PREM 19/1000

MT

SECRET

PART 9

Confidential Filing

Public Sector Pay Policy.

Treasury Monitoring reports

ECONOMIC POLICY

Part 1: July 1979

Part 9: November 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~1.11.82~~		~~16.2.83~~					
~~3.11.82~~		~~23.2.83~~					
~~10.11.82~~		~~7.3.83~~					
~~19.11.82~~		~~8.3.83~~					
~~22.11.82~~		~~10.3.83~~					
~~23.11.82~~		~~16.3.83~~					
~~30.11.82~~		~~17.3.83~~					
~~6.12.82~~		~~21.3.83~~					
~~8.12.82~~		~~24.3.83~~					
~~10.12.82~~		~~25.3.83~~					
~~13.12.82~~		~~28.3.83~~					
~~17.12.82~~		6.4.83.					
~~20.12.82~~		~~Ends~~ -					
~~21.12.82~~							
~~22.12.82~~							
~~5.1.83~~							
~~21.1.83~~							
~~25.1.83~~							
~~28.1.83~~							
~~7.2.83~~							
~~11.2.83~~							

PREM 19/1000

PART 9 ends:-

Energy to HMT 6.4.83

PART 10 begins:-

PSO(O)(83)10 18.4.83

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
PSP(O)(82) 29	01.11.82
E(PSP)(82) 23	05.11.82
PSO(O)(82) 31	22.11.82
PSP(O)(82) 38	13.12.82
E(PSP)(82) 25	21.12.82
E(NI)(82) 10th Meeting, Minute 3	22.12.82
E(PSP)(83) 2	21.01.83
PSP(O)(83) 6	07.02.83
PSO(O)(83) 8	02.03.83
CC (83) 7th Conclusions, Minute 4	03.03.83
E(PSP)(83) 5	08.03.83
PSP(O)(83) 9	21.03.83
E(PSP)(83) 7	25.03.83

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

Signed OWayland Date 25 March 2013

PREM Records Team

CC/NO 2

Prime Minister

01 211 6402

CWR 8/4

CONFIDENTIAL

MS

J O Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

6 April 1983

Dear John

PAY OF GAS INDUSTRY MANUALS

I understand from British Gas that, on 31 March, their manuals' unions accepted the pay offer made to them on 18 March, following delegate conferences of the two unions held earlier that week.

The offer included increases on basic rates ranging from £4.07 a week (5.08%) for labourers to £6.39 (6.02%) for technicians, giving an average increase in basic rates of 5.5%. The increases flow through to bonus and overtime payments and will produce an average increase on earnings of 4.8% to 4.9%.

Together with the improvements in holiday pay effective from 1 June 1983 (which my Secretary of State mentioned in his letter of 3 February) costing 0.15% this year and 0.3% in a full year, and the small increase in holiday entitlement for longer-serving employees, the total package will increase average earnings in a full year by 5.1% to 5.2%.

I am copying this letter to the Private Secretaries to the Prime Minister, other members of 'E' Committee, George Younger, Sir Robert Armstrong and John Sparrow.

Yours sincerely

C E Brooks

MISS C E BROOKS
Private Secretary

Econ Pol, Pay
Public Sector Pt 9

CC N/O.
2

Prime Minister

The DoI are not performing well on this.

MLS 29/3

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

PRIME MINISTER

MONITORING REPORT: PUBLIC TRADING SECTOR

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

2. The negotiations with the Post Office, where an opening offer of 4 per cent has been made, are, as you commented last week (Mr Scholar's minute of 21 March), not reassuring. We have, however, since learned from Patrick Jenkin (his letter of 22 March) that British Telecom have also now made an opening offer, of 4¼ per cent. In neither case did we receive advance warning that an offer was imminent. And in both cases the offers made are higher than we envisaged last year when we identified both industries as suitable candidates for low pay settlements in the current round.

3. More worrying is what the eventual settlement for these industries will be. My understanding is that, although the PO were thinking of a 5 per cent increase in pay, staged concessions on hours and holidays will mean a 6-6½ per cent increase in earnings in the current year, worth 8½-10 per cent in a full year - enough to put seriously at risk the Post Office's Real Unit Cost target in 1984. Moreover, the PO's claims that their employees have fallen behind in recent years simply do not stand up to scrutiny. Not only have PO settlements compared favourably with the average throughout the economy in both of the last two years; but figures which came to light at a meeting of E(NI) in December showed that the pay of clerical and executive grades in both the PO and BT have moved way ahead of similar grades in the Civil Service over recent years.

4. Clearly, nothing can be done if offers have already been made; but I must ask Patrick again to impress upon the Chairmen of both industries the need for settlements to be as low as possible and, in the case of the Post Office especially, our concern about the effect on postal service cost targets. I would also take this opportunity to reiterate the importance of 7 days' notice of pay offers in the public sector, and ask colleagues to see that the agreed arrangements for prior consultation are observed.

5. Elsewhere, difficulties seem to be arising at British Steel where the unions are seeking arbitration on the Corporation's insistence that there can be no national pay increase this year. I believe ACAS are now to be involved. It would be helpful if Patrick could provide an assessment of the situation, and the way BSC intend to handle the request for arbitration.

6. Finally, now that agreement has at last been reached in British Rail on the 1982 pay increase, following acceptance by ASLEF of the arbitration decision on driver-only operation for the Bedford/St Pancras line, perhaps David Howell could outline the probable issues involved in the 1983 negotiations, and in particular the possibility of a two-year pay deal.

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

(G.H.)

28 March 1983

PUBLIC TRADING SECTOR

PART 1: CURRENT AND FORTHCOMING NEGOTIATIONS

TRANSPORT

1. British Rail: Clerical and Conciliation grades (136,000)

Settlement date: 20 April 1982

Unions: NUR, ASLEF, TSSA

1982 Settlement

The Executive of ASLEF refused to accept British Rail's offer of an additional £5 per shift for driver - only operation of the electrified Bedford/St Pancras line and referred the matter unilaterally to the Railway Staffs National Tribunal. All three unions also exercised their right to unilateral arbitration and asked the Tribunal to consider BR's refusal to implement a 6% general increase on basic rates, already agreed with effect from 6 September 1982, until full agreement with ASLEF had been reached. The Tribunal published its non-binding recommendations on 15 March and recommended a payment of £6 per shift for driver only operation of the Bedford/St Pancras line payable from the time that the trains were running. The Tribunal also recommended immediate payment of the withheld 6% pay increase from 6 September 1982 to NUR and TSSA members. In the case of ASLEF however, the Tribunal recommended that further productivity concessions should be made before the 6% was paid. The Tribunal considered the possibility that the Board would not feel able to accept the recommendations but felt that this should not affect their willingness to implement the 6% increase so far as staff other than footplate grades were concerned. This view was based on the Tribunal's belief that there was no dispute over productivity in the case of those grades which justified further delay.

At a meeting on 17 March the unions advised management that they would accept in full the McCarthy recommendations, and would agree to negotiate to a rapid conclusion or to go quickly to arbitration on outstanding productivity matters. Management will now pay the withheld 6% increase (ie before all productivity improvements have actually taken place). Payment of the £6 per shift for driver-only operation will also be paid, with the commencement of DOO training on the Bedford/St Pancras line.

1983 Settlement

The NUR and ASLEF have been reported in the press as having drawn up their 1983 pay claims which include the restoration of real earnings to 1975 levels, a 35 hour week and improvements for older workers (average earnings effect unknown). BR will not start negotiations until the 1982 settlement has been completely finalised. The Board are considering the pros and cons of seeking a pay deal to last for more than 12 months.

2. Merseyside Passenger Transport Executive - Platform staff (2,537)

Settlement date: 1 January

Unions: NJC - TGWU, GMBATU

The unions are considering an offer of a 5% increase on basic rates for all platform and engineering staff. The effect on average earnings is likely to be similar. Negotiations are continuing but management is standing firm on the 5% offer.

3. Tyne & Wear Passenger Transport Executive Platform staff (1,597)

Settlement date: 1 March
Union: TGWU, GMBATU

Platform staff (who achieved parity with metro staff in the last pay round) have submitted a claim for a £5 differential over metro rates. A negotiating meeting took place on 15 March when management offered 4% on rates (about the same on earnings) which was rejected. Following industrial action on the metro, the offer to metro staff was raised to 5 per cent plus 1 day's extra holiday (self-financed). The metro unions will almost certainly accept. Bus staff have been offered 4.3 per cent, but will doubtless now be aiming for 5 per cent.

4. West Midlands Passenger Transport Executive: Platform Staff (4,122)

Settlement date: 1 April

Union: TGWU

The union presented a two-option claim for either a 5% increase on basic rates and one additional day's holiday to run for 12 months or a 12% increase in earnings spread over 2 years with 3 additional days holiday. Busmen have been recommended to accept a 1 year deal worth approximately 4.8 per cent on average earnings; voting takes place on 29 March. A similar deal has already been agreed with craft and other manual grades.

5. Passenger Transport Executives: Non-manual staff (5,400)

Settlement date: 1 April

Unions: JNC - NALGO, ACTSS

The unions have submitted an unquantified claim for substantial increases, additional holidays and shorter working hours. The employers have offered 4% on salaries (about the same on average earnings) which the unions are considering.

6. London Transport Buses: Drivers and Conductors (19,420)

Settlement date: 28 March

Union: TGWU

The union has submitted an unquantified claim for substantial increases. The first negotiating meeting will be on 7 April.

7. London Transport Underground: Railway supervisory, booking office and conciliation wages grades (14,152)

Settlement date: 20 April

Unions: ASLEF, NUR, TSSA

The unions have submitted an unquantified claim for an increase in excess of the Retail Price Index, additional holidays and a reduction in working hours. The first negotiating meeting took place on 23 March. LT management made no response to the unions' claims. The next meeting is set for 29 April, although the unions want an earlier date.

ENERGY

8. Gas Supply: Manuals (41,600)

Settlement date: 16 January

Unions: GMBATU, TGWU

At a meeting on 25 November the unions presented their claim for an unquantified substantial increase in pay, consolidation of the General Obligations Payment (in respect of flexible working procedures), an increase in holiday pay, shift and staggered working payments, improvements to holiday and other leave entitlements and a reduction in hours. The unions have assessed the claim as representing a 13% increase on average earnings.

Following rejection of an improved offer worth 4.9%-5.0% in a full-year, a further negotiating meeting took place on 18 March when management improved their offer on basic rates to between £4.07 and £6.39 a week (5.08%-6.02%); worth 4.8% to 4.9% on average earnings. Implementation of improvements to holiday pay already offered would result in an overall increase of 5.1% to 5.2% on average earnings in a full year. The management made it clear that this was their final offer. The trade union side neither accepted nor rejected the offer, and the two unions will now put it to delegates' conferences without a recommendation. The GMBATU conference (the more important of the two) is expected to take place on 28 March. No further meetings with management have been arranged.

