked us to get together to deal with questions comparing the TSRB awards with the current NHS offers. I apologise for the tatty nature of these notes, but thought that it was worthwhile to let you have a copy.

I should be grateful if, given the Prime Minister's markings on these notes, you would ensure that they are shown to no one except your Secretary of State.

M. C. SCHOLAR

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

1980 - Year in which
pay of almost all
public service groups was
brought fully up to date.

MAIN PUBLIC SERVICE GROUPS: Pay increases since 1980

(NON-INDUSTRIAL] CIVIL SERVICE

: Brought fully up-to-date in 1980 (PRU settlement): 19% increase. Since then 7½% (1981): 5.9% (1982). Current increase over 1980 13.8%

ARMED FORCES

: Brought fully up-to-date in 1980: 17% increase (AFPRB). Since then 10.3% (1981): 6.1% (1982), as recommended by AFPRB. Current increase over 1980 17.0%.

DOCTORS AND DENTISTS

: Fully up-to-date 1980 (DDRB): 31% increase. Since then 6.0% (1981): 6.0% (1982). Current increase over 1980 12.4%.

POLICE

: Subject to increases under the Edmund Davis formula. Fully up-to-date in Sept 1980: 21.3% increase. Sept 1981 13.2%. Yet to settle in 1982. Current increase over 1980 13.2%.

TEACHERS

: Fully up-to-date in 1980 (Clegg and arbitration): 32% increase. Since then 7½% (1981). Yet to settle in 1982 (3.4% offered: 11.2% compounded over 1980).

NURSES

: Fully up-to-date 1980 (Clegg): 25% increase. Since then 6.0% (1981). Yet to settle in 1982 (6.4% offered: 12.8% compounded over 1980)

TSRB GROUPS
(senior civil servants & armed forces officers)

: 24% increase in 1980 (third stage of 1978 increase plus a further 12½%). Currently 5% less than 1980 recommendations. New rates 8% over 1980 recommended levels.

M.P.'s

5½% above 1980
recommended level

No Top Salaries Review body has been implemented in full and on time since 1974.

PUBLIC SERVICE PAY SINCE 1980

TSRB
Nurses

, arguably, 1980 was the year in which the pay of almost all public service groups was brought fully up to date. Increases since then have been 13.8 per cent for the Civil Service; 17 per cent for the Armed Forces; 12.4 per cent for the Doctors and Dentists; 13.2 per cent for the Police (who have yet to settle for 1982); 11.2 per cent for teachers in England and Wales (if the present offer of 3.4 per cent is confirmed at arbitration); and 12.8 per cent for Nurses if the present offer of 6.4 per cent is accepted by them. Before yesterday's announcement the TSRB groups were still on average 5 per cent below the 1980 recommendations. They will now be 8 per cent above those recommendations for senior civil servants and Armed Forces officers and $14\frac{1}{2}$ per cent above those recommendations for the Judiciary. If the House accepts the Government's recommendation the equivalent figure for MPs will be $5\frac{1}{2}$ per cent.



Prime Minister (1)

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

Agree this

Statement may
be made tomorrow?

MCS 25/5

Mike Pattison Esq
10 Downing Street

25 May 1982

Now postponed
until Thursday
MAY 26/V

Dear Mike

STATEMENT ON NHS PAY DISPUTE

I enclose the current draft of the statement which my Secretary of State is proposing to make tomorrow on the NHS pay dispute. The draft has not been finally cleared by the Secretary of State - he will wish to look at it again in the light of tomorrow's press, for example - but it represents substantially what he wishes to say.

I am sending copies of this letter and enclosure to Murdo MacLean (Chief Whip's Office), David Heyhoe (Lord President's Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Stephen Boys-Smith (Northern Ireland Office) and David Wright (Cabinet Office).

Yours ever,

David

D J Clark
Private Secretary

NHS PAY DISPUTE

DRAFT STATEMENT

The House will wish to be informed of the latest position on industrial action in the National Health Service in support of their current pay claim and the action being taken to ensure as far as possible that patient services are maintained. I am sure that the House will agree that the welfare and safety of patients must always be our first concern.

First let me report on the action taken last week in the national 24-hour stoppage called by health service unions affiliated to the Trade Union Congress. The action was widespread but patchy in its effect. In some areas there was serious disruption of services. In other areas there was a limited response or none at all. In all areas the majority of nurses continued to provide patient care, reflecting their traditional concern not to do anything which might harm patients. However, the action did have an effect on patient services. In many places admissions were restricted to accident and emergency cases and routine treatment was restricted or prevented altogether. Similarly services for patients in hospital were affected so that, for example, cold meals had to be served and clean linen was not available. This demonstrates the plain fact that industrial action cannot be taken in the health service without adverse effects on patients.

One further point I should make concerns the risk of emergency services breaking down. It was clear last week that the assurance given by the trade unions that accident and emergency services would be fully protected could not be guaranteed in all areas. This underlines the potential danger of continuing industrial action in the health service and should be a vital consideration not only to those responsible for making arrangements to meet this contingency but also to those who seek to justify or support the action.

Nevertheless certain unions have indicated that they intend to continue industrial action. Clearly the main task for management is to continue to provide the widest possible range of services and, at the minimum, to ensure the welfare and safety of patients. The main responsibility for dealing with industrial action lies with the local health authorities. Only they are fully in touch with current

local developments. We have reminded authorities of the guidance issued by this Government in 1979 on the action to be taken when industrial relations break down. My Department is in touch with the relevant authorities to ensure that the appropriate arrangements are being made.

Mr Speaker, it is important to recognise that the NHS has enjoyed real growth and secure and growing employment over the last 3 years. The numbers of full-time staff directly employed in the hospital and community health services have increased by 47,000, including 34,000 nursing and midwifery staff. The offers on the table give increases of more than 6 per cent to about half the workforce - including nurses and midwives and junior doctors - and will increase the pay bill by 5.5 per cent: 6.5 per cent if extra services are included.

The claims by the health service unions for pay increases of about 12 per cent together with reduced hours of work and more annual leave would, if met in full, add about 20 per cent - or £3/4 billion - to the pay bill. Such claims could only be met at the expense of the taxpayer or by reducing the level of health services. In my view the offers on the table which will increase expenditure by £320 million this year, plus the cost of employing more staff to provide the extra services planned, are both fair and realistic. And looking towards the future we are discussing with the Nurses and Midwives Whitley Council better permanent arrangements for determining their pay so that we might avoid this annual crisis. I hope that the unions will consider the position very carefully and will return to the negotiations in the first week of June when some of the major Whitley Councils are due to meet again.



2
MAY 1962



Prime Minister (2) ✓ ✓ ✓ ✓ ✓

Econ Act

Ms 21/5

Prime Minister

NATIONAL HEALTH SERVICE PAY DISPUTE

[Handwritten mark]

There are two developments which I should report to colleagues following my minute of 19 May.

The decision at yesterday's meeting of the TUC Health Services Committee was to call for two further national stoppages lasting for twenty-four hours on 4 June and 8 June. By the latter date we shall know the outcome of the ballot being undertaken by the Royal College of Nursing and therefore substantive negotiations in the Nurses and Midwives Whitley Council should have been resumed. Once again the intention is to try to stop all but accident and emergency admissions. We can expect local action to continue to restrict services in some areas between now and 4 June.

Our detailed assessment of the action on Wednesday shows that whilst the effect was uneven the intensive activity in some places meant that despite the claims of the unions emergency cover could not always be guaranteed. My statement on the announcement of further stoppages underlined the threat to patient safety of such action as well as the general distress and discomfort caused.

I have reminded health authorities of the need to stand firm, maintain services as far as possible and ensure that those who do not work do not get paid. Discussions on contingency arrangements to provide emergency cover are being initiated.

I am copying this to all Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.

[Handwritten signature]

NF

21 May 1982



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20 MAY 1982



COPIES TO BE DESTROYED

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CONFIDENTIAL

MR. SCHOLAR

c. Mr. Mount
Mr. Ingham

PA.

AVERAGE EARNINGS

At Question Time, or in discussion more generally with you or the Chancellor about pay, the Prime Minister may find it helpful to be familiar with the awkward relationship between the Average Earnings Index - the Index for the 12 months to March was published yesterday, at 11% - and the level of settlements during the pay round, contained in the monthly pay brief for Ministers.

The Average Earnings Index has bedevilled our effort on pay for the last two years. There are two problems, drift and drag. Drift is the phenomenon whereby average earnings almost always turn out to be higher than settlements, because of increases in the hours worked, increased bonuses, hangovers from earlier settlements, and a handful of other factors including (regrettably) deliberate under-reporting of settlements. In the current pay round it is expected to be up to 2%. Drag is the result of the fact that the AEI measures averages over the previous 12 months, and therefore under-reflects current settlements, which tend to be grouped towards the end of the pay round.

The pay brief for Ministers, which will be circulated shortly, will note that the average level of settlements has - as a result of the public service settlements in April - fallen back to 7%. It is notable that there is a very narrow spread among sectors - public services, the public trading sector, manufacturing and non-manufacturing are all within a percentage point or so of one another. The level will come down still further if we get reasonable settlements for the teachers and the NHS.

The pay brief figures will not become consistent with the AEI until the July Index is published in September. The July AEI is expected to be a little below 9%, reflecting a 7% pay round plus 2% drift. It goes without saying that we should take every possible opportunity to establish the credibility of the figure for the average level of

CONFIDENTIAL /settlements

CONFIDENTIAL

- 2 -

settlements, and to explain the drag in the AEI figures.