STEEL/SHIPBUILDING

9. British Steel Corporation: All grades (85,100)

Settlement date: 1 January

Unions: ISTC, NCCC, NUB, GMBATU, TGWU, SIMA, MATSA, ACTSS

The unions have claimed increases between 5% and 9%. The Corporation's position is that the industry cannot afford a national pay increase but there is scope for local productivity bargaining. The unions nationally opposed BSC's strategy but some local settlements were reached. However, at a delegate conference in Sheffield on 25 February a united front was restored and pressure for a national award was renewed.

BSC has continued to refuse to negotiate a national increase but the unions are now seeking to breach the walls by insisting on arbitration over the issue.

Middle managers, whether represented by SIMA or the JNC unions have a clause in their agreement with BSC which allows unresolved issues to be referred to arbitration at the request of one of the parties. SIMA first pressed for arbitration although most of the running is now being made by the JNC unions.

The JNC met the Corporation on 23 March and maintained their insistence on arbitration. BSC refused but the JNC unions indicated that they would go to ACAS on 24 March to get the terms of reference for arbitration drawn up.

SIMA and the ISTC have written to Ministers urging them to press BSC to honour their agreements and accept arbitration.

Comment: The right to unilateral access to arbitration for staff groups could prove awkward, not only because it would be difficult for the Corporation to deny but it could act as a lever for manual groups seeking arbitration. The Government could be in a difficult position regarding arbitration because it is against unilateral access and, in the case of the water dispute, told unions that they should honour their procedural agreements.

Pay negotiations are taking place against a background of closures and redundancies.

10. British Shipbuilders: Staff and manual grades (64,000)

Settlement date: 1 April

Unions: CSEU/SAIMA

On 11 January the CSEU submitted the following claim for staff and manual grades:

(a) a substantial increase in wages and salaries to be paid on the basic rate and not as supplements
(b) consolidation of supplements into basic rates
(c) a substantial increase in the Minimum Earnings Levels
(d) a reduction in the working week to 35 hours
(e) guaranteed minimum earnings for unskilled and semi-skilled grades based on a percentage of the skilled MEL
(f) increased holiday entitlements and holiday pay
(g) phased reduction in working hours prior to normal retirement.

Other minor improvements relating specifically to staff or manual grades are also sought.

Management has advised the union that the company cannot afford a national pay increase although there is scope for local productivity bargaining. A union conference rejected management's call for a nil increase on 17 February. Negotiations commenced on 2 March but little progress was made. A further meeting took place on 18 March when the Chairman told the unions of the serious market position faced by the Corporation, and warned that up to 9,000 more redundancies were in prospect. The unions maintained their opposition to a national wage freeze, but asked for a full presentation (on 31 March) of the workload position and effect on employment prospects.

POST/TELECOMMUNICATIONS

11. Post Office: Postal officers, postal assistants, postmen, cleaners and doorkeepers (156,000)

Settlement date: 1 April

Union: UCW

The union has submitted an unquantified claim for a cost of living increase in basic rates, a restoration of differentials within grades, 2 additional days holiday and a reduction of 3 hours in the working week. The claim has been reported to be equivalent to 15%. At a meeting on 17 March, the Post Office presented its opening offer of 4 per cent, with a hint that there could be some movement on working hours provided that it was made self-financing by productivity improvements. A further meeting took place on 23 March, but the Department of Industry do not as yet know the outcome. Industry Ministers will be seeing the PO Chairman on 28 March to discuss developments.

12. British Telecom: Engineers, technicians and inspectors (145,000)

Settlement date: 1 July

Unions: POEU, SPOE

In response to a claim for a substantial increase in pay and other improvements, BT made an opening 4.25% offer at a meeting on 15 March. The offer was estimated to involve a 3.5% increase in BT's pay bill in the coming pay year (July 1983-July 1984), and a 4.6% increase in the 1983-84 financial year over FY 1982-83. The next meeting has been arranged for 28 March, when the unions will respond to the offer.

PART 2 SETTLEMENTS CONCLUDED SINCE THE LAST REPORT

13. Municipal Buses: Platform Staff (15,555)

Settlement date: 1 January

Unions: TGWU, GMBATU

A union delegate conference voted to accept an offer of a 5% increase across the board, one additional day's holiday for those with at least 5 years service and marginally improved sick pay arrangements. The effect of the settlement on average earnings will be 5.2%.

14. National Bus Company: Platform and non-craft maintenance grades (31,945)

Settlement date: 1 March

Unions: NCOI - TGWU, NUR, GMBATU

A union delegate conference held on 8 March voted to accept an offer of a 5% increase on basic rates and one additional days holiday. About 1% of the workforce currently work a 4 day week, of that 1% will benefit from a 1½ hour reduction in the working week. The effect of the settlement will be to increase average earnings of 5.15%.

The skilled maintenance group (5,339) are understood to be looking for a settlement similar to that reached with platform grades. The clerical and administration group have reached agreement as 5.435% on basic salaries (about the same on average earnings).

15. Electricity Supply: Manuals (90,000)

Settlement date: 17 March

Unions: EETPU, GMBATU, AUEW, TGWU

The group has settled for increases ranging from 4.5% to 6% with associated increases in shift payment and charge hand allowance and a minor concession on holiday entitlement. The effect on average earnings is (confidentially) 5.7%. In addition a lump sum payment of £100 per man will also be made to whole groups of workers accepting cashless pay.

16. Electricity Supply: Power Engineers and Technicians (27,000)

Settlement date: 1 February

Union: EPEA

At a meeting on 15 March the group accepted an offer based on the settlement for electricity supply manual grades. Basic scheduled salaries will increase by 5.8% (about the same on average earnings) and the paybill will increase by 5.6%.

17. Electricity supply: Managerial staff (1,900)

Settlement date: 1 April

Unions: NALGO, EPEA, AMEE

At a meeting on 18 March, the group accepted an offer of an increase in schedule salaries of 5.8% (also 5.8% on average earnings). The pay bill will increase by 4.6/4.8%.

18. Water Industry Settlement

Report of the Committee of Inquiry

The full report of the Committee's findings in the water dispute was published on 14 March. The report endorses the view of the mediator (Mr Buchanan) that there should be no increase to bring water workers earnings into the upper quartile of the manual worker's earnings league; nor any increase which would restore the relative position of water workers in the earnings league to some previously prevailing position.

Ministers have met to examine the broad implications of the dispute. A further study of the lessons to be learnt for future negotiating procedural agreements will be made.

Home Secretary
Tory Mining Apr.

018

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

01 211 6402

NBPM

Prime Minister 2

MS 24/3

CONFIDENTIAL

J O Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London
SW1

24 March 1983

Dear John,

On 18 March the electricity supply industry managerial staff accepted a pay settlement of 5.8% on schedule salaries, 5.8% average earnings. This will increase the pay bill by 4.6% - 4.8%. The settlement date is 1 April. This settlement is at the same level as that reached with the power engineers on 15 March.

Copies of this letter go to private secretaries to other members of E, Muir Russell, Richard Hatfield and Gerry Spence.

Yours sincerely

CEBrooks

MISS C E BROOKS
Private Secretary

CONFIDENTIAL

cc JU

Prime Minister [2]

MCS 17/3

01-211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

17 March 1983

MT

Dear Geoffrey

PAY: POWER ENGINEERS

As foreshadowed in my letter to you of 7 March, a settlement of 5.8% on schedule salaries was reached with the power engineers on 15 March. There will be a meeting with the ESI managerial staff on 18 March, who again are expected to settle for a flat 5.8% on basic scales.

I am copying this letter as before.

Yours ever

Nigel

NIGEL LAWSON

CONFIDENTIAL

Econ Pol,
Public Sector
Pay, Pt 9

MR VEREKER

Econ Pol

cc Mr Mount
Prof. Walters
Mr Scholar.

PAY

Your parting thoughts about pay are very interesting and have sparked me to make the following contribution.

Your initial point about the relative success of this Government's market approach should not blind us to reality. This Government has been remarkably - some would say astonishingly - successful in moderating pay settlements even though market forces have been very weak in a number of areas. That success does not stem solely from its approach and supporting policies. It arises, too, from the high international level of unemployment; from moderating inflation (for other than domestic reasons); and from the demoralisation of the trade union movement.

Moreover, that demoralisation - and the bankruptcy of the trade union movement's leadership - is complemented by the divisions within and bankruptcy of its political wing, the Labour Party. The trade unions have not recovered from the realisation that their excesses put their Government out of office.

In other words the whole atmosphere and environment is against the application of trade union power. Thus I do not believe we can look at the current pay scene merely in economic terms. The situation is much more complex than that.

It follows that keeping the lid on pay bargaining is not simply a question of continuing to allow market forces to operate within a supportive framework of monetary, fiscal and social policies.

And I think we shall fail to keep the lid on when the economy starts to take off unless:

- we recognise that the labour market is going to be defective for a long time to come; we are, for example, unlikely to get rid of the closed-shop in the foreseeable future though we must do everything we can to free up the market;

- we stop kidding ourselves that this Government's peculiar form of incomes policy has left no pent up demand;
- we accept that the trade union movement's objectives are more political than institutional - more associated with the advancement of their power than with the advancement of their members' condition; in other words, that they can be relied upon to act irrationally in terms of their members' interests;
- we determine to press ahead rapidly with the democratisation of the unions and to require procedures, ballots, etc (which were the subject of a separate minute); and, last but not least,
- we pay a considerable amount of attention to supporting strong, fair and inventive management and to the economic education of individual workers; in other words by-passing unions and addressing their members over their heads.

I would add one other thing: having had the guts to stand out for greater reason during distressingly high levels of unemployment, we must resist the temptation to go soft when we feel we can afford a bit more elbow room.

Forgive me if I see the pay situation much more strongly a political than what might be described as classically economic terms. But the Government's resolute determination to maintain its policies and distance from the trade union movement and to act on labour monopoly in the early months of a new Parliament is crucial, otherwise, possibly all the gain of the last few years will be lost.

B. INGHAM
16 March 1983

Econ. Pol.

HL

cc HO
SO
DOI
D/TRNS
D/N
D/EMP
DOT
DOE
CPRS

bcc Vereker

CO

10 DOWNING STREET

From the Private Secretary

10 March 1983

copied to Post & Telecom Post Office, Pay April 1980

Monitoring Report: Public Trading Sector

The Prime Minister was grateful for the Chancellor's minute of 8 March.

On British Rail, she has commented that she hopes that BR will not allow themselves to be pushed any further into proposing higher rewards for driver-only operation on the Bedford-St. Pancras line. The Prime Minister has further commented that BR are, after all, in a strong position with last year's 6% still unpaid.

BF

On the Post Office and British Telecom, the Prime Minister would be grateful to know what discussions the Secretary of State for Industry has had with Mr. Dearing and Sir George Jefferson on pay, what the pay assumptions for these industries are, and what action he proposes to take.

on Post Office Pay April 1980

I am sending copies of this letter to Tony Rawsthorne (Home Office), Muir Russell (Scottish Office), Jonathan Spencer (Department of Industry), Richard Bird (Department of Transport), Julian West (Department of Energy), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), David Edmonds (Department of the Environment), Gerry Spence (Mr. Sparrow's Office) and Richard Hatfield (Cabinet Office).

MICHAEL SCHOLAR

Miss Margaret O'Mara,
H.M. Treasury.

CONFIDENTIAL

TMP

CONFIDENTIAL

MR SCHOLAR

cc Mr Mount

(1)

Prime Minister

Agree I make these points on your behalf? MCS 9/3

MONITORING REPORT: PUBLIC TRADING SECTOR

Just two points on the Chancellor's note of 8 March, covering the latest Monitoring Report.

Yes [illegible]

(i) British Rail. It really would be intolerable if the McCarthy process, having run full circle, were to propose a yet higher reward for driver-only operation on the Bedford-St Pancras line. There seems no end to the way in which the BR negotiating machinery always makes it worthwhile for the unions to hold out for one more round. I really do think that Mr Howell should be asked, not to say how BR will react if this happens, but to ensure that BR do not allow themselves to be pushed any further. They are, after all, in a strong position, with last year's 6% still unpaid.

(ii) The Post Office and British Telecom. I am sure it is right to ask Mr Jenkin to watch the Post Office closely, but experience shows that it needs a little more than that. Mr Jenkin could be asked what discussions he has had with Mr Dearing and Sir George Jefferson, what the pay assumptions are, and what he proposes to do about them.

JV

JOHN VEREKER

CONFIDENTIAL

010

Prime Minister (2)

MCS 9/3

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

PRIME MINISTER

MONITORING REPORT: PUBLIC TRADING SECTOR

I attach the latest monitoring report on public sector pay.

2. You will have seen Nigel Lawson's letter of 7 March reporting that the electricity industry manuals reached a settlement on 3 March worth 5.7 per cent, though not presented in those terms. This (together with the 4.9 per cent settlement with the local authority manuals, in the public services) suggests that the impact of the water settlement (presented as 7.8 per cent on a 12 months equivalent basis) is proving less than might have been feared. I agree with Nigel about the desirability of a lower settlement in the gas industry.

3. You will also have seen Nigel's letter of 23 February about the satisfactory outcome at the Atomic Energy Authority, with a settlement of 4¼ per cent. George Younger's letter of 21 February reported the situation in Scotland.

4. Offers around 5 per cent are being considered in the bus industry (municipal buses and the National Bus Company, and also the Merseyside PTE). At British Rail, last year's 6 per cent increase has still not been implemented, pending satisfactory progress on productivity issues, including driver-only operation of the Bedford/St Pancras line which ASLEF have referred to arbitration. The outcome of this arbitration is expected shortly. David Howell may be able to say how British Rail would want to react if there were an award substantially higher than their (by no means ungenerous) offer.

5. Finally, it is reported that Post Office manual workers have submitted a claim. No doubt Patrick Jenkin will be watching this closely. The Post Office is an industry where we have agreed that a low settlement would be appropriate.

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

(G.H.)
8 March 1983

PUBLIC TRADING SECTOR

PART 1: CURRENT AND FORTHCOMING NEGOTIATIONS

A 1981/82 Pay Round

1. British Rail: Clerical and Conciliation grades (136,000)

Settlement date: 20 April 1982

Unions: NUR, ASLEF, TSSA

The Executive of ASLEF has refused to accept British Rail°s offer of an additional £5 per shift for driver - only operation of the electrified Bedford/St Pancras line and has referred the matter to the Railway Staffs National Tribunal. All three unions have also asked the Tribunal to consider BR's refusal to implement a 6% general increase on basic rates, already agreed with effect from 6 September 1982, until full agreement with ASLEF has been reached. The Tribunal heard evidence from both sides between 3 and 15 February, but is not expected to announce its recommendations until mid-March.

B 1982/83 Pay Round

Repercussions of the Settlement for Water Workers

The high settlement in the water industry may raise expectations in other parts of the public sector. Repercussions of the settlement were discussed by a group of Ministers under the chairmanship of the Chancellor of the Exchequer on 28 February.

TRANSPORT

2. British Rail: Clerical and Conciliation grades (136,000)

Settlement date: 19 April

Unions: NUR, ASLEF, TSSA

The NUR and ASLEF have been reported in the press as having drawn up their 1983 pay claims which include the restoration of real earnings to 1975 levels, a 35 hour week and improvements for older workers. The average earnings effect of the proposed claims, which have yet to be presented, is not known. BR will not start negotiations until the 1982 settlement has been finalised.

3. Municipal Buses: Platform Staff (15,555)

Settlement date: 1 January

Unions: TGWU, GMBATU

The unions have submitted a claim for parity with Group F local authority drivers (estimated to require a 4% increase), a 13% increase in addition to the claim for parity, 1 day's additional holiday, a reduction in the working week to 38 hours and improvements to sick pay and holiday pay for semi and unskilled maintenance workers. The TGWU have also added an additional claim for a guaranteed working day of 7 hours 48 minutes with overtime payable after this point on a daily basis.

Negotiations opened on 10 December when the employers tabled an offer worth 3% on rates; a broadly similar amount on earnings. A delegate conference, held on 1 February, rejected the offer and voted to hold a series of one day strikes commencing with a national strike on 16 February. At a further negotiating meeting on 11 February management improved their offer to 4.5% on rates, 1 additional day's holiday for those with 5 years service and other minor fringe benefits, but made no significant concessions on the guaranteed day. The effect of the offer on average earnings is estimated to be around 5%. The unions are considering the offer and have suspended the call for strike action.

Comment

The settlement with local authority manuals is likely to have a major influence on these negotiations.

4. National Bus Company: Platform and non-craft maintenance grades (31,945)

Settlement date: 1 March

Unions: NCOI - TGWU, NUR, GMBATU

At a meeting on 7 December, management received a claim identical to that submitted by platform staff employed by municipal buses (see item 3). A similar claim for a guaranteed working day of 7 hours 48 minutes was also added. Negotiations commenced on 21 January when management offered 3½% on rates (about the same on average earnings) which was rejected by the unions and referred to a delegate conference on 18 February. The conference endorsed rejection of the offer and voted for a series of one day strikes commencing 4 March. There was a further negotiating meeting on 25 February when management improved their offer to 4.5% on basic rates plus one extra day's annual holiday and slight improvements to sick pay arrangements. Negotiations then took place in almost continual session from 1 March. On 3 March the unions agreed to suspend their threatened strike in view of continuing negotiations; and on 4 March they agreed to put the NBC's 'final' offer to a union delegate conference on 8 March with a recommendation to accept. The improved offer consists of a 5 per cent increase on basic rates; one extra day's holiday; and union agreement to sanction 4-day week working, in exchange for a reduction from 39 to 37½ hours for those stage carriage staff already working a 4-day week (around 1 per cent of the total), with a minimum day of 9 hours 23 minutes. The offer is worth around 5.15 per cent on the pay bill.

Comment: Negotiations are influenced by those of the municipal buses.

5. Merseyside Passenger Transport Executive - Platform staff (2,537)

Settlement date: 1 January

Unions: NJC - TGWU, GMBATU

The unions are considering an offer of a 5% increase on basic rates for all platform and engineering staff. The effect on average earnings is likely to be similar. Negotiations are continuing but management is standing firm on the 5% offer.

6. West Midlands Passenger Transport Executive: Platform Staff (4,122)

Settlement date: 1 April

Union: TGWU

The union has presented a two-option claim for either a 5% increase on basic rates and one additional day's holiday to run for 12 months or a 12% increase in earnings spread over 2 years with 3 additional days holiday. The date of the next negotiating meeting is 17 March.

ENERGY

7. Gas Supply: Manuals (41,600)

Settlement date: 16 January

Unions: GMBATU, TGWU

At a meeting on 25 November the unions presented their claim for an unquantified substantial increase in pay, consolidation of the General Obligations Payment (in respect of flexible working procedures), an increase in holiday pay, shift and staggered working payments, improvements to holiday and other leave entitlements and a reduction in hours. The unions have assessed the claim as representing a 13% increase on average earnings.

At a meeting on 8 February, management offered basic rate increases ranging from £3.50 per week for labourers to £5.52 for technicians (4.4% to 5.2% respectively) with full flow through to overtime and bonus payments; in total worth 4.3% on average earnings. Additional improvements to holidays and holiday pay would have resulted in an overall increase in earnings of 4.45% in the settlement year; 4.6% in a full year. This offer was rejected and a further negotiating meeting took place on 24 February when management improved their offer to £3.79 to £6 on basic rates (4.7% to 5.6%); worth 4.6% to 4.7% on average earnings. Implementation of the improvements to holiday pay already offered would result in an overall increase of 4.9% to 5.0% on average earnings in a full year. The offer has been presented in the press as a 6% increase on average earnings. The unions will put the offer to members, reportedly without a recommendation. No further meetings have been arranged.

8. Electricity Supply: Power Engineers/Technicians (27,000)

Settlement date: 1 February

Union: EPEA

At a meeting on 18 January union negotiators submitted an oral claim for a substantial (unquantified) increase. The full claim is expected to be confirmed in writing shortly. The date on which negotiations are to commence is not known.

Comment: The group has a long standing determination to maintain differentials over the pay of manual grades.

STEEL/SHIPBUILDING

9. British Steel Corporation: All grades (85,100)

Settlement date: 1 January

Unions: ISTC, NCCC, NUB, GMBATU, TGWU, SIMA, MATSA, ACTSS

The unions have presented a claim for a 9.5% increase. The Corporation°s position is that the industry cannot afford a national pay increase but there is scope for local productivity bargaining. The steel unions' negotiating teams met on 25 February and are reported in the press to be seeking a meeting with the Corporation to discuss management's refusal to negotiate a general increase. In the meantime local productivity deals have been negotiated at Ravenscraig and part of Port Talbot steelworks; details are not known.

Middle managers represented by SIMA have advised the Corporation that they intend to refer the matter of a general pay increase to arbitration (through ACAS) which is provided for in their negotiating procedure agreement.

Comment: Pay negotiations are taking place against a background of closures and redundancies.

10. British Shipbuilders: Staff and manual grades (67,000)

Settlement date: 1 April

Unions: CSEU/SAIMA

Management has stated publicly that in the face of a declining market further redundancies in addition to those already announced will be necessary. Management has also stated that the company cannot afford a national pay increase; although there is scope for local productivity bargaining. On 17 February a union conference rejected management's call for a nil increase and declared that they would press for a "substantial increase in wages". Negotiations commenced on 2 March, but no progress was made at that meeting. No further meeting has as yet been arranged.