J.V.

20 May 1982

CONFIDENTIAL

PRIME MINISTER

NATIONAL HEALTH SERVICE PAY DISPUTE

I should let you have an assessment of today's action. Initial reports indicate that its effects have been patchy across the country with intensive activity in many places but little or no action in others. The action has mainly involved ancillary workers and the great majority of nurses have continued to care for their patients.

Before today's national stoppage, local action was being taken in a number of districts and this can be expected to continue and may well increase. Our stance has been to stand firm on the Government's case concentrating in particular on:

- increased expenditure and real growth in Health Service pay;
- secure and growing employment;
- additional provision above the 4 per cent factor for nurses and other groups directly providing patient care;
- our discussions on better long term arrangements for nurses' and midwives' pay;
- rebuttal of the union claim that low paid staff are on the "poverty line";
- the harm that any action has on patient services and care.

The co-ordinating body - the TUC Health Services Committee - meet tomorrow, no doubt to discuss their strategy in the light of today's action. The position at present is that the local action will continue and 2-hour national stoppages will take place on Thursday afternoons starting on 27 May. As you know nurses who are members of the Royal College of Nursing are now balloting on the 6.4 per cent offer. We should know the result by the end of this month. Clearly we will continue to stand firm on our offer.

I am copying this to all Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.

19 May 1982

N F



Prime Minister

MS 19/5

PRIME MINISTER

MS

MONITORING REPORT: PUBLIC TRADING SECTOR

... I attach the latest monitoring report on the Public Trading Sector.

2. Apart from the Railway Staff's National Tribunal findings on the flexible rostering issue at British Rail, which are being separately considered, there are few new developments to report. But I see that both the Gas and Water service employers have forthcoming negotiating meetings with their staff grades at which offers either will or might be made, on 20 and 21 May respectively. No doubt Nigel Lawson and Michael Heseltine will let us have appropriate warning of any offers.

3. You will have seen the exchange between Patrick Jenkin and the Chancellor on 7 May about the position at British Telecoms. Although the Chairman has since argued otherwise, it seems unlikely that the latest offer was worth much less than the 9 per cent at an annual rate which was mentioned in the Chancellor's letter. (A nine month settlement was proposed.) But I understand that further moves may now be taking place, and clearly (given British Telecoms' very favourable cash position) there is a risk of an even higher offer. We must clearly continue to apply all possible pressure to get British Telecoms to think in more moderate terms.

4. 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.

L.B.

LEON BRITTAN

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 Inquiry'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. The Chairman and assessors visited guards' and drivers' depots around the country before publishing the report of their findings on 7 May. The Tribunal's decision, not binding on either side, found in favour of the Board subject to a series of safeguards for train drivers. Initial reactions have been that from the Board's point of view the findings open the way for a national agreement to be negotiated. ASLEF's immediate view was that the findings led to an unworkable system.

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 flexible rostering dispute has been resolved. Any offer by BR will need to reflect the heavy financial losses incurred during the dispute early this year.

3 Gas Supply - Manuals (41,300)

Settlement date: 17 January

Unions: GMWU, TCWU

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 38½ 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.

Following lengthy negotiations during which various offers were made and rejected, BGC, at a meeting on 30 March, 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 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 previous offers, it would have meant slightly less for bonus workers, but more for non-bonus workers.

The unions rejected this offer, and expressed their wish to refer the whole of the claim to arbitration. The management did not support this proposal but since the constitution of the National Joint Industrial Council allows unilateral access to arbitration the reference is proceeding on this basis. BGC have nevertheless been consulted informally, by both the unions and ACAS, on the terms of reference. The hearing took place on 12 May. The award, which is expected in 1 to 2 weeks, will be binding on both sides.

Comment: Ministers considered union rights to unilateral arbitration in the public sector in E(81) Committee on 30 November 1981 and agreed that it would be inopportune to invite BGC to consider seeking to change the arrangements for arbitration in the industry. Both sides are anxious for a settlement to be achieved quickly.

The Gas, Water and Electricity industries closely watch each others' settlements and the unions have drawn attention to the water service settlement of 9.1% on basic rates and the miner's settlement presented as 9.5% on earnings.

Gas Supply - Staffs (57,700)

Settlement date: 1 June

Union: GSSO

The Gas Staffs and Senior Officers (GSSO) have presented a claim including an increase in line with the rise in the cost of living index (with references to 14%), reduction in hours, increase in holidays and restructuring of salary scales. BGC will be responding with an opening offer on 20 May. The final settlement for manuals will have implications for these negotiations.

Gas Supply - Higher Management

Settlement date: 1 June

Union: NALGO

The Higher Management (HM) have submitted a claim which includes: salary increases of 12% to restore June 1981 living standards; restoration of pay differentials between HM and GSSO; and grade restructuring. The union estimates total claim to amount to 15% on gross pay bill.

BGC are expected to make opening offer on 3 June.

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%.

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. Balloting will be completed by 12 May and the result will be known shortly afterwards.

5 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 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 pay was not discussed at the last National Joint Board meeting held on 20 April. The next NJB meeting will take place on 18 May when the Electricity Council expect to be under pressure to make an offer.

Comment: Engineers are keen to preserve their long standing differentials over manual workers and have threatened industrial action to preserve them. At the upper end of the engineer's pay scales, however, this might result in reverse differentials with some Area Board Deputy Chairmen. Negotiations are, therefore, likely to be influenced by Government decisions on pay increases for board members.

6 Passenger Transport Executives: Platform Staff SD: Various

The following PTE's 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 4.1% on rates to engineering staff. The engineers voted to accept the offer on a recent ballot - largely due to the group having a reopener clause if any other group settles for a larger amount. Bus staff have rejected the offer.

Negotiations with the metro service staff have been slow to start as the group includes ASLEF members who have delayed negotiations pending the outcome of the national dispute between BR and ASLEF. An offer has, however, now been made of

on basic rates and increases to unsocial hours and weekend shift working payments, worth around 5 $\frac{1}{2}$ % on average earnings.

(b) Strathclyde (SD: 18 April) Management's offer of a 6.6% increase on basic rates has been accepted by the craftsmen but negotiations are still continuing with the traffic, manuals and inspectorate groups who earlier rejected the same offer. The effect of the offer on average earnings has not been precisely calculated but is estimated to be rather less than 6.6%.

(c) West Yorkshire (SD: 1 May) Management offered 6.6% on basic rates and 2 additional days holiday (worth in total 7.5% on average earnings) and were optimistic that a settlement could be achieved at this level. Following a ballot on 29 April, however, the offer was rejected, and at a further meeting on 6 May management slightly recast the offer and included a self-financing attendance bonus scheme. Union negotiators have agreed to refer the offer back to branch committees, but are recommending rejection and asking for a strike mandate.

7 British Nuclear Fuels Ltd: Non Industrials (7000)

Settlement date: 1 April

Unions: IPCS, CPSA, SCPS, AGSRO, CSU

In response to a claim for a 15% increase on average earnings, management offered, on 31 March, an increase worth 7 $\frac{1}{2}$ % on average earnings. The unions have balloted their membership who have all now accepted.

8 London Transport

(a) 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 7 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:-

(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 undershot on the 1982/83 budget.

In response the unions were critical but asked to see details of the offer in writing so they could consider it more carefully. No further meetings have so far been arranged.

(b) Rail Workshop grades (3550)

Settlement date: 22 April

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

At a meeting on 20 April management offered a 5% increase on basic rates (worth around 5% on average earnings also) which the unions are considering. No further negotiating meetings have so far been arranged.

(c) Bus Platform Staff (19,800)

Settlement date: 29 March

Union: TGWU

At a meeting on 27 April management received an uncosted claim for substantial increases to basic rates and for 4 additional day's holiday entitlement. Management have said that cuts in the London Transport bus budget would severely constrain any offer. At a meeting on 11 May an oral 5% offer was neither accepted nor rejected by union negotiators, who appear to be in no hurry to settle. The next meeting has been arranged for 21 May.

(d) Road Workshop grades (3,300)

Settlement date: 22 April

Unions: ASBSBSW, AUEW, EETPU, FATU, NSMM, NUSMWCHE, TGWU, UCATT

Management received a claim for substantial increases to basic rates at a meeting on 11 May, but refrained from tabling an offer in view of the continuing non-cooperation in several garages over minor schedule changes brought in last month. A further meeting has been arranged for 27 May.

9 British Transport Docks Board: Manual grades (3,120)

Settlement date: 22 April

Unions: NUR, CSEU, EETPU, UCATT, TGWU

The unions have rejected an offer of 4% on basic rates; the effect on average earnings has not been estimated. A further negotiating meeting took place on 5 May, when the Board raised the offer to 5%.

Comment: The recent settlement in British Shipbuilders of an increase worth 6 $\frac{1}{2}$ % on average earnings is causing concern to BTDB management who are endeavouring to limit increases to their employees to 5% in the current round. The Board are however "not pessimistic" about settling at this level.

10 British Telecom:

(a) Engineers, Technicians etc (130,000)

Union: POEU

(b) Executive engineers, Inspectors, Technical grades (22,500)

Union: SPOE

(c) Telephone, Telegraph and Radio Supervisors (6,000)

Union: CMA

(d) Clerical, Typing and Secretarial grades etc (35,000)

Union: CPSA

Settlement date: 1 July

An offer of 4.3%, subsequently improved to an average of 4.8% on basic rates was made to the POEU and SPOE - in early March. As a result of negotiations BT are considering improving this to an average of 5% or 5.3% on basic rates for a nine month settlement (6.7% or 7% at an annual rate). They hope that this will help to prevent the negotiating position of management being weakened by the need to make agreements at the close of the annual pay round. In order that the new rates should apply in the whole period April 1982 to March 1983 without increasing basic rates in the final nine months they envisage making a lump sum payment of 1 $\frac{1}{4}$ per cent (a quarter of 5 per cent) in respect of the current quarter, which will not form part of the base for later wage bargaining. Finally a consolidation of 1 per cent of the existing productivity bonus from 1 January 1983 is envisaged (leaving unconsolidated the remaining 1 per cent of the bonus).

It is reported in the May issue of the CMA's own journal "New Management" that the union have submitted an uncosted claim to British Telecom and that an exploratory discussion with management has taken place. No offer has been made but British Telecom have undertaken to consider the claim and arrange a further meeting in due course. No further information is available.

There is no knowledge of any negotiations having taken place with the CPSA representing the clerical grades.

11 Water Service: Staff (35,300)

Settlement date: 1 July

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

A claim was received at a National Joint Council meeting on 22 April for increases

in line with the RPI, a 1 hour reduction in the working week (to 36 hours) and 1 day's additional holiday. The effect of the claim on average earnings has not been estimated. The next negotiating meeting will be on 21 May.

C. SETTLEMENTS CONCLUDED SINCE THE LAST REPORT

12 Passenger Transport Executives: Non manual staff (6,000)

Settlement date: 1 April

Joint Negotiating Committee

The Joint Negotiating Committee representing non manual staff in all 6 English PTE's have accepted an increase worth 7.0% on average earnings. The settlement comprises a 4% increase on rates plus a further 3% on rates, also payable from the settlement date, which will be linked to improvements in productivity and increased efficiency (although the precise details of how these improvements will be achieved have yet to be negotiated).

13 British Shipbuilders: Staff and Manuals (67,000)

Settlement date: 1 April

Unions: CSEU, SAIMA,

The unions have now formally signed an agreement accepting management's offer of increases to basic rates which, with the subsequent effect on overtime, represents an increase in average earnings of 5½%. In addition, a further 1% increase will arise from the consolidation of supplements from a previous round and an increase in the minimum earnings level; in total a 6½% increase on average earnings.

14 Post Office: Postal Officers, Assistants, Postmen, Cleaners and Doorkeepers
(156,500)

Settlement date: 1 April

Union: UCW

Following rejection of their offer of a 5% increase on basic rates, management improved their offer to 7% on basic rates, worth 7% on average earnings also, which was accepted by the UCW. In addition a lump sum payment of £55 will be made as a bonus payment linked to a reduction in unit costs over the previous year (adding a further 0.6% to average earnings). The Post Office has also agreed to consider the possibility of paying a similar bonus next year.

15 South Yorkshire Passenger Transport Executive Platform Staff (3,126)

Settlement date: 1 April

Union: TGWU .

Management originally offered a 4% increase on basic rates with a further 2% to 3% on rates in return for improved productivity. The offer was rejected at a meeting on 22 April and, following a threat of industrial action, management improved their offer by proposing a £3 guaranteed lead in payment on the productivity scheme, which, added to the 4% increase on basic rates and improvements to holiday pay, will give an increase of 7.1% on average earnings. The union accepted the offer following a ballot of the membership.



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Mike Pattison Esq
Private Secretary
10 Downing Street

✓
MP

18 May 1982

Dear Mike

NHS PAY

I attach three items which I hope will be helpful in briefing the Prime Minister for the Jimmy Young Show tomorrow:

- (a) a short question and answer brief;
- (b) Mr Fowler's statement today;
- (c) the statement issued last week.

If I can be of further assistance please do not hesitate to contact me.

Yours ever
Mary McVerry

Mary McVerry (Mrs)
Private Secretary

- Q. Why is the Government offering only 4 per cent to NHS staff when other groups have been given much more generous treatment?
- A. 4 per cent is of course the minimum increase on offer. Nurses and Midwives, the largest single group have been offered on average 6.4 per cent. A similar offer has been made to the professions supplementary to medicine and ambulance men have been offered 5 per cent as part of discussions on a salaried structure. We cannot ignore the fact also that the National Health Service is expanding in real terms. We are now spending over £12 billion in England compared with £6½ billion in 1979 and that means real increases in services.
- Q. But are you not offering the smallest increase to the lowest paid groups of staff?
- A. I do not deny that there are staff in the National Health Service who are relatively low paid. But these have been exaggerated. Many reports concentrate on basic rates when average earnings exceed them by as much as 60 per cent. For example, a man working as a full time ancillary has a weekly basic rate of about £65 but his average earnings are actually about £104 a week and that is not just overtime. It is made up of a whole variety of payments, bonuses, shift allowances, allowances for night-duty and weekend working and so on. And, tell me, how many redundancies do you think have occurred in the National Health Service? None at all. We have created more jobs in the National Health Service - 47,000 more full time staff are directly employed in England now than in 1979. I think many people in other jobs particularly in the private sector would be only too grateful to have pay increases on top of such job security.
- Q. What will be the effect of today's industrial action?
- A. Our hope is that all those working in the health service will consider very carefully the position before taking industrial action. You cannot take action in the health services without disrupting and restricting patient services. We know from the past that industrial action is particularly damaging to those waiting to go into hospital for treatment. In 1979 the waiting list rose to over 750,000. We have brought them down to 620,000. I hope that we will not see action which could destroy that hard won improvement.
- Q. Will you use volunteers to keep the service going?
- A. It is for the new district health authorities to decide what action they should take within the overall objective of maintaining services to patients. They will make the judgement of whether to use volunteers to meet that objective.

Our guidance is quite clear. We must do all we can to maintain services and make sure that people who refuse to work do not get paid.

Q. If there is wide spread industrial action will the Government make more money available?

A. We have already found extra money to improve the pay offers to the health service. The offers already on the table will increase spending by health authorities in England by £320 million this year. The only way that money could be found to pay increases of the order demanded by the unions, about 12 per cent, would be to stop expanding services and to stop recruiting staff to deliver those services. I cannot believe that anyone can take the view that that would be in the best interests of the National Health Service and the patients it serves.

PRESS RELEASE

Alexander Fleming House
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82/142

18 May 1982

NATIONAL HEALTH SERVICE PAY - NORMAN FOWLER'S STATEMENT

Norman Fowler, Secretary of State for Social Services, today made the following statement on NHS pay. Mr Fowler said, "The Government are committed to the Health Service. This is evidenced by the real growth in services since 1979. We are now spending £12 billion a year in England compared with about £6½ billion in 1978/79. This will allow a real increase in health provision of 6 per cent since 1979.

"We recognise too the value of Health Service staff who give loyal and dedicated service. This is why already we have initiated discussions on future long term arrangements for determining the pay of nurses and midwives - the largest group of Health Service staff. We want to make progress here with the aim that the new arrangements will be in operation next year. In the meantime, we have increased the money available this year for pay increases so that an offer averaging 6.4 per cent can be made to nurses and midwives.

"Providing extra resources for the National Health Service has also meant more jobs. Between 1978 and 1981 there was an increase of 47,000 (whole-time equivalent). A further 10,000 are likely to be recruited this year to provide the additional services planned. It is also important that the real pay position of ancillary workers in the Health Service is understood. Average earnings are substantially above basic pay rates because they include a variety of additional payments including bonus payments, allowances for night work and weekend duty, and other shift work as well as overtime. The result is that the average earnings of full-time male ancillary workers are about £104 a week. It is therefore entirely misleading to use basic rates and compare them with the "official poverty line" of £82 a week which is in fact the maximum qualifying figure for Family Income Supplement for a married couple with 2 children. The offer of 4 per cent is on earnings and not the basic weekly rates.

"I hope therefore that all those working in the Health Service will consider very carefully the position before taking industrial action. For we should be clear about the effects of industrial action. There is no way in which action can be taken in the Health Service without disrupting and restricting patient services. We know from the past that industrial action is particularly damaging to those on waiting lists for less urgent treatment. In 1979 the numbers of people on the waiting list soared to a record level of over 750,000. That figure has since been reduced to 620,000 as services have been expanded. It would be a tragedy if we lost that hard-won improvement through industrial action."

NORMAN FOWLER ON NATIONAL HEALTH SERVICE PAY

10,000 new jobs planned

Norman Fowler, Secretary of State for Social Services, today (Saturday) issued the following statement on National Health Service pay:

"Health Service unions are seeking to mount a campaign of industrial action which must inevitably damage patient services and lengthen waiting lists. They do so against the background of a National Health Service in England which is spending more in real terms than ever before - £12 billion this year compared to £6½ billion in 1978/79.

"It has expanded its workforce - 47,000 more directly employed staff (whole-time equivalent) were added between 1979 and 1981. Considerable increases have been made to the pay of all staff - since 1979 payments to staff directly employed in the hospital and community health services have increased by about £2½ billion.

"The offers already on the table will provide increases of at least four per cent and for about half of the total workforce increases of six per cent or over. This will cost an additional £320 million this year.