POST/TELECOMMUNICATIONS

11. Post Office: Postal officers, postal assistants, postmen, cleaners and doorkeepers (156,000)

Settlement date: 1 April

Union: UCW

The union has submitted an unqantified claim which is reported in the press to include a cost of living increase in basic rates, a restoration of differentials within grades, 2 additional days holiday and improvements to holiday pay. The claim also includes a call for the widening differential between postal officer grades and supervisory grades to be restored. The first negotiating meeting has yet to be arranged.

PART 2 SETTLEMENTS CONCLUDED SINCE THE LAST REPORT

12. British Airports Authority: All grades (7,000)

Settlement date: 1 January

Unions: JNCC - Staff IPCS, SCPS, CPSA, CSU
Industrials TGWU, AUEW, GMBATU, EETPU, NUSMCHDE, UCATT

The Authority's offer of a 4% increase on basic pay and all allowances and improvements to incremental additions to pay has now been accepted by all the unions. The settlement will add slightly less than 5% to average earnings.

13. Greater Manchester Passenger Transport Executive: Platform staff (5,224)

Settlement date: 1 November

Union: TGWU

Union members have voted to accept an increase of 4% on all elements of pay; plus an additional 3% in return for specific productivity improvements. The package is worth about 7% on average earnings.

14. United Kingdom Atomic Energy Authority: Manuals (4,760)

Settlement date: 1 October

Unions: AUEW, TGWU, GMBATU, EETPU

At a meeting on 3 February management improved their offer to 4.25% on average earnings which has now been accepted following a ballot of branch members.

15. Water Supply: Manuals (29,400)

Settlement date: 5 December

Unions: GMBATU, NUPE, TGWU

Following the report of a committee of inquiry, a settlement was agreed on 22 February and a full return to work took place on 24 February. The settlement, which is to run for 16 months, provides:

(i) basic rates increased by the consolidation of £5 pw from existing bonus payments and then by 7.3%; giving a total increase in basic rates of around 14%;

(ii) bonus rates will be increased from 27 February in accordance with the new consolidated basic rates but decreased by the £5 offset as above. An interim (reduced) rate of bonus will apply from 5 December to 26 February 1983;

(iii) improvements to existing service supplements to those with at least 5 year's service and a reduction of the qualifying period from 5 to 2 years;

(iv) improvements to the main existing productivity scheme and other minor productivity schemes;

(v) a reduction in the working week from 39 to 38 hours from 1 April 1984;

(vi) a lump sum of £75 to those workers willing to accept cashless pay on a monthly basis;

(vii) one extra day's holiday to those with at least 10 years service;

(viii) a basic minimum payment of £5 per week to those working flexible hours in the future.

A reduction of £5 pw in bonus to compensate for the consolidation of £5 existing bonus into basic rates (see ii) has the effect of reducing the cost of the settlement by about 3.5%.

Union leaders have claimed that the settlement is worth 12% on average earnings over 16 months. The employers value the settlement as £13.70 per week on average earnings or 10.4% over 16 months, which they have presented as the equivalent of 7.8% over 12 months.

16. Water Supply : Craftsmen (5,700)

Settlement date: 7 December

Unions: CSEU

Settlement was reached at a meeting on 1 March on identical terms to the water manuals' settlement (see item 15).

17. <u>Electricity Supply: Manuals (90,000)</u>

Settlement date: 17 March

Unions: NJIC - EETPU, GMBATU, AUEW, TGWU

At a meeting on 6 January the unions presented a claim which included an unquantified substantial increase in basic rates, improvements in shift pay, a reduction in the working year, earlier retirement in stages and extra long service award. The effect on average earnings was not clear.

On 3 February management offered basic rate increases ranging from £4.12 to £6.23 per week depending on grade and (confidentially) worth 4.5% on average earnings. This was rejected. No improvement in the offer was made at the next negotiating meeting on 22 February. But at a further meeting on 3 March agreement was reached on the basis of increases in basic rates ranging from 4.5% for manual workers to 6% for the most skilled craftsmen. Together with associated increases in shift payments and charge hand allowance and a minor concession on holiday entitlement, the effect on average earnings is an increase of 5.7%. A lump sum payment of £100 per man will also be made to whole groups of workers accepting cashless pay.

Management and unions have an understanding that no figure will be put on the overall value of the settlement. The Electricity Council are stressing that the increase in basic rates varies from 4.5% to 6%.

[redacted]

CH/EXCHEQUER
7 MAR 1983
ACTION Mr Burr
COPIES CST, FST, EST, MST(C) MST(R)
Sir D. Wass
Mr Bailey, Mr Burgner
Mr Wicks, Mr Traynor

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

7 March 1983

Dear Geoffrey

PAY: ELECTRICITY INDUSTRIAL MANUALS

The Electricity Council reached a settlement with the industrial unions on 3 March. This involves an increase in basic rates ranging from 4.5% for manual workers to 6.0% for the most skilled craftsmen. Apart from associated increases in shift payments and chargehand allowances, there were two special features. The first was agreement that a lump sum payment of £100 a man will be made when a whole group of workers - eg the staff of a power station - accept transfer to non-cash payment: this will be self-financing through reduced administrative costs. The second was a minor concession on holiday entitlement for staff in their first two years of service. The average increase in basic rates works out at 5.8%, and on earnings at 5.7%. The increase in the total paybill is put at 5.2%.

In all the circumstances, I regard this as a satisfactory outcome. I have no doubt that attitudes would have hardened if negotiations had been protracted. Any offer put to ballot would almost certainly have been rejected. As it is, despite the raising of expectations following the water workers' settlement, the power workers have settled, at a particularly sensitive time, for less than the 6½% secured by the miners (their traditional 'target') and considerably less than the 8% secured by the nearest comparable private sector group, the electrical contracting industry.

As part of the understanding that led to the settlement, both the unions and the Council have declined to give any overall figure for the value of the settlement. The unions claim that they succeeded in securing comparability in money terms with the miners (a reference to the absolute increase on a skilled craftsman's basic pay).

In reply to questions the Council are stressing that the increase in basic rates varies from 4.5% to 6.0%. We are reinforcing this with our own briefing of correspondents.

Following this settlement, the Council will table an offer to the power engineers on 15 March amounting to a flat 5.8% on schedule salaries. This is based on the link, established by previous arbitration, with ESI industrial salaries. They are proposing to reject claims by the EPEA for an extension and restructuring of salary scales, and for rostering arrangements along the lines of the industrial staff. They expect to reach a settlement on the basis of this offer, possibly after an adjournment.

I shall be seeing the Chairman of BGC this Wednesday, to urge on him the desirability of settling the gas manuals' pay claim at a figure below that secured by the power workers.

I am copying this letter to the Prime Minister, members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

Yrs ever
Nigel

NIGEL LAWSON

PA

MR MOUNT

cc Mr Walters
Mr Scholar
Mr Ingham

PAY

You asked me for some parting thoughts about pay.

This Government differs from its predecessors in the way it defines what people should be paid. We do not try to equate pay with what is necessary to achieve a particular standard of living, or with what others in comparable occupations are getting. We believe that the price of labour, like theprice of anything else, should be left to find its own level in a free market. So, where others have constructed incomes policies, we have been concentrating on the operation of the labour market. This little preliminary explanation is vital because all else follows from it, including the immediate outlook.

This policy has worked reasonably well for three years, at least by comparison with the policies that have been tried during any three year period over the last twenty years or so. In aggregate, pay rises have fallen sharply, as has inflation:

	PAY ROUND (August-August)			
	1979-80	1980-81	1981-82	1982-83 (Forecast)
Overall average settlements	17%	8.5%	7%	6%
of which:				
Private Sector, Manufacturing	17%	9%	6%	5.5%
Private Sector, Non-Manufacturing	19.5%	9%	7.5%	6%
Public Trading Sector	18%	9.5%	7.5%	6.5%
Public Services	15%	8%	6.5%	5%
Mid point (April) RPI	18.2%	13.9%	10.2%	4.0%*

[Source: Monthly Pay Briefs]

(* but likely to come back to around 6% in July)

The onus is on those who argue for a different policy to show what is wrong with the present approach before launching an incomes policy that effectively inhibits the operation of the labour market. The most commonly heard criticisms are these:

(1) Inadequacy. It can certainly be argued that the fall in pay rises has not been sharp enough, especially in the current pay round when pay is for the first time in this Parliament likely to exceed the mid-year RPI (just). With a controlled money supply (which is achieving its targets) there is no longer a relationship between pay and inflation - but there certainly is one between pay and unemployment. Ceteris paribus fewer and fewer people will be employed at higher and higher real wages. Since unemployment is so high, real wages must be too high, although at the lower end of the labour market, lower real wages need to be matched by lower rewards for not working. It can therefore be argued that the labour market is not working well enough for this approach to work without very high unemployment.

That is true. Union monopoly, symbolised by the closed shop, still dominates the supply of labour in many industries. And the demand for labour is artifically restricted, especially in the small business and informal sectors, by the hidden costs of employing people. But the remedy lies in tackling these problems, not in throwing out the whole policy. And in tackling them we should not be overly influenced by the views of existing employers, who may well have an interest in the continuation of the present system.

A prior condition for more radical reform of the labour market is widespread understanding that labour mobility, closed shop reform, lay off and dismissal powers, lower real social security benefits, and fewer health/safety/redundancy obligations for small employers are all part of tackling unemployment. We have spent most of this Parliament persuading people that high pay settlements mean high unemployment, and to some extent we have succeeded; now we need to devote the next to persuading people that labour monopolies mean the same thing.

(2) Bias. The present policy generates two kinds of bias. One matters and the other doesn't.

It matters that the most heavily unionised sectors are winning the biggest pay rises - not everywhere, viz steel, but generally.

This effect, when compounded with the way regional policy has directed resources to the declining industries, produces large disparities of unemployment across the country, of which Northern Ireland, with the highest level of real wages and the highest unemployment , is the most glaring example. Nobody can alter the fact that our domestic car market is not large enough to support three volume car manufacturers; but the ones who survive will be the ones who make most progress against the union monopoly.

It doesn't matter that the most profitable industries are awarding exceptionally high pay rises (although Ministers find it hard to swallow). Banks and insurance companies ran away with it in 1980/81 and 1981/82, but will find it harder to do so now; at present 25% of private sector pay settlements (by number of employees) are running at over 7%, but if anything we should be delighted. We want employment to be attracted to profitable sectors, not the struggling. The table below shows the distribution of private sector settlements so far this round:

	Under 3%	3%-4.9%	5%-6.9%	7%-8.9%	Over 9%
Manufacturing	4%	9%	63%	20%	4%
Non-manufacturing	0%	0%	85%	11%	4%

[Source: D/Employment; Sample: 25%]

The only bias apparent is towards a "going rate" of 5-7%, which is also the likely range of the RPI throughout the period.

(3) Brevity. It won't last: that is a common criticism, particularly in the written media. The argument goes that pay rises have fallen only because inflation has fallen and unemployment is high, and that when the upturn comes pay will break loose again. A variant on this argument is that the policy is so biassed towards labour monopoly in the public utilities that a better way must be found. Even sympathetic commentators, such as Walter Eltis, have asserted this (usually after a public sector strike, or before a threatened one).

But it is hard to see why this should be so. Inflation may move up and down but under a successful monetary regime it is not going to go back into double figures. If falling inflation has been an influence on falling pay rises, roughly stable inflation might have a roughly stabilising effect on pay rises. Increased economic activity may well generate shortages of labour in some areas, but unemployment is so high in virtually all skill sectors that the effect on wages must be small. And on any reasonable projection unemployment is going to remain high.

As for the monopoly industries, the first point to make is that there are now very few of them, and within them, rather few sectors which matter and where alternative supply or labour cannot be found. They are indeed an awkward embarrassment, but they certainly do not constitute a reason for returning to comparability, norms and all the rest of it. The end of the water strike has even showed, as well as a number of useful lessons about our lack of dependence on water workers, that exceptional settlements in the public monopolies are not necessarily infectious - electricity workers subsequently settled for less, and local authority workers for much less. But it remains true that some monopoly industries are in a very strong position indeed and need to be discouraged from striking (I have suggested ways of doing that in a separate note).

<u>The Enemies of Promise</u>

The real threats to our approach to pay come not from overt criticism, but from subversion from within and from the insidious arguments of those who actually have to manage a pay negotiation. The one dominant impression left after three years of public sector pay is the extent to which public service employers will go to avoid actual pay bargaining. So in a Government committed to the free play of market forces we have seen Review Bodies vigorously defended and even new ones proposed; the crudest and most inflationary indexation arrangements set in concrete; uniformed services taken right out of bargaining; a new comparability based system offered to the Civil Service and proposed for the health service; and binding arbitration arrangements retained, with the honourable exception of that for the teachers. Such arrangements are the true enemies of promise, for they come between the Government's policy and its execution.

In the next Parliament bringing down unemployment will be a high priority. That can only be done if real wages fall. Within continued monetary restraints, inflation will be in low single figures. Nominal pay rises will have to be very low indeed. They will be, if the labour market is allowed to operate more freely. The Government will have to operate vigorously on two fronts - first, a more radical attack on union monopoly power; and second, a stauncher resistance to formalised pay arrangements designed to remove the scope for pay bargaining, and thus the scope for setting pay at market levels.

JOHN VEREKER

8 March 1983

010

CC JV

(2)

Prime Minister

Electricity workers settled at 5.7% on earnings.

MCS 7/3

01-211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

7 March 1983

Dear Geoffrey

PAY: ELECTRICITY INDUSTRIAL MANUALS

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I am copying this letter to the Prime Minister, members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

Yrs ever

Nigel

NIGEL LAWSON

CONFIDENTIAL

(2)

PRIME MINISTER

mr

Handling of Nationalised Industry Pay Issues

Mr. Sparrow mentioned this morning a proposal that there should be new Ministerial machinery for handling nationalised industry pay issues. This was news to me, and I have made some investigations.

I understand that, in the aftermath of the water strike, the Chancellor held a meeting on pay generally with senior Ministerial colleagues which discussed, inter alia, whether there should be new such machinery. The Chancellor's suggestion is, apparently, that there should be new machinery, and it may well be that he and Mr. Tebbit will wish to come and discuss this with you. Mr. Sparrow, therefore, jumped the gun; and, since there are arguments against setting up the new machinery as well as arguments for (we would risk, for example, raising expectations of a new pay initiative, or of a pay policy), I suggest we wait to see what the Chancellor's conclusion actually is.

MCS

7 March 1983

CONFIDENTIAL

MR SCHOLAR

cc Mr Mount

HANDLING OF NATIONALISED INDUSTRY PAY ISSUES

I understand that the Chancellor, in the aftermath of the water strike, has held a meeting with his colleagues to discuss whether there should be new machinery for handling nationalised industry pay issues; and that, rather than send the Prime Minister a note about it, he and Mr Tebbit intend to come and discuss it with her. You may want to have a word with the Chancellor's Private Office to see if this is so, and if it is, you may want to offer the Prime Minister the following advice.

When the present machinery for handling pay issues was set up about 2½ years ago, it was confined to public service pay, in recognition of the limited influence that Ministers had over pay in the nationalised industries. So although the public service pay issues identified by the Monitoring Group are transmitted via the Official Committee on Public Service Pay to the Ministerial Committee for collective discussion, the nationalised industry pay issues are simply reported to the Chancellor and noted in his regular minute to the Prime Minister. This machinery, especially the monitoring aspect of it, has served us well: pay issues have been identified sufficiently far in advance for the necessary action to be taken. The absence of a forum for collective discussion of nationalised industry pay issues has been more than compensated for by the establishment of the various MISC groups devoted to withstanding strikes.

In my view, the weakness in the handling of nationalised industry pay issues lies in the relationship between Ministers and the sponsor industries, not in the need for collective discussion. If the Chancellor and Mr Tebbit suggest, as I understand they may, that there should be a new Ministerial Committee (Chaired by the Chancellor) on Public Trading Sector Pay, I think the Prime Minister could make three points:

(i) Those issues which require collective discussion, because of the inter-relationships among nationalised industries, can perfectly well come to E(NI) - and some do already, such as Nationalised Industry Board Pay;

(ii) The really difficult nationalised industry pay issues, which are those peculiar to specific industries (such as pay bargaining after the National Water Council is abolished, or the relationship between pay and closures in the coal industry, or the difficulty of controlling pay in highly profitable industries such as BT and the Post Office, or the need to get very low settlements indeed in the uncompetitive industries such as British Shipbuilders) would not necessarily benefit from greater collective discussion among Ministers, but might well benefit from more regular interventions by the responsible Minister with his industry, and more regular reports back to the Chancellor and the Prime Minister. Experience shows that that is particularly true in the case of nationalised industries sponsored by the DoI;

(iii) There may however be a case for establishing a forum at Official level where issues can be teased out of sponsor departments, because the Monitoring Group does not contain representatives of them. That can easily be achieved by changing the title of the Official Committee on Public Service Pay (Chaired by Peter Gregson) to the Official Committee on Public Sector Pay.

J.

1 March 1983

Econ Pol

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

01 211 6402

(2)

Prime Minister

MCS 23/2

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

23rd February 1983

Dear Geoffrey

UKAEA INDUSTRIALS' PAY: 1982/83

The United Kingdom Atomic Energy Authority have just confirmed that their industrial workers have now formally accepted the 4¼% offer on average earnings put to them on 3 February. The settlement is for a full 12 month period. The offer was balloted over the past fortnight, and although the overall result was for acceptance, I understand that it was quite finely balanced.

I hope you will be as satisfied as I am with the outcome. I think it reflects favourably on both the industry's management and work force. I detect a sense of realism in their approach to this year's pay negotiations. The AEA Industrials, numbering some 4,600, may be small in comparison with other public sector groups but the result is significant nonetheless. I would hope that some publicity could be given to this achievement as an encouragement to other industries with pay settlements in the pipeline.

I am sending copies of this letter to the Prime Minister, other members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

Yours ever
Nigel

NIGEL LAWSON

Econ Pay

MICHAEL

Tom King's office 'phoned:

You asked about the comparison between the pay rise in in 1981/82 and the outturn increase on the pay bill. It sounds as if the information the S/S gave this morning at Cabinet is wrong.

Real figures are - 5.7% outturn on pay bill against 8.8% pay award.

The NWC are very very unhappy that these figures should be used publicly. The unions do not know them and don't realise there is this gap between award and what the pay bill has increased by. Could you persuade PM not to quote figures.

Prime Minister (2)

c/V

Not very encouraging.

Very discouraging

MLS 21/2

Told the S.O. orally

MLS 21/2

SECRETARY OF STATE FOR SCOTLAND

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

CONFIDENTIAL

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

21 February 1983

Dear Geoffrey,

NATIONALISED INDUSTRY PAY

During the discussion on nationalised industry pay last December, sponsor Ministers were encouraged to write to the Chairmen of their nationalised industries to stress the need for low pay settlements in the public sector.

As you are aware, the three Scottish nationalised industries have only a limited influence on the nationally negotiated pay settlements which affect their employees. Nevertheless, Alex Fletcher and Allan Stewart have written to the Chairmen of the two Scottish Electricity Boards and the Scottish Transport Group respectively, exhorting them to use what influence they have to achieve lower settlements.

In the case of the Electricity Boards, the Chairmen have acknowledged the need for restraint, particularly when there is to be no increase in average electricity tariffs in 1983-84. They will therefore play their part in holding pay increases to a minimum whilst seeking to avoid damaging industrial action. In his letter of 1 February Nigel Lawson outlined the Electricity Council's opening position and no doubt he will continue to keep us informed of developments.

As for the STG, a settlement of 6% has already been agreed for NUS staff within the Group's shipping subsidiary, Caledonian Macbrayne, but this affects only a small proportion of STG's labour costs. The main negotiations are for bus staff where, I understand, national negotiations have opened with a union bid for 13% plus improvements in allowances and conditions of service. Whilst there is clearly a wide gap between this and what we would regard as an acceptable settlement, the negotiations have just begun and, for his part, the Chairman of STG has confirmed his aim to keep the settlement as low as possible.

I am copying this letter to the Prime Minister, members of E Committee, Sir Robert Armstrong and John Sparrow.

Yours ever,

George

21 FEB 1983

ECON. POL. (2)

Prime Minister

MLS 17/2

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

PRIME MINISTER

MONITORING REPORT: PUBLIC TRADING SECTOR

I attach the latest monitoring report on public sector pay.

2. The major issue is, of course, the continuing water dispute on which you are well aware of the latest developments. In other areas, there is little to report. Manual workers have been offered 4.5 per cent in the electricity industry, 4.3 per cent in the gas industry, and 4¼ per cent in the UKAEA. A settlement of under 5 per cent has been reached by the British Airports Authority, and of 4 per cent plus 3 per cent for productivity in the Greater Manchester PTE.

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

(G.H.)
16 February 1983

PUBLIC TRADING SECTOR

PART I CURRENT NEGOTIATIONS

1981/82 PAY ROUND

1 British Rail: Clerical and Conciliation grades (136,000)

Settlement date: 20 April 1982

Unions: NUR, ASLEF, TSSA

On 13 September the Railway Staff National Tribunal recommended a 6% increase on basic rates from 6 September and a 6% increase in the Minimum Earnings level from 19 April 1982, worth together 4% on average earnings in the settlement year. In addition the Tribunal recommended that there should be agreement to one additional day's holiday to be effective in 1983 and a further pay review to be completed and agreed before the next annual settlement date of 17 April 1983.