"But let me emphasise that does not take into account the cost of employing additional staff to provide for the planned increase in services - the expenditure plans suggest an increase of about 10,000 staff this year.

"The facts of the current pay offer are these:

- the overall pay factor in the public sector was set last autumn at four per cent recognising that there would be negotiations on different amounts for different groups within the overall cash limit reflecting factors such as recruitment, training and responsibilities;
- in March additional funds were made available in the Health Service to improve the offer to specific groups responsible for the direct treatment of patients;
- the revised offer gives average increases of 6.4 per cent to nurses and midwives;
- the professions supplementary to medicine have been offered average increases of 6.4 per cent also and ambulancemen have been offered five per cent as part of discussions on a salaried structure;
- for the doctors and dentists an average increase of six per cent is proposed, with junior doctors receiving increases of up to eight per cent;
- for the National Health Service as a whole the four per cent offered to ancillary staffs is on average earnings - for a full time male ancillary these are about £104 a week compared with basic rates of about £65;

- these offers will increase the pay bill to 5.5 per cent and most of this money has been provided by the government. But even this is not the end of the story. With the projected employment of a further 10,000 staff the paybill will increase still further;

- for other groups in the public sector such as local authority staff and the civil service the four per cent pay bill factor remains because increases above four per cent will have to be met by savings, largely loss of jobs.

"So the government regards the offer in the Health Service as fair and realistic in the context of secure and growing employment, and urges the unions concerned to return to the negotiating table."

15 May 1982

Department of Health and Social Security

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JMP



be. J. Venker.

10 DOWNING STREET

From the Private Secretary

17 May 1982

PUBLIC SERVICE PAY AND CAPITAL INVESTMENT

The Prime Minister was grateful for the Chancellor's minute of 10 May together with the note attached setting out a number of areas in which it might be feasible to earmark part of the Contingency Reserve for capital spending late in the financial year to assist in the pay discussions.

The Prime Minister is now persuaded that this scheme would probably not be effective in practice. She has accordingly agreed to take the matter no further.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Education, Environment, Social Services, Industry, Energy, Transport, Employment, Agriculture, and the Chancellor of the Duchy, and to David Wright (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

Peter Jenkins, Esq.,
HM Treasury.

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BT

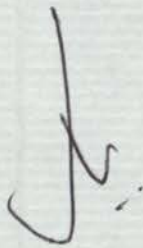
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PA
MR SCHOLAR

Public Service Pay and Capital Investment

Alan Waters and I have discussed the Chancellor's minute of 10 May. You will recall that I said, in the context of the Chancellor's earlier note, that the proposal was unlikely to prove fruitful, but that it might be worth keeping an eye out for obvious negotiating links in the nationalised industries. In the light of experience, notably over BR electrification, since then, and faced with the other arguments put forward by the Chancellor, I am bound to say that I think this scheme is a non-starter.

BR electrification does illustrate the difficulties. It proved totally ineffective, either as an incentive to greater productivity, or as an offset to the disputed 3 per cent from last year's pay round. The unions' immediate concerns ^{with} ~~what~~ job preservation and pay always loom larger than the longer term prospects for the industry. It is a sad fact that individual horizons are short-term and selfish.



13 May 1982

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A
✓
Prime Minister ①

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

You asked for a few examples to be worked up.

PRIME MINISTER

I have discussed with Alan

Walters. We share, reluctantly, the

PUBLIC SERVICE PAY AND CAPITAL INVESTMENT

Chancellor's view that this idea would not work well in practice.

At your meeting on 7 January I was asked to consider the practicability of earmarking part of the Contingency Reserve for capital spending late in the financial year, so as to allow the argument to be advanced in pay discussions that a moderate settlement would provide room in that financial year for additional capital expenditure. I was also asked to consider whether such an approach might also be extended to the local authority field.

Agree to take it no further?
Yes
Ms 14/5
no

2. I sent you a preliminary report on 3 February, and you then asked me to draw up short-lists of areas where this approach might be relevant.

3. My officials have done this, in some cases in consultation with the other Departments concerned. They have identified five areas where the approach is, in principle, possible. They are central government; the National Health Service; universities; nationalised industries; and water authorities. On further consideration, local authorities were ruled out, since Government has no power to direct where local authorities should spend any additional funds made available, and we could not make such a scheme stick in these cases.

4. Brief details

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4. Brief details of the five cases examined are set
.... out in the attached note. I am afraid the conclusion which
I drew in each case - except conceivably some nationalised
industries - is that the scheme would probably not be
effective in practice. There are three main reasons:-

- (a) The size of the "inducement" would be too
small to be effective, or unattractive for
other reasons;
- (b) the linkage with the individual would be too
indirect to affect his vote on a union ballot;
- (c) the timing is all wrong. Pay settlements tend
to be reached during a financial year. (The non-
industrial civil service is an exception.)
The scope for extra expenditure in the rest of
the year is then rather limited, and the feasible
items correspondingly less attractive to the
unions. End-year pressure to spend money in a
hurry also tends to be wasteful. Yet if new
spending commitments are allowed to spread into
future years, there can be no guarantee that
they will be matched by continued pay restraint.

5. I am sending copies of this minute to the Ministers
who attended your meeting on 7 January or who are directly
involved in these proposals: the Secretaries of State for
Education, Environment, Social Services, Industry, Energy,
Transport, Employment, Agriculture, and the Chancellor of
the Duchy. Copies also go to Sir Robert Armstrong and
Mr Sparrow.

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

(G.H.)

10 May 1982

PUBLIC SECTOR PAY AND CASH LIMITS

This note considers the scope for offering additional capital expenditure in exchange for pay restraint. It has been prepared by the Treasury after brief discussion with Departments. It concentrates on five areas where such deals seemed a priori feasible. It seeks to identify:

- (a) The scale of the offer which might be made (in all cases, 1% of the relevant pay bill in 1982-83 has been taken, to illustrate the sort of deal; it is assumed that the whole of the amount saved on pay would be re-cycled into the programme).
- (b) The additional capital expenditure which might be financed for that sum, and the effect on employment, morale, etc.
- (c) the possible linkage with pay negotiations.
- (d) Any other relevant special considerations.

I. Civil Service

A scheme would now apply to the 1983 (post-Megaw) pay round. The 1982 pay round is settled. From 1 April 1983 minor works will be for Departments to plan and provide, so any central initiative would require the agreement of Departmental Ministers to provide their share of the funds.

(a) Scale and nature of offer

1% of the pay bill in 1982-83 is approximately £42 million (for the non-industrial service). The money would be better linked with capital expenditure on accommodation than with additional jobs, which would conflict with the policy of contraction to 630,000 by April 1984.

(b) Capital Expenditure

PSA have just made an assessment (for other purposes: an exercise on civil service morale) of what could be done with £42 million a year. A £42 million programme could (after a start-up lag) finance for example 32 new offices for 100 staff each to replace obsolescent black-spots plus minor works benefiting about 10,000 staff (repainting; carpets; new lighting; etc). Some of the expenditure would probably slip into the following year.

(c) Linkage

Such works would be locally-planned, and would reflect departmental priorities. Pay is centrally-bargained. The numbers of staff benefiting would be quite large, but in total only a small proportion of the civil service. The majority would not see any benefit. It is doubtful how much influence such an offer would have on central pay negotiations, or attitudes generally. Those concerned with these negotiations believe that the effect on unions would be negative or even counter-productive: the unions would argue that the employer should be prepared to pay for decent working conditions anyway.

II. National Health Service

(a) Scale and nature of offer

The total NHS paybill is about £6 billion (75% of current expenditure,) so that 1% would yield £60 million. For simplicity we have allocated the whole of this to the hospital service. In the NHS the most effective bargaining device would be to link capital expenditure to new jobs.

(b) Capital expenditure

The NHS capital budget (£650 million England) goes on building and equipping the hospitals. Most of the expenditures on replacing and upgrading the capital stocks: but about 30% is for equipment and vehicles. £60 million could be spent in 3 main ways:

- (i) to bring forward the construction of major new hospital projects. A typical district general hospital costs some £20 million. The main problem with a proposal of this kind is the long lead time for planning capital projects of this size.
- (ii) some of the money could be used to purchase medical equipment (eg kidney machines). It would not be easy to hypothecate capital resources in this way since the allocation of resources at the operational level is delegated to health authorities and operational units. Centrally-financed equipment tends to be that which has less obvious connection with jobs of services for the disabled such as wheelchairs and artificial limbs;
- (iii) the resources could be devoted to minor works (eg to reduce the backlog of maintenance work). DHSS estimate that there is about £100 million worth of minor works of this kind which could be brought on stream at relatively short notice.

(c) Linkage

The problem is that NHS pay is centrally-bargained, while capital improvements are planned locally. In the present climate of pay bargaining the Health Service unions seem more concerned to maintain and improve pay levels than to protect jobs. Attempts to reduce pay in order to help finance facilities for patients would be condemned as moral blackmail.

(d) Special factors

Fresh capital expenditure would cause problems. Nearly 1000 beds in new hospitals in England are unopened for lack of revenue funds; this is likely to increase. Several authorities are revising their capital programmes. It would be odd to save on the paybill in

order to build yet more capital facilities. (It might be possible to re-cycle the savings, instead, into opening up existing capital facilities: this would at least create new jobs, while leaving the revenue account unchanged overall.) Alternatively, new capital funds could be allocated to minor works to clear up black-spots. But this would benefit the patients rather than the staff.

III. Universities

(a) Scale and nature of offer

The paybill is about £1200 million (70% of gross expenditure). The capital programme is only £150 million. So 1% off pay would finance about an 80% increase in capital. But at a time of rundown in the university programme this seems irrelevant. There might be more chance of success with a scheme which used savings on pay to finance eg slower rundown or better redundancy terms.

(b) Capital expenditure

This could finance a very sizeable capital programme. But this does not seem appropriate at a time of contraction.

(c) Linkage

Capital expenditure is planned locally, and pay negotiated centrally. A different scheme (eg, as above, better redundancy terms) could be negotiated centrally.

(d) Special factors.

As above.

IV. Nationalised Industries

The negotiating circumstances vary widely between industries, reflecting bargaining power, manpower intensity, etc. This note therefore deals with four examples, illustrating different problems.

(1) **The National Coal Board.**

A 1% saving on pay would provide the NCB with an extra £25 million, equivalent to about 3% of the industry's capital programme. The industry has a large programme of projects for improving and extending old mines, and an extra £25 million could be of some significance here. For example, it would buy twelve new sets of winding gear, three new coal handling and preparation plants, two sets of self-advancing "chocks" and would be equivalent to half the cost of opening a new face. In certain circumstances, this sort of expenditure could make the difference between closure of a pit and continued working. The NCB are already involved in trade-offs between closure and investment and working practices etc. with their unions.

(2) **Electricity Supply Industry.**

A 1% pay saving here would be worth about £13 million - or around 1% of the industry's capital programme. This is certainly not significant, even less so in view of the long-term nature of much of the industry's investment programme (Heysham II nuclear power station will cost over £1.5 billion at present prices). Phasing of investment expenditure from year to year is not easily or sensibly related to short-term developments. Even so, two-thirds of all employees work for Area Boards, and their capital programmes are typically of the order of £30 million - only 20% of which is discretionary. In that context an extra £1 million of finance for investment could be significant provided suitable projects could be found (which is open to doubt). But a "windfall" of this kind would be of more interest to management than to union negotiators.

(3) **Post Office**

The Post Office is highly labour-intensive, and ought in theory to be one of the most promising candidates for a special incentive of this kind. 1% of the industry's paybill is worth £16 million, which is equivalent to almost 14% of the industry's planned fixed asset spending in 1982-83. The industry's existing capital expenditure is made up of roughly one-third construction, one-third plant and machinery and one-third vehicles (including leasing of vehicles). Additional funds might be spent on roughly that pattern. There might also be some scope for expenditure on counter mechanisation - on which the industry have not yet

put forward any proposals. But:

- (i) it would probably take the Post Office some time to raise its level of asset acquisition, and extra funds made available in 1982-83 could well lead to demands for extra funds in later years eg to complete the construction of projects;
- (ii) the Post Office's record of investment is unimpressive at least in the area of plant and machinery. Their one major spending programme in this area - letter mechanisation - has been disastrous, and one of the questions we shall want to ask in the forthcoming discussions on the industry's medium-term plans is whether it should be continued and
- (iii) we should want to take a very close look at any new investment projects.

A simple mechanistic link between moderate pay settlements and extra investment funds would thus be most inappropriate in the case of the Post Office.

(4) **British Rail**

1% of British Rail's paybill would be equivalent to £15 million, 5% of the industry's expenditure on fixed assets, and 8% of the industry's fixed asset spend financed by capital (ie excluding that part financed by revenue). This could buy 92 miles of track renewal, a modest signalling scheme, a small "infill" electrification scheme (eg Preston-Blackpool, Liverpool Edge Hill-Earlsdown) 750 freight wagons or 60 mark III passenger coaches. But neither the NUR or ASLEF, whose principal concerns are preservation of jobs and increased pay are likely to perceive schemes of this sort as worth paying for in terms of their members' earnings. Even the much larger and thus more generalised carrot of electrification has had little impact in either the pay or productivity context. It was not used in the 1982 pay round (which in any case broke down over the ASLEF resistance to flexible rostering).

More generally, there is the problem that any such scheme would tend to involve central government much more in individual pay negotiations. So far it has deliberately tried to avoid being drawn in.

V. Water Authorities

● Scale and nature of offer

The industry's paybill is about £0.5 billion, so 1% would yield £5 million. Capital investment related to job-creation seems the most attractive offer.

(b) Capital expenditure

This would buy only one sewage treatment plant, or five water treatment plants for towns of 100,000 people. Such plants are very capital-intensive and would create few new jobs.

(c) Linkage

For this reason the linkage is exceptionally indirect. Pay is centrally-negotiated and the 'savings' would have to be allocated arbitrarily to one or more authorities.

(d) Special factors

This industry is believed to be seriously overmanned. It is in a monopoly position and cannot price its workers out of a job. Because the service is essential the unions are in an exceptionally strong bargaining position.



✓ Mr Verker
Mr Mover

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

6 May 1982

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Dear Michael

PAY: PROPOSED ANNOUNCEMENTS

....

I enclose briefing material for the Number 10 and Treasury press offices which has been agreed with officials of the departments concerned. It is designed for an announcement covering the Civil Service arbitration award and the AFPRB and DDRB reports. Material on the TSRB groups is being prepared on a contingency basis and will be sent to you separately if it is required.

Copies of this letter and enclosure go to the private secretaries to the Secretary of State for Defence, the Secretary of State for Scotland, the Secretary of State for Wales, the Secretary of State for Social Services and to Sir Robert Armstrong.

*Yours ever,
Peter*

P.S. JENKINS
Private Secretary

CIVIL SERVICE PAY, AFPRB, AND DDRB : ANNOUNCEMENT

General

Q1 4 per cent pay factor abandoned?

A1 The 4 per cent factor is not a pay norm, but a broad measure of what the Government thinks reasonable and can be afforded in fixing the provision from which the public service wage bill has to be met. The Government has decided to accommodate the cost of the Civil Service arbitration award within cash limits reduced to take account of the adjustment in National Insurance surcharge announced by the Chancellor in his Budget Statement. Only if exceptional difficulties arose later in the year would limited calls on the contingency reserve be considered.

Q2 But doctors, dentists, armed forces have also had more than 4 per cent

A2 Part of the cost of the Government's proposals for doctors and dentists will be met within existing provision and part from the contingency reserve. The financing of the AFPRB award will be considered further.

Q3 Government norm now 6 per cent?

A3 There is no norm, nor has there been. The 4 per cent factor remains the basis on which the provision for public service pay has been set. But the Government has always made clear that some settlements may be higher, and some lower. Where extra provision has been needed to help finance proposed higher increases, as with the nurses and doctors and dentists, it has been found partly from other savings on the programmes concerned and partly from the contingency reserve. [NB The Scottish Teachers' arbitration award, embargoed until noon on Thursday, is also for 6 per cent. It is subject to decisions on implementation]

Q4 Government satisfied with 6 per cent?

A4 The Government's original offer to the Civil Service [averaging about 4 per cent] reflected the pay levels which it thought reasonable. But it has accepted the Arbitration Tribunal's award on the basis which the Prime Minister has set out. The other decisions reflect the circumstances of each case.

Q5 How does 6 per cent relate to settlements elsewhere?

A5 These decisions confirm the downward trend of pay settlements in the economy as a whole. They fall within the broad spread of settlements in the current round. They are also well below the rate of inflation, for the second year running. All this is good news, because low pay rises increase our international competitiveness, and lay the foundation for an expansion of employment.

Q6 But the Civil Service have still not caught up with their 1980 position in relative terms?

A6 All increases have to be justified on their merits according to the criteria of affordability and market factors. The Civil Service Arbitration Tribunal award which the Government have accepted represent the pay levels which the Tribunal considered to be justified in present circumstances. [The CSAT award is now the starting point for future consideration of Civil Service pay levels.]

Q7 6.1 per cent hardly adequate for armed forces in present circumstances

A7 6.1 per cent was what the AFPRB recommended, and the Government has consistently implemented the recommendations of the AFPRB. The AFPRB has made clear that its recommendations take account of all relevant factors.
[Other specific questions on the armed forces should be referred to MOD]

Q8 Why not implement full DDRB recommendations?

A8 We are implementing the additional 6 per cent recommended by the DDRB for this year. But the considerations of cost which led us to defer the 3 per cent last year continue to apply.
[Other specific questions on doctors and dentists should be referred to DHSS.]

Q9 What about the other NHS groups?

A9 It is true that some NHS groups are being offered smaller increases than those announced today; but equally, some are being offered more. It is significant that within the average pay increases announced for, for instance, civil servants and the Armed Forces, there is quite a wide range, so that many civil servants and Servicemen will get only a little

above the 4 per cent being offered to some NHS groups. And in the country as a whole, there are many, including most of the three million unemployed, who would be delighted to have a secure job and be offered a 4 per cent pay rise.

Civil Service

Q10 Does the Government intend to provide additional finance to pay for the Civil Service pay award?

A10 [As the Prime Minister has explained in her Answer], the Government has decided that the cost of the Civil Service pay settlement is to ^{be} met from within each department's cash limit, as adjusted ^{downwards} to take account of the reduction in the National Insurance Surcharge.

This may entail savings in manpower and related administrative costs in addition to those already planned and allowed for in the cash limits.

Q11 Will there be any exceptions?