At a meeting of the Railway Staff National Council on 20 October the BR Board made it clear that implementation of the 6% increase was conditional upon agreement to settle those productivity matters still outstanding from the 1981 pay round. Although objecting to this provision, the unions agreed to take part in further negotiations at Railway Staff Joint Council level and agreement in principle was reached on all outstanding productivity matters. Detailed discussions have centred on the specific rewards for those affected by the new working arrangements. The negotiation of payments linked to specific changes in working practices formed part of the RSNT recommendations and, when agreed, are to be paid in addition to the general increase of 6% on basic rates. The NUR has accepted the Board's offers. The ASLEF Executive, however, has rejected an offer of a £5 per shift supplement for driver only operation despite the offer being initially recommended by ASLEF negotiators. At a meeting of the RSNC on 5 January, the BR Board reiterated the £5 per shift offer as final and on 18 January ASLEF announced that it had referred the level of payment for driver-only operation on the Bedford-St Pancras line to the Railway Staffs National Tribunal for arbitration. The Tribunal began hearing evidence on 3 February, and has adjourned until the week beginning 14 February when it will continue to hear evidence on the wider issues including the Board's refusal to implement the 6 per cent pay award pending progress on outstanding productivity items. The RSNT are to make various site visits before reaching their decision on the level of payments of DOO. Publication of their report is unlikely before mid-late March.

1982/83 PAY ROUND

2 United Kingdom Atomic Energy Authority: Manuals (4,760)
Settlement date: 1 October 1982
Unions: AUEW, TGWU, GMBATU, EETPU

At a meeting on 3 February management improved their earlier offer of 3.7% on average earnings to 4¼%. The Authority made it absolutely clear that this was the ultimate limit to which they were prepared to go. The unions did not reject the offer, but agreed to put it to their branches. The result should be known by 21 February. Management are hopeful that the offer will be accepted.

Comment: The Authority see a 4.5% increase on average earnings as being the maximum that it is prepared to offer.

3 Water Service: Manual grades (29,400)
Settlement date: 7 December 1982
Unions: GMBATU, NUPE, TGWU

Following consultation with members on a 4% offer, the unions announced an all out strike from midnight on 23 January. Talks under the Chairmanship of ACAS led to a further meeting of the NJIC under an independent chairman who was also given the powers of a mediator. Following the rejection of an improved offer of 5.5% on rates and a doubling of the service supplement worth a further 0.5% on the pay bill, the mediator madehis own recommendations. His recommendations, which are non binding, are for an increase of 7.3% on rates together with the 0.5% on the service supplement already on offer to run for 16 months. He is thought to regard this as equivalent to 6.0% for the first 12 months and 5% for the last four months. He also recommended that consideration be given to ways of further increasing earnings by the development and extension of performance related bonus schemes and administrative efficiencies. The employers accepted the mediator's recommendations and tabled them as a final offer on 24 January. The unions sought further clarification of the recommendation related to further increasing earnings and went ahead with strike action. The agreement which led to the appointment of the mediator provided for arbitration as a last resort but neither side has sought to go to arbitration subsequent to the mediator's report.

ACAS held talks with each side separately on 31 January and 1 February aimed at exploring the mediator's recommendation about further increasing earnings. A further offer was made on 6 February by the employers in response to paragraph 8 of the mediator's report. This was rejected by the unions. No agreement is at present in prospect.

Comment:

The precise earnings effect of the present offer has not been calculated but it is thought that earnings would increase by about 7.9% in the first 12 months (when the position is not affected by the 16 month period of the offer, though this would effectively mean a freeze forthe ensuing 4 months). It is estimated that further linked proposals on flexible working and reduced hours would subsequently increase average earnings by an additional 1%.

Ministers are receiving separate briefing on the progress of this dispute.

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

A claim has been made for a substantial increase in basic rates, a reduction in the working week, increased holiday entitlement, and free insurance for tool replacement. On 2 December an offer was made of a 4% increase in basic rates (3.8% on average earnings) in line with the offer made to water service workers. The offer was rejected. On 8 February an increased offer was made with a choice of a 6 per cent increase in basic rates over 12 months or 7.3 per cent over 16 months, with no increase in the service supplement but with proposals similar to those for the manuals on flexible working and hours. The offer was rejected and the union is referring back to constituent executive councils. No further meetings have been arranged.

5 Municipal Buses: Platform Staff (15,555)
Settlement date: 1 January 1983
Unions: TGWU, GMBATU

CONFIDENTIAL

The unions have submitted a claim for parity with Group F local authority drivers (estimated to require a 4% increase), a 13% increase in addition to the claim for parity, 1 day's additional holiday, a reduction in the working week to 38 hours and improvements to sick pay and holiday pay for semi and unskilled maintenance workers.

Negotiations opened on 10 December when the employers tabled an offer worth 3 per cent on rates and a broadly similar amount on earnings. The unions agreed to put this offer to their members without a recommendation. A delegate conference took place on 1 February when it was decided to call a series of one day strikes in support of the claim. The first strike is to take place nationally on 16 February to be followed by local one day stoppages. There was to be a further negotiating meeting on 11 February, when an increased offer, perhaps up to 4.5 per cent on basic rates, was to be made.

6 National Bus Company: Platform and non-craft maintenance grades (31,945)

Settlement date: 1 March

Unions: NCOI, TGWU, NUR, GMBATU

At a meeting on 7 December, management received a claim identical to that submitted by platform staff employed by municipal buses (see item 5). Negotiations commenced on 21 January when an opening offer of 3.5% on rates (about the same on average earnings) was rejected by the unions. Further discussions are unlikely until the position on municipal bus negotiations becomes more clear.

7 Greater Manchester Passenger Transport Executive: Platform Staff (5,224)

Settlement date: 1 November

Union: TGWU

The union has presented an uncosted claim for a substantial pay increase which management estimates is worth 20% overall. At a negotiating meeting on 22 November management's tentative offer of a 4% increase on basic rates with a further 3% for specific productivity improvements was rejected. Negotiations continued and a ballot was arranged on 27 January on the basis of the previously rejected offer and giving three options on how the money available could be paid. The result of the ballot was inconclusive. A further ballot took place on 3 February which resulted in a 3:2 vote in favour of accepting the offer.

CONFIDENTIAL

CONFIDENTIAL

8 Merseyside Passenger Transport Executive: Platform Staff (2,537)

Settlement date: 1 January 1983

Unions: NJC, TGWU, GMBATU

The first negotiating meeting took place on 28 January. It is understood that management offered a 5% increase on basic rates for all platform and engineering staff. The reaction of the unions to this offer is not known.

General Comment: The settlement reached with craft and maintenance grades in the Greater Manchester Passenger Transport Executive (6.97% on basic rates) could have repercussions throughout the public bus industry. However, Greater Manchester's settlement with platform staff at 4% new money with an additional 3% in exchange for significant productivity improvements may help to recover the position for the other PTE's in subsequent negotiations.

The Secretary of State for Transport wrote to the Chancellor of the Exchequer on 17 December outlining action taken in the light of the Greater Manchester PTE's craftsmen's settlement and pay prospects in the remainder of the PTE bus sector.

9 British Airports Authority - All grades (7,000)

Settlement date: 1 January

Unions: JNCC - staff IPCS, SCPS, CPSA, CSU

industrials TGWU, AUEW, GMATU, EEPTU

NUSMWCHDE, UCATT

The unions have submitted a joint claim for improvements in basic rates and salaries, London Weighting allowance, a shorter working week for firemen and some restructuring. The claim isestimated to be worth 13% overall on average earnings.

At a meeting on 29 November the Authority offered 4% on basic pay and some allowances. In subsequent negotiations BAA extended the offer to apply to basic pay and all allowances. In addition improvements will be made to incremental additions to basic pay, which have remained unchanged for four years (these increments are expressed as additions to a base, rather than as a scale; they are offered for merit only; not service). The unions have now accepted this package, which is expected to increase average earnings by rather less than 5%.

CONFIDENTIAL

10 British Steel Corporation: All grades (103,700)

Settlement date: 1 January 1983

Unions: ISTC, NCCC, NUB, GMBATU, TGWU, SIMA, MATSA, ACTSS

The unions have presented a claim for a 9.5% increase, and negotiations have commenced. The Corporation's initial position, as expressed by the Chairman in a letter to all BSC staff, is that the industry cannot afford a national pay increase but there may be scope for local productivity bargaining. The unions are reported in the press to have united against BSC's intention not to award a general increase and are planning to call a national delegate conference aimed at stiffening opposition to BSC's plans.

Comment: Pay negotiations will takeplace against a background of closures and redundancies. There was no national pay award in 1982; increases came from locally agreed productivity schemes.

11 Gas Supply: Manuals (41,600)

Settlement date: 16 January

Unions: GMBATU, TGWU

At a meeting on 25 November the unionspresented their claim for an unquantified substantial increase in pay, consolidation of the General Obligations Payment (in respect of flexible working procedures), an increase in holiday pay, shift and staggered working payments, improvements to holiday and other leave entitlements and a reduction in hours. The unions are believed to have assessed the claim as representing a 13% increase on average earnings.

At a meeting on 6 January the BGC responded by offering increases on basic rates ranging from 4% to 4.75% with flow through to overtime and bonus and extra holidays for long-serving workers. The whole package is estimated to add between 3.8% and 3.9% to average earnings. This offer was rejected.

Negotiations resumed on 21 January when discussion centred on revised holiday pay. BGC did not increase the offer on basic rates.

At a further meeting on 8 February the revised holiday pay formula was agreed for inclusion in the final overall settlement. This would take effect on 1 June

1983 and would add 0.15% to average earnings in the settlement year (0.3% in a full year). The management increased their offer on basic rates to between £3.50 p.w. for labourers and £5.52 p.w. for technicians (4.4% - 5.2%). Allowing for certain unchanged payments this would increase average earnings by 4.29%. The unions rejected this offer as totally inadequate.

The next meeting will take place on 24 February.

Comment: The unions have indicated that they are prepared to settle (ie. without awaiting the outcome of the water negotiations) provided the offer is right, but they described the 8 February offer as 'derisory'. They clearly have in mind the miners' settlement, and management have drawn their attention to the 6.5% earnings effect of that settlement.

12 Electricity Supply: Manuals (94,000)
Settlement date: 17 March
Unions: NJIC - EETPU, GMBATU, AuEW, TGWU

At a meeting on 6 January theunions delivered a claim including (unquantified) substantial increases in basic rates, improvements in shift pay, reduction in the working year, earlier retirement in stages and extra long service award. The effect on average earnings is not known. The employers listened to the claim but did not make an offer.

The General Secretary of the GMBATU has been quoted in press reports as saying that the union will not consider an offer below the settlement agreed with the miners and that an offer similar to that initially made to water service manuals (4%) would be totally unacceptable. Negotiations resumed on 3 February when the employers offered increases between £4.12 and £6.23 per week. Overall earnings would be increased by an average of 4.5%. The meeting was adjourned to 22 February for the employers' side to consider the offer.