A11 We have taken no decisions to allow exceptions. If later in the year it becomes clear that in any individual case it will not be possible to meet the full cost of the award in this way, we shall take stock of the position. In this process, alternative ways of meeting the excess would be considered. Recourse to the Contingency Reserve is not absolutely ruled out.

Q12 Is not the total cost - including leave - 6.5 per cent, rather than 5.9 per cent?

A12 The cost of the increases on basic pay is 5.9 per cent. Departments will have to absorb the additions to leave within their existing manpower targets.

Q13 [Questions about specific nature of savings]

A13 It will be for each department to consider how best to make the necessary savings.

Q14 The Arbitration Tribunal rejected a key feature of the Government's offer : the extra increment on pay scales?

A14 The Government's offer was designed to reward the most experienced staff. The Tribunal/^{fully}recognised that principle in its award by giving the highest increases to staff on the maximum points of their scales, with different levels of increase for staff at the minimum of each scale and for those on intervening points.

Q15 What is to happen to the non-pay elements of the offer (increases in allowances; advances for the purchase of season tickets; replacing luncheon vouchers by cash payments; private medical insurance)?

A15 Ministers are considering what action to take on these matters in the light of the arbitration award on basic pay and leave, and the Government's decision to accept it.

Q16 What do you intend to do now about the pay of the industrial Civil Service?

A16 The settlement date for the industrial Civil Service is 1 July. The trades unions have submitted a claim, and we are considering it.

Q17 Does the Government's decision to accept the arbitration award cover London Weighting?

A17 No. This will, as hitherto, be considered separately at a later stage in the year.

Q18 What about next year? Will the Government be prepared to go to arbitration then?

A18 It is much too soon to anticipate the course of the 1983 settlement.

The Government is awaiting the report of the Megaw Inquiry into future Civil Service pay arrangements. It is due this summer, so that the Inquiry's recommendations can be considered in good time before the 1983 settlement.

[TSRB and MPs

Q19 What about the TSRB groups?

A19 The latest recommendations of the Top Salaries Review Body on the salaries of senior civil servants, senior members of the Armed Forces and the judiciary are still under consideration.

Q20 If decisions have been taken on the DDRB and AFPRB reports already, why the delay on TSRB?

A20 The TSRB report is more complex. It covers the pay of 3 groups - senior Armed Forces officers, Senior civil servants, and members of the judiciary. The Government's decisions will be announced as soon as possible.

Q21 What about the salaries of MPs?

A21 We will be putting our proposals on the salaries and allowances of Hon Members before the House in the near future.]

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PAY ANNOUNCEMENT : BACKGROUND NOTES

General

The coincidence of [all] the announced increases at around 6 per cent, together with the 6.4 per cent offer already made to the nurses, may create an impression that the Government has in effect moved from a 4 per cent pay factor to a 6 per cent one. The Scottish Teachers' arbitration award of 6 per cent (now notified to the parties, but embargoed until noon on Thursday) will reinforce this impression. It is important to avoid such an implication as far as possible; to emphasise that for each group there is a spread of pay increases rather than a single across-the-board figure; and that the cost of the CSAT award will (except in exceptional cases) be met within cash limits based on the 4 per cent factor. English and Welsh schoolteachers are at arbitration on an offer of 3.4 per cent. 4 per cent offers have also been made to the National Health Service ancillaries and administrative/^{and} clerical grades. And the Royal College of Nursing is balloting on the 6.4 per cent offer. All of these situations could be adversely affected if the Government appears to have relaxed its stance on pay.

Armed Forces' Pay Review Body (AFPRB)

In its election manifesto the Government promised to bring Servicemen's pay up to full comparability with their civilian counterparts immediately and to keep it there. The Government has now accepted the 1979, 1980, 1981 and 1982 recommendations from the Armed Forces' Pay Review Body in full, and the Prime Minister has said that in so doing the Government is meeting its commitment.

The Review Body (Chairman Sir Harold Atcherley) uses a system of job evaluation to compare the content of Service jobs with those in the private sector. The basic salaries of members of the Armed Forces are then related to those for jobs outside which are judged to be of equal weight. The Review Body makes an addition (currently 10 per cent for men and - after 2½ per cent increase recommended in the current report - 7½ per cent for women) for an 'X factor' which allows for the net disadvantages of Service life (danger, turbulence, discipline, etc.) Its final recommendations may reflect other considerations including those which have been drawn to its attention in evidence from the Ministry of Defence, such as the position on recruitment and retention.

The ^{additional} cost of the Armed Forces' 6.1 per cent increase this year is some £50 million. The MOD cash limits as reduced for the adjustment in National Insurance Surcharge currently include a 4 per cent pay factor. The financing of the additional increase will be the subject of further consideration. The actual increases range from 4.5 per cent - 8.9 per cent for officers and from 4 per cent-7 per cent for other ranks.

Doctors and Dentists' Review Body (DDRB)

The DDRB (Chairman Sir Robert Clark) advises the Prime Minister on the pay of doctors and dentists taking any part in the National Health Service. The Government implemented in full its (June) 1979 and 1980 reports, which recommended 25.7 per cent and 32 per cent. The 1981 recommendation of 9 per cent was abated by 3 per cent. The 'new money' in the 1982 report worth 6 per cent ^(£90 million) is also being implemented, but not the DDRB's recommendation for implementation of the deferred 3 per cent. The additional increases above the present 4 per cent provision are being financed partly from the contingency reserve and partly from the NHS's own resources.

Civil Service Arbitration Award

The Civil Service Arbitration Tribunal (CSAT) announced its award for increases in the pay of non-industrial civil servants up to and including Assistant Secretary on 23 April. The increases, which would add on average 5.9 per cent to basic rates, are:

6.25 per cent on the maximum of each scale

4.75 per cent on the minimum, and on age points at age 20 and below

5.5 per cent on all intervening points, and flat rates.

The Tribunal also awarded substantial improvements in leave for junior staff. The Government had offered pay increases ranging from nil to 5.5 per cent, and minor improvements on leave.

The Government's offer would have cost about £170 million, or 4 per cent of the pay bill. The Arbitration award on pay represents another £75 million.

Ministers have decided to accept the award, and not ask the House of Commons to set it aside - though they reserved the right to do this last year when agreeing to make arbitration available. The intention is that the ^{extra of the pay award (£75 million)} cost should be absorbed within existing provision - ie the cash limits as adjusted to take account of the lower rate of National Insurance Surcharge announced in the Budget on 9 March. If at a later stage in the year the full cost cannot be met in this way in particular cases, then alternatives (including use of the contingency reserve) will be considered. At this stage, there is no decision to make extra finance available.

There were certain non-pay elements in the Government's offer - increases in skill and responsibility allowances; advances for season tickets; replacing luncheon vouchers for junior staff by cash payments; and group discounts for private medical insurance. These items were not included in the reference to arbitration. Decisions about this will be reached shortly.

It is also relevant that decisions on the pay of the industrial Civil Service and London Weighting have yet to be taken. They are not included in the costings given above.

Examples of old and new Civil Service scales are attached.

CIVIL SERVICE SETTLEMENT : EXAMPLES OF OLD AND NEW PAY SCALES

Clerical Assistant (weekly rate)	Age		Age	
	16	45.42	16	47.59
	17	50.43	17	52.82
	18	57.52	18	60.27
		63.84		66.86
		67.56		71.28
		69.37		73.18
		73.58		77.62
		78.26		83.14
	Executive Officer (annual rate)	Age		Age
18		4069	18	4262
19		4578	19	4795
20		5273	20	5523
		5744		6060
		6225		6567
		6696		7064
	7247		7700	
Principal		11372		11912
		11693		12336
		12175		12845
		12710		13409
		13218		13945
		13726		14481
		14368		15158
		15010		15948

NB The 1 April 1981 London Weighting rate still applies to all the above scales, as appropriate : £1087 p.a. (inner London), £454 (outer London).



26 MAY 1944





Prime Minister

Ref. A08277

PRIME MINISTER

Public Service Pay

In your absence the Cabinet agreed yesterday morning:

- (1) to implement the Civil Service Arbitration Tribunal (CSAT) award for the non-industrial Civil Service;
- (2) to implement the Armed Forces Pay Review Body (AFPRB) recommendations;
- (3) to abate the Doctors' and Dentists' Review Body (DDRB) recommendations by three percentage points, and implement a 6 per cent increase;
- (4) to announce (1), (2) and (3) next week;
- (5) to abate the Top Salaries Review Body (TSRB) recommendations by an amount to be determined;
- (6) to defer an announcement on the TSRB decisions.

2. The Chancellor of the Exchequer was invited to co-ordinate the arrangements for announcing (1), (2) and (3).

3. On the TSRB recommendations, most Ministers were prepared to agree some abatement in view of the difficulties of the Secretary of State for Social Services, but the Cabinet did not finally decide by how much. Most of the Ministers who favoured any abatement favoured an abatement of five percentage points, as proposed by the Chancellor. The Secretaries of State for Social Security, Employment and Energy favoured abatement by one-third. The Secretary of State for Northern Ireland favoured abatement by one-half? A number of Ministers were sympathetic to the Lord Chancellor's problems of recruiting judges, and were prepared to contemplate a smaller abatement for judges than for the senior officers and civil servants, or even no abatement at all. In the end it was agreed to look at the consequences of abatement of five percentage points and of one-third, and to consider the choice between the two at a subsequent meeting.



4. The Chancellor of the Exchequer subsequently agreed that we should set out, in a series of tables, the salary rates that would result from each of these abatements, as compared with the rates now in payment and those recommended by the TSRB. He thought that it might well be possible to devise a sensible and coherent salary structure somewhere between these limits.

5. There was not much enthusiasm in Cabinet for a "staging" proposition, whereby whatever was abated for doctors and dentists and for the TSRB groups would become automatically payable next year.

6. There is not in reality much logic in the Chancellor's proposal for an abatement of five percentage points in the TSRB recommendations. The argument is that the 1980 increase left the TSRB groups 12 per cent short of the TSRB's recommendations, and that, by giving a further increase of 7 per cent in 1981, the Government left them 5 per cent short. In fact, of course, other groups (the rest of the Civil Service, the NHS, the doctors and dentists) also got 6 to $7\frac{1}{2}$ per cent increases in 1981; so the Government's decision for the TSRB groups still left them 11 to 12 per cent short, not 5 per cent short.

7. The logic of the abatement by one-third is that the decision not to restore to the doctors and dentists the 3 per cent deducted from the DDRB's recommendation last year reduced their recommendation for 1982 by one-third (3 per cent off 9 per cent), and that that should be matched by an abatement by one-third of the TSRB's recommendations.

8. That is a kind of presentational logic. It would still leave the TSRB groups with increases ranging from about 12 per cent to about 18 per cent. An equally valid presentational logic would be to say that the Government's decision left the doctors and dentists three percentage points short of the level recommended by the DDRB, and a comparable measure for the TSRB groups would be to abate the TSRB recommendations by three percentage points. That would produce slightly larger percentage increases for the groups concerned, but the difference would have no presentational significance in the contexts with which the Secretaries of State for Social Services and Employment are concerned: on any of these abatement formulae the percentage increases for the TSRB groups are going to be in the mid-teens.



9. There are, as you and other Ministers have said, valid reasons in terms of management and retention for implementing the TSRB recommendations in full. If they have to be abated in order to give the doctors and dentists a feeling that they are not being picked out for special discrimination, then that abatement should be as little as is necessary to achieve that objective. There is also the point made by you and others that, the nearer the Government get to the recommended levels for TSRB groups this year, the less embarrassment it is likely to face next year. On this basis it may be worth considering a third option of abating the TSRB groups by three percentage points.

10. I attach a table showing the three options at selected salary points.

11. Whatever the Cabinet decides, I think that it should be the same for all the groups covered by the TSRB recommendations. The Lord Chancellor argued his case vigorously on the judges, and attracted some sympathy; but the judges are already treated more generously than the other groups in the recommendations and to add to that discrimination in their favour in respect of abatement would add greatly to the resentment felt by senior officers of the armed forces and senior civil servants. That is another argument, perhaps, for going for a smaller rather than a larger abatement. Because the increases recommended for judges are larger than those recommended for senior officers and senior civil servants, abatement by a fixed number of percentage points is more favourable to the judges than abatement by a proportion of the recommended increase.

12. On the timing of the announcement of the decision on the TSRB groups, the Cabinet was concerned to defer it to spare embarrassment to the Secretary of State for Social Services in relation to the nurses' ballot and the discussions of NHS pay. I well understand that; but I fear that deferment of the announcement will only defer and not reduce embarrassment: if the announcement is not embarrassing in relation to the NHS, it will be thought to be embarrassing in relation to some later event, like the teachers' arbitration or the Annual Conference of the National Union of Mineworkers. I should have thought that, once the Cabinet has taken its decision, the announcement had better be got out of the way without delay.

REA

ROBERT ARMSTRONG

30th April 1982

One the
Cabinet has
decided, surely,
there will be
leaks if
there is not
an immediate
announcement.

MCS

CONFIDENTIAL AND PERSONAL

	A	B	C	D	E	F
	Salaries recommended as appropriate at 1 April 1980	Salaries currently in payment	Salaries recommended by TSRB	C minus 3 percentage points	C minus 5 percentage points	C minus one third
	£	£	£	£	£	£
Permanent Sec. { General etc. {	34,000	33,170	40,000	39,000	38,350	37,725
Deputy Sec. { Lt. General etc. {	27,000	26,215	32,000	31,215	30,700	30,075
Under Sec. { Major General etc. {	23,500	21,935	26,000	25,350	24,900	24,645
Lord Chief Justice	43,000	44,500	56,000	54,665	53,775	52,165
Lord of Appeal	40,000	41,000	51,500	50,270	49,450	48,000
Lord Justice of Appeal	36,500	37,500	48,500	47,375	46,625	44,835
High Court Judge	35,000	35,000	45,000	43,950	43,250	41,665
Circuit Judge etc.	24,000	23,250	29,000	28,300	27,835	27,085
County Court Registrars	22,000	20,500	27,000	26,385	25,975	24,835

CONFIDENTIAL AND PERSONAL

PRIME MINISTER

Prime Minister

Just arrived this morning

MUS 6/5

3

PUBLIC SECTOR PAY

We are to decide on Thursday the dates for announcing the Government's response to the reports of the Armed Forces Pay Review Body, Civil Service Arbitration Tribunal and Doctors' and Dentists' Review Body, plus our response to the Top Salaries Review Body report. We have not of course come to a firm decision on the TSRB report and I would like to suggest that we should postpone any decision here.

A very early announcement of a TSRB decision would be embarrassing in a number of ways. It would certainly inflame matters with the ancillaries and other groups we are trying to hold to 4 per cent. The nurses are at present being balloted by the Royal College of Nursing (RCN) on an offer of 6.4 per cent. That could be similarly affected, and the outcome of the ballot prejudiced. Similarly the doctors and dentists might be influenced in their response to our decision on the DDRB report.

As you know, my priority is to seek to secure a settlement with the nurses, and in the meantime we have little option but to withstand any industrial action by the other NHS staff groups. During this period, when tension in the NHS is bound to be increasing however hard we try to keep the temperature down, any announcement of substantial pay increases for the TSRB groups would have adverse effects.

My proposal would be to defer for some 5 or 6 weeks a decision both on final details of our reaction to the TSRB recommendations and on the time of any announcement. At that point I suggest that we should review the position and consider whether to go ahead or whether some further delay would be helpful. I believe that this sort of delay on a TSRB report is not unprecedented, and doubt whether it would cause serious difficulty with the groups concerned.

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

N F

5 May 1982



MAY 6 1982



COMPLETION

CONFIDENTIAL



Prime Minister

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

30 April 1982

Michael Scholar, Esq.,
No.10 Downing Street

Dear Michael,

PAY ANNOUNCEMENT : 4 MAY

.....
I attach a draft Written Parliamentary Question and Answer reflecting the decisions on the pay of the Civil Service, the Armed Forces and the Doctors and Dentists taken at Cabinet yesterday morning.

The proposed Answer has been cleared with the Departments concerned at official level. The Ministry of Defence and the Department of Health and Social Security will be arranging for an adequate number of copies of the relevant reports to be available next week (though inevitably they will be roneoed, not printed).

The Cabinet came to no firm conclusions on the date of the announcement but clearly felt that it should be made early next week. It is of course the normal procedure to give the Chairmen of the Review Bodies advance notice of the Government's decisions on their Reports. DHSS feel it is tactically highly desirable to do so in this case. This, together with the fact that Monday is a public holiday and the need to inspire a PQ, points to Wednesday as the optimum day for the announcement.

I am copying this letter to the Private Secretaries to all members of the Cabinet, and to Sir Robert Armstrong. Recipients will of course recognise the sensitivity of the material and should take every precaution to safeguard the contents of the announcement until it has been made.

*Yours ever
Peter*

P.S. JENKINS

CONFIDENTIAL

PAY: DRAFT ANNOUNCEMENT OF DECISIONS ON THE NON-INDUSTRIAL CIVIL SERVICE, THE REPORTS OF THE ARMED FORCES PAY REVIEW BODY AND THE REPORT OF THE DOCTORS AND DENTISTS REVIEW BODY

Q. To ask the Prime Minister whether she will make a statement on the award of the Civil Service Arbitration Tribunal and the Reports of the Review Bodies on the Pay of the Armed Forces, the Doctors and Dentists and Top Salaries

A. As the House knows questions concerning the pay and leave of the non-industrial Civil Service were referred in March to the Civil Service Arbitration Tribunal and the Tribunal's award was made known to the parties on 23 April. The claim by the Council of Civil Service Unions was for a pay increase from 1 April 1982 of 13 per cent for all non-industrial civil servants with a minimum increase of £12.50 a week where 13 per cent did not produce this amount and for substantial improvements in holiday entitlement. The Government for its part had offered pay increases ranging from 0-5½ per cent - with the higher percentages going to the more experienced staff - and for modest improvements in holiday entitlements. The Arbitration Tribunal's award was for improvements in holidays mainly for the lower grades and for pay increases ranging from 4¾-6¼ per cent with the highest increases going to the more experienced staff. The average increase in pay resulting from the Tribunal's award would be 5.9 per cent.

In agreeing to allow, if necessary, this year's pay settlement for the non-industrial Civil Service to be referred to the Civil Service Arbitration Tribunal the Government made it clear

/that it reserved

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that it reserved the right, if necessary, to ask the House of Commons to set aside the award on grounds of overriding national policy.