Comment: Similar considerations apply to these negotiations as they do to those of the gas industry (see item 11).

CONFIDENTIAL

ECON POL

~~CC~~ JV

(2)

Prime Minister

MUS 14/2

01-211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

11th February 1983

MS

Dear Chancellor

PAY OF GAS INDUSTRY MANUALS

Thank you for your letter of 7 February.

The negotiating meeting on 8 February discussed the draft agreement on holiday pay mentioned in my letter of 3 February, and it is clear that the two sides will be able to agree on this as part of an overall settlement. The cost remains as stated in my earlier letter.

In the event the employers' side judged it essential, if they were to avoid the risk of a complete breakdown of the negotiations and the possibility of the gas unions linking their dispute more closely with water, to make an increase of a little under ½ per cent in their offer on basic salaries (the increase on offer now ranges from 4.4% to 5.2% as against their earlier offer of 4.0% to 4.75%. This is equivalent to an increase in average earnings of 4.3%.

The union side reacted strongly to this increase, which they regarded as derisory, and rejected the offer. The atmosphere on the union side at the end of the meeting is said to have been rather bitter. The next meeting is fixed for 24 February.

On the point you make in your letter of 7 February the employers' side have emphasised not only the earnings effect of the miners' settlement but also the reduction in the rate of increase of the RPI since that settlement was reached.

I am copying this letter to the Prime Minister, the Home Secretary, the Secretaries of State for Environment, Industry, Transport, Employment and Trade, and to Sir Robert Armstrong and John Sparrow.

Yours sincerely

pp NIGEL LAWSON
(Approved by the Secretary of State and signed on his behalf)

Econ Pol : Public Sect. Pay Pt 9

CONFIDENTIAL

Econ Pol

Prime Minister (2)

MES 8/2

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

7 February 1983

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

Dear Nigel

PAY OF GAS INDUSTRY MANUALS

Thank you for your letter of 3 February.

I accept that the progress made at the negotiating meeting on 8 February will depend partly on developments elsewhere - to that extent, the situation is uncertain. But I think that the employers are entirely right in their aim of a settlement below the rate of inflation, and in the tactical judgment that their offer should not be increased unless a settlement is likely to result. I hope that they will remain firm on these points.

One factor in the minds of the unions will obviously be the miners' settlement. It will be very important for the employers to keep the 6.5 per cent earnings effect of that settlement in view, and not to let the widely reported figures of 8.2 and 9.1 per cent gain credence in the negotiations. But I am sure that you have this point very much in mind.

I am copying this letter to the Prime Minister, the Home Secretary, the Secretaries of State for Industry, Transport, Employment, Trade and Environment, and to Sir Robert Armstrong and John Sparrow.

Yours ever
Geoffrey

GEOFFREY HOWE

CONFIDENTIAL

Econ Pol,
Public Sector
pay: Pt 9

8 FEB 1983

Prime Minister (2)

MS 4/2

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

3 February 1983

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

Dear Nigel

ELECTRICITY SUPPLY: PAY OFFER

PM's Box

Thank you for your letter of 1 February.

In view of what you say, I accept that it would be unrealistic to think in terms of an opening offer below 4 per cent for the electricity supply workers. The important thing is not to permit any developments in these or the parallel negotiations in the gas industry which would adversely influence the outcome of the water manuals' dispute. The Council's intention to adjourn negotiations till the end of the month after making their opening offer seems right in that perspective.

I am copying this to the Prime Minister, members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

GEOFFREY HOWE

CCJ.V

Prime Minister (2)

MLS 4/2

01 211 6402

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

3rd February 1983

Dear Geoffrey

PAY: GAS INDUSTRY MANUALS

Your minute of 25 January to the Prime Minister asked me to provide an assessment of the likely developments at the next full negotiating meeting in the gas industry manuals pay negotiations, to be held on 8 February.

As you know the gas industry employers, at the meeting on 21 January, made no increase in their offer on base rates, but offered improvements in holiday pay. The two sides reached agreement on a broad framework, but left the details to be elaborated in informal discussions. These have now taken place and a draft agreement has been drawn up which, it is hoped, will be endorsed at the meeting on 8 February. The cost of the agreement is of the order of 0.15% on the pay bill this year (0.3% in a full year).

It is at present impossible to predict how far the meeting on 8 February will progress towards a settlement of the main claim. Much will depend on the situation in the water industry, on the response of the unions to any offer made in the electricity industry on 3 February, and on how willing the union negotiators in the gas industry are to reach a settlement without too much regard to what is taking place elsewhere. The employers' side for their part would be willing to reach a settlement at that meeting, provided it can be achieved on reasonable terms, and it remains their objective to settle below the rate of inflation. They are of course anxious to avoid making any increase in their offer of 3.8%-3.9% on average earnings unless it seems likely to lead to a settlement. While they are in general opposed to recourse to arbitration, this remains a possibility, and the employers' side will seek to assess the likelihood of the union side seeking arbitration if no settlement is reached on the 8th. To sum up, while it remains possible that a settlement will be reached on the 8th, the balance of probability seems increasingly against this.

I am copying this letter to the Prime Minister, the Home Secretary, the Secretaries of State for Environment, Industry, Transport, Employment and Trade, and to Sir Robert Armstrong and John Sparrow.

Christopher
Nigel

NIGEL LAWSON

3

28/12

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PA

MR SCHOLAR

2 February 1983

cc Mr Mount

FORWARD LOOK AT INDUSTRIAL RELATIONS TROUBLE SPOTS

You asked for a short note setting out possible industrial relations trouble spots between now and the Summer recess, ie until the end of this pay round.

I attach a list of the main public sector groups which still have to settle their pay, together with their settlement dates and a brief description of the prospects. There are three general points I would like to make:

(i) The outcome of the current water strike is crucial. Mr Basnett has made no secret of his desire to make trouble in all the industries where the G & M is represented, which includes gas and electricity, and if he thinks he has the Government on the run in water he will want to play other negotiations much harder. Indeed, the way in which the water strike is settled has substantial implications across the board: if the water workers are seen by the local authority manuals to be getting much more than they have already been offered, we may well have trouble there, even though the present 4½% offer has been recommended by the union leadership;

(ii) Water workers apart, there are few other areas where industrial relations difficulties seem at present to be likely. If I had to put money on it, I would say that only British Rail of the main public sector employers is at all likely to have to face a strike this year - and even then, because of the intricate negotiating procedures, it won't come soon;

(iii) It is not possible to forecast with any degree of accuracy when negotiations are likely to come to a head in any particular industry. The settlement dates are given only as a guide, and settlements are frequently backdated.

JV

JOHN VEREKER

FORWARD LOOK AT INDUSTRIAL RELATIONS TROUBLE SPOTS

1. Local Authority Manuals (settlement date, 4 November 1982)

Union negotiators have agreed to put the 4½% pay offer to their members for consideration, and it is likely to be accepted unless the local authority manuals see the water workers break loose.

2. Gas Appliance Manuals (settlement date, 16 January 1983)

BGC has offered about 4%, and the gas manuals expect to reach a settlement at about the level achieved by the miners, ie 6½%. If the water workers break loose, the gas manuals would certainly seek more - and are likely to get it.

3. Electricity Supply Manuals (settlement date, 17 March 1983)

Mr Lawson has just reported to his colleagues that the electricity council propose to make an opening offer this week of 4½%; thereafter both sides to the negotiations expect to follow the pattern of the gas manuals and the miners.

4. The Non-Industrial Civil Service (settlement date, 1 April 1983)

The Prime Minister is aware of the likely timing and size of the opening offer, and of my belief that industrial action in the Civil Service is unlikely this year.

5. Primary and Secondary School Teachers (settlement date, 1 April 1983)

Negotiations have not yet started, but there is no reason to suppose that they are any more likely to end in industrial action than in previous years.

6. British Rail (settlement date, 20 April 1983)

The 6% settlement agreed for the last pay round, to run from 6 September 1982, has not yet been implemented due to a continuing dispute over the delivery of the productivity conditions. The outlook for this year's negotiations is therefore unpromising, and the Serpell Report makes it clear how much can be saved through better working practices. BR will not be in a position to offer a no strings attached pay rise of the kind the unions will be seeking, and another bout of industrial action must remain a possibility this year. This however is unlikely to take place until the late Summer because of the various negotiating bodies through which disputes have to pass.

INDUSTRIAL RELATIONS ISSUES OTHER THAN PUBLIC SECTOR PAY

(i) Strikes in the Private Sector cannot be ruled out, but the Government does not at present have any machinery for monitoring Private Sector negotiations. With the oil tanker drivers and road haulage workers out of the way, I would not expect there to be problems in industries which could have a national effect.

(ii) The one non-pay issue which clearly carries a risk of industrial action is pit closures, on which the Prime Minister is of course fully briefed.

010

QC

(2)

Prime Minister

MES 1/2

01-211 6402

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

PA

1st February 1985

Dear Geoffrey

ESI INDUSTRIAL WAGE NEGOTIATIONS

At a meeting of the electricity supply industry's National Joint Industrial Council on 6 January the employees' side made a claim for a substantial increase in pay; extra long service payments; improved shift pay; a reduction in the working year; and earlier retirement. The employers' side agreed to reply to the claim at the next meeting on 3 February.

I have now been informed by the Electricity Council that they propose to offer increases on basic salaries ranging from 4% for labourers to 4.6% for craftsmen and foremen. The weighted average would be 4.5%. The offer would be made in cash terms ranging from £4.12 to £6.23 a week.

Shift and stagger payments and hence overall earnings would also be increased by a average of 4½%. The total increase on the pay bill works out at 3.8%.

The Council expect the offer to be rejected outright and the unions to seek an improved offer before going to ballot. It is expected that the meeting on 3 February will be adjourned, resuming later in the month.

Taking into account the figures being discussed in relation to the water workers, the Council believe it would be counter-productive to start with a lower offer. They are conscious that the electricity unions are also keeping a close watch on the current gas negotiations and the Council have not yet been able to reach a conclusion on what they might settle for. I do not propose to offer further guidance at this stage. The Chairman of the Council is well aware of the need for a moderate settlement, and I shall be seeing him again after the next round of British Gas' negotiations on 8 February.

I am copying this letter to the Prime Minister, members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

Yrs ever
Nigel

NIGEL LAWSON

MR. SCHOLAR

PERSONAL AND CONFIDENTIAL

Prime Minister

To see

MCS 31/1

ECON POL

(2)

10 DOWNING STREET

The Right Honourable
Norman Tebbit, MP,
Department of Employment,
Caxton House,
Tothill Street,
London, SW1.

28 January 1983

Dear Norman,

I am sure you were appalled by the Retail Trades (Non-Food) Wages Council award of an 8% increase on 7 January. It looks as though also the Retail Food and Allied Trades Council will follow with a similar decision. These cover 1.9 million employees, that is to say about almost 10% of the total employment, of course a much larger fraction of private sector employment.