The Government has decided to accept the award. The cost of implementing it will be met as follows. The relevant Estimates and cash limits are being reduced to offset the reduction in the National Insurance Surcharge, along the lines proposed for the whole public sector in the Budget speech. Revised cash limits on this basis will be announced shortly. The Government has decided that the cost of the CSAT award will be met within these reduced cash limits. It is only if, later in the year, exceptional difficulties arise in the case of particular cash limits that limited calls on the Contingency Reserve may be considered.

The Reports of the Armed Forces Review Body, the Doctors and Dentists Review Body and the Top Salaries Review Body have been delivered to me. The Government are extremely grateful to the members of the Review Bodies for these reports and for the time and care which they have put into their preparation.

The Report of the Armed Forces Pay Review Body recommends new rates of pay for Service men and women applicable from 1 April 1982. The Government has accepted the Report, and the necessary steps to implement the new rates of pay, and inform Servicemen of the details of the Report, will be taken as soon as possible. The cost of the increases will be

16.1 per cent

I wish particularly to express my gratitude to Sir Harold Atcherley, who after long and valuable service is handing over the Chairmanship

to Sir David Orr, retiring

Chairman of Unilever Ltd. We are much

indebted to Sir David for taking on this task.

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6.1 per cent of the projected pay bill of the Armed Forces for the present financial year. The financing of this award will be considered further. Copies of the Report of the Armed Forces Pay Review Body ^[has been laid before the House and] are available in the Vote Office and I will arrange for it to be published as a Command Paper as soon as possible.

The Report of the Doctors and Dentists Review Body recommends increases in the pay of Doctors and Dentists which the Review Body estimate are on average 6 per cent above the level they recommended last year as appropriate from 1 April 1981. The recommendations for individual groups vary within the 6 per cent. The House will recall that the Government's decision on last year's report - which recommended increases averaging 9 per cent - was to accept them subject to an abatement of 3 per cent. The latest DDRB recommendations are therefore 9 per cent higher than the levels actually implemented last year.

The Government proposes that Doctors' and Dentists' pay should be increased by an average of 6 per cent on current levels with effect from 1 April 1982. My Right Hon Friend the Secretary of State for Social Services will be putting detailed proposals to the professions as soon as possible. These will follow the relativities recommended by the Review Body.

/The Government accepts

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The Government accepts the Review Body's recommendations on the level of general medical practitioners' expenses, and on other non-pay matters.

[have also been laid before the House and]

Copies of the DDRB's latest report are also available in the Vote Office and I will arrange for it to be published as a Command Paper as soon as possible.

The cost of implementing the Government's proposals will be met in part within existing cash limits and Estimates as revised to take account of the changes announced on 8 March and of the reduction in NIS, in part from the Contingency Reserve. Revised cash limits and Estimates will be brought forward as soon as possible.

The report of the Top Salaries Review Body is still under consideration and an announcement of the Government's conclusions on it will be made in due course. Following normal custom the TSRB's report will be published when the Government's decisions are announced.

APR 1983

BQC
Mark Chambers
Dep Chairman BTRKIN
Dep Ch Kleinmarts
Derek Brown
Cathy Smith BQC

OPRS to Pulogyn
Assembly for LEGS on 15th

Walter Marshall go on with Tark Furo
No Indent Rel' apnau

AEA Man Deputy to AEA jobs
Symposium on cell Division a seminar 5/10

Cathy Smith Groundwork

Long Comm Indent Relat' Mark
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Pulogyn

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Deputy Chairman

Prime minute ②

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PRIME MINISTER

PUBLIC SERVICE PAY: THE HEALTH SERVICE

My minute of 28 April summarised the state of play on our pay negotiations and I promised to keep colleagues in touch with developments.

You will have seen the reports in the newspapers today that the Conference of the Royal College of Nursing decided yesterday to ballot their members about removing the present bar to industrial action. This is disappointing, but it is probably not a serious setback so far as the present pay round is concerned, because it looks as if the College are separating the strike question from the immediate issue of the 6.4 per cent pay offer. They are not running the two issues together in a single ballot, but balloting on the pay offer first. We shall know the outcome of that by about the end of May, whereas the ballot on the strike issue is not likely to be finished until the autumn.

The flavour of the RCN debate suggests that this decision may have more to do with strengthening their position in negotiations for settled longer-term pay arrangements than with influencing the present pay round. The Conference debate on the pay issue on Wednesday gave some room for optimism that the present offer might be accepted.

The DDRB decision will become known next week, and this should strengthen our hand in relation to the nurses. But it will remain vitally important to avoid leaks about the TSRB recommendations before we are ready to make an announcement. An untimely disclosure could upset everything - for example it could tip the nurses' ballot the wrong way. I am very concerned therefore that there should have been an accurate account of some of yesterday's Cabinet discussions in the Financial Times and other papers this morning. We really must be very careful about this.

I am copying this minute to all Members of the Cabinet, the Chief Whip and Sir Robert Armstrong.

30 April 1982

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CONDENSER

If we announce TSRB with the rest on

Thursday we'll have to square off Edwin Plowden first. If you agree with this approach should you

PRIME MINISTER

Yes not

PUBLIC SERVICE PAY

not raise this question of timing at Tuesday's Cabinet? MGS 30/4

I have seen Robert Armstrong's note to you recommending getting the TSRB announcement out of the way without delay; and Michael Scholar has told me of the other developments yesterday and today, notably the decision to make the main announcements, other than the TSRB, on Wednesday (rather than Tuesday, as earlier thought), and the Treasury's proposals to settle MPs' pay and the TSRB in Cabinet on Thursday, with the expectation of an announcement covering both during the following week.

I think you saw my note of yesterday explaining the drawbacks to having two announcements. The introduction of MPs' pay into the picture makes two announcements even less desirable, because

(i) it would be very difficult to defend, especially with backbenchers, a second announcement containing only a TSRB award in the upper teens and MPs' pay in low single figures; and

(ii) it may well lead some of your colleagues to use that difficulty as an argument for still further abatement of the TSRB.

And, of course, the point I made in my earlier note about arousing the suspicion that we are afraid to cut back on the TSRB if we do not wrap it all up in one announcement still stands. Those who argued so strongly for cutting back on the TSRB did so largely on the grounds that we could not otherwise defend cutting back on the DDRB and holding the line with the NHS.

I understand that Mr. Whitelaw has said that he thinks we can delay the TSRB announcement by no more than two weeks, and any decision may well leak any way - the AFPRB decision already has. So it seems clear that the best course of action - and one which your colleagues might be prepared to accept - would be

(i) to stick with the original decision to leave MPs' pay until the summer, when any increase is due anyway; and

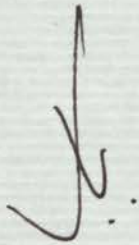
No point in cutting back on TSRB at all if it does not help with DDRB - the logic points to announcing together MGS

SECRET

- 2 -

(ii) to defer the announcement planned for Wednesday until Thursday afternoon, in the expectation that the TSRB decision to be taken in Cabinet on Thursday morning can be included.

As to the amount by which the TSRB should be abated, I can only say that I do not think it will make any difference to other pay bargainers whether we knock off one-third, 5% or 3%.



J.M.M. VEREKER

30 April 1982

SECRET

It would be good if we could announce them all on Thursday, Mr.

PRIME MINISTER

PA Prime Minister (1)
If you agreed with this (and I'm bound to say there was a very clear

SECRET

cc Mr Ingham
majority in Cabinet in favour of deferring TSRB)
Geoffrey Howe, John Nott and Norman Fowler
Pay Announcements would have to be persuaded to defer

No doubt you will be receiving a report of the Tuesday's announcement decision taken in Cabinet this morning under Mr. Whitelaw's chairmanship on the various public service pay issues. I certainly do not want to suggest reopening them, and indeed the decisions do represent a good package, which combines acceptance of independent judgments of pay levels in as many cases as possible with holding down the overall level of pay in the NHS (although I still think that eventually some more may be needed to get the NHS groups to settle).

I suspect that Mr Fowler will be back with proposals for a higher offer
MCS

But I have the most serious misgivings, which Bernard Ingham shares, about the proposal to announce decisions on the CSAT and two of the review bodies on Tuesday, and to hold back the decision on the TSRB until much later. There is never a good time for an announcement of substantial increases in top salaries. But it is hard to believe there will ever be a better time than when the media are dominated by the Falklands crisis, and when we are simultaneously announcing a wide range of other pay decisions. Furthermore Bernard thinks, and I agree, that announcement of the decision to cut back on the DDRB without a simultaneous decision on the TSRB will be widely read as an indication that the Government has decided not to cut back on the TSRB but is afraid to announce it. So we might get the worst of all worlds.

If we do as your colleagues are suggesting (and it is a considerable change in their views from your meeting earlier this week) and wait several weeks before announcing the TSRB decision, I am sure that we shall simply be drawing attention to it. The amount by which it is proposed to cut back the award is not sufficient to deflect criticism of its size, and the nature of the pay round is such that there are bound to be some groups from whom we will have reason to fear a knock-on effect - the nationalised

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/industry

SECRET

-2-

industry board members, for instance. And if we wait until August, as was suggested this morning, we shall start to infect the next pay round.

I am not in a position to judge the extent to which it is possible to change the decision and agree to make all the announcements at once, although the fact that you were absent from this discussion may help. I am in no doubt that it is worth delaying the other announcements for a day or two, if necessary, in order to provide time to tidy up the details of the TSRB decision, and then make all the announcements at once.

J.

29 April 1982

SECRET

PART 6 ends:-

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

PART 7 begins:-

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