This 8% is some three percentage points above the going rates of 5% in the private sector. Furthermore the award seems to be above the average increase for other Wages Councils. In view of the enormous level of unemployment, one would have liked to have seen awards which were well below the going average rate in the private sector. But an 8% increase seems quite inexcusable.

It is difficult to conjecture how much this will add to the unemployment register. But it cannot fail to do so.

I was even more concerned when I learned that the Wages Councils have four recently appointed new members, who have been considered by the Minister of State and the Chief Whip's office. It turned out that two of them, that is to say one on each Council, were suggested by the British Multiple Retailers Association, and a Chairman of Tesco. It is fairly clear that the British Multiple Retailers, generally unionised, are quite anxious to keep out low wage competitors. It is not surprising that they voted a large increase. Nor is it surprising that another of the independent members, a retired personnel manager in General Motors, a firm dominated by unions, would vote for the higher wages. There do not seem to be any independent members who have in mind the interests of the consumer, and the small independent retailer.

I take all this as a confirmation of the difficulties of getting any sensible decisions out of the Wages Councils. The sooner we abolish them the better.

Yours

Alan

ALAN WALTERS

CONFIDENTIAL

Econ Pol.

Prime Minister (4)

MES 26/1

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

PRIME MINISTER

MONITORING REPORT: PUBLIC TRADING SECTOR

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

2. The most important development is obviously the strike which has now started in the water industry. Tom King will be keeping us in touch with this.

3. Negotiations are also in progress in the gas industry, where the employers have made an offer worth just under 4 per cent on average earnings, as reported in Nigel Lawson's letter of 5 January. I understand that the next formal negotiating meeting is arranged for 8 February. No doubt Nigel will let us have an assessment in good time of likely developments at that meeting, against the background of the situation in the water industry. Nat Ind, Gas & Elect, Pt 7

4. Finally, I was grateful for David Howell's letter of 17 December about the pay situation in the Passenger Transport Executives. With a 3 per cent offer to municipal busmen and a 3½ per cent offer by the National Bus Company, the position is the bus industry is developing rather better than might earlier have been expected.

/5. I am copying

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

G.H.

25 January 1983

PUBLIC TRADING SECTOR

PART 1 CURRENT NEGOTIATIONS

1981/82 PAY ROUND

1 British Rail: Clerical and Conciliation grades (136,000)

Settlement date: 20 April 1982

Union: NUR, ASLEF, TSSA

On 13 September the Railway Staff National Tribunal recommended a 6% increase on basic rates from 6 September and a 6% increase in the Minimum Earnings level from 19 April 1982, worth together 4% on average earnings in the settlement year. In addition the Tribunal recommended that there should be agreement to 1 additional day's holiday to be effective in 1983 and a further pay review to be completed and agreed before the next annual settlement date of 17 April 1983.

The Tribunal did not explicitly make their non-binding award conditional upon agreement being reached on outstanding disagreements about productivity but made clear a view as to which productivity commitments it considered to have been properly fulfilled and how outstanding commitments should be resolved. The Tribunal also recommended that in future any links which are established between pay and productivity should be clear and unambiguous.

At a meeting of the Railway Staff National Council on 20 October the BR Board made it clear that implementation of the 6% increase was conditional upon agreement to settle those productivity matters still outstanding from the 1981 payround. Although objecting to this provision, the unions agreed to take part in further negotiations at Railway Staff Joint Council Level and have reached agreement in principle on all outstanding productivity matters. Detailed discussions have centred on the "specific rewards" for those affected by the new working arrangements. The negotiation of payments linked to specific changes in working practices formed part of the RSNT recommendations and, when agreed, will be paid in addition to the general increase of 6% on basic rates. The NUR have accepted the Boards offers. The ASLEF Executive, however, has rejected an offer of a £5 per shift supplement for driver only operation despite the offer initially ~~being~~ recommended by ASLEF negotiators. At a meeting of the RSNC on 5 January, the BR Board reiterated the £5 per shift offer as "final", and ASLEF negotiators took it back to their Executive. ALSEF subsequently announed on 18 January that it had referred the level of specific rewards for driver-only operation on the Bedford-St. Pancras line to Lord McCarthy's Railway staffs National Tribunal for arbitration.

Until agreement is reached BR will not implement the 6% general pay increase from 6 September.

Comment: The NUR and TSSA are naturally applying pressure on ASLEF to agree the payment for driver only operation as quickly as possible.

1982/83 PAY ROUND

2 United Kingdom Atomic Energy Authority: Manuals (4,760)
Settlement date: 1 October 1982
Unions: AUEW, TGWU, GMBATU, EETPU

At a meeting on 17 November management improved their original 3% offer to just under 3.7% on average earnings. The unions stated that they were unable to recommend the offer to their members. An informal meeting was arranged for 24 January and the next formal negotiating meeting for 3 February.

3 Water Service: Manual grades (29,400)
Settlement date: 7 December 1982
Unions: GMBATU, NUPE, TGWU

In internal consultations the manual water workers endorsed their negotiators' rejection of a 4 per cent offer. They authorised their unions to take industrial action and following an overtime ban an all-out strike began at midnight on Sunday 23 January 1983. Following discussions with both sides, Mr Ian Buchanan, the ACAS appointed mediator, backed the NWC with a rejection of the unions' claim for parity with the upper quartile of manual earnings. He proposed an increase on base rates equivalent to about 7.3 per cent on the wage bill over a 16 month period (thought to be equivalent to 5.8 per cent on an annual basis). In addition the service supplement, paid to workers with more than 5 years' service would be increased from 2.5 pence per hour to 5.2 pence per hour. This would further increase the wage bill by about 0.5 per cent. The employers have indicated that they will accept the recommendations. The union negotiators' response was unfavourable but the full union side is considering them prior to a meeting of the NJIC on 24 January to continue the negotiations on the recommendation.

4 Water Service: Craftsmen (5,700)

Settlement date: 7 December

Union: CSEU

On 2 December the group was offered a 4% increase on basic rates (3.8% on average earnings) in line with the offer made to water service manuals. Details of the craftsmen's claim are not known. The offer was rejected.

Comment: The craftsmen traditionally settle in line with the water service manuals.

5 Greater Manchester Passenger Transport Executive: Platform Staff (5,950)

Settlement date: 1 November

Union: TGWU

The union has presented an uncosted claim for a substantial pay increase which management estimates is worth 20% overall. At a negotiating meeting on

22 November management's tentative offer of a 4% increase on basic rates with a further 3% for productivity improvements was rejected. Negotiations however continued, and a ballot has now been arranged for 27 January on the basis of the previously rejected offer.

Comment: Management has already reached a settlement with craft and maintenance grades which provides a 6.97% increase on basic rates. It has been previous practice to reach a settlement with the platform staff at the same level as the maintenance grades. The Secretary of State for Transport wrote to the Chancellor of the Exchequer on 17 December outlining action taken in the light of GMPTE's settlement and its effect, and pay prospects in the remainder of the PTE bus sector.

6 Municipal Buses: Platform Staff (15,555)

Settlement date: 1 January 1983

Unions: TGWU, GMBATU

The unions have submitted a claim for parity with Group F local authority drivers (estimated to required a 4% increase), a 13% increase in addition to the claim for parity, 1 day's additional holiday, a reduction in the working week to 38 hours and improvements to sick pay an holiday pay for semi and unskilled maintenance workers. The claim is estimated to be worth about 40% on average earnings. Negotiations opened on 10 December when the employers tabled an offer worth 3 per cent on rates (and a broadly similar amount on earnings). The unions agreed to put this offer to delegates without a recommendation. A delegate conference is being arranged for 1 February.

7 National Bus Company: Platform and non-craft maintenance grades (31,945)

Settlement date: 1 March

Unions: NCOK, TGWU, NUR, GMBATU

At a meeting on 7 December, management received a claim identical to that submitted by platform staff employed by municipal buses (see item 6). Negotiations commenced on 21 January, when an opening offer of 3.5 per cent was made and rejected by the unions.

General Comment on the Bus Industry: The settlement reached with craft and maintenance grades in the Greater Manchester Passenger Transport Executive (6.97% on basic rates), if followed by an equally high settlement for the platform grades will have repercussions throughout the public bus industry. However GMPTE's ploy of offering platform staff 4% new money with an additional 3% in exchange for significant productivity improvements may recover the position for fellow employers in subsequent negotiations.

8 British Airports Authority. - All grades (7,000)

Settlement date: 1 January

Unions: JNCC - staff

industrials TGWU, AUEW, GMBATU, EEPTU, NUSMWCHDE, UCATT

The unions have submitted a joint claim for improvements in basic rates and salaries, London Weighting allowance, a shorter working week for firemen and some restructuring. The claim is estimated to be worth 13% overall on average earnings.

At a meeting on 29 November the Authority offered 4% on basic pay and some allowances. At a subsequent meeting on 13 December BAA improved their offer by extending the offer to cover shift allowances. The offer of a 4% increase now applies to basic pay and all allowances. In addition improvements will be made to incremental additions to basic pay, which have remained unchanged for four years, (these increments are expressed as additions to a base, rather than as a scale; they are offered for merit only, not service). This package is the Authority's final offer and is expected to increase average earnings by rather less than 5%. The Authority still awaits a formal response to this offer, but initial informal reports suggest that contrary to previous expectations the unions will reject it.

Comment: Even if the unions have rejected the offer, industrial action of a serious nature is thought unlikely. This is for several reasons - first, the fragmentation of the workforce into so many unions; second, there is no history of significant industrial action.

9 British Steel Corporation: All grades

Settlement date: 1 January 1983

Unions: ISTC, NCCC, NUB, GMBATU, TGWU, SIMA, MATSA, ACTSS

The unions have presented a claim for a 9.5% increase, and negotiations have commenced. The Corporation's initial position, as expressed by the Chairman in a letter to all BSC staff, is that the industry cannot afford a national pay increase but there may be scope for local productivity bargaining.

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Comment: Pay negotiations will take place against a background of closures and redundancies. There was no national pay award in 1982; all increases were to come from locally agreed productivity schemes.

10 Gas Supply: Manuals (41,600)
Settlement date: 16 January
Unions: GMBATU, TGWU

At a meeting on 25 November the unions presented their claim for an unquantified substantial increase in pay, consolidation of the General Obligations Payment (in respect of flexible working procedures), an increase in holiday pay, shift and staggered working payments, improvements to holiday and other leave entitlements and a reduction in hours. The unions are believed to have assessed the claim as representing a 13% increase on average earnings.

At a meeting on 6 January the BGC responded by offering increases on basic rates ranging from 4% to 4.75%, increases in overtime and bonus rates, and extra holidays for long-serving workers. The whole package is estimated to add between 3.8% and 3.9% to average earnings.

The unions did not reject the offer although they did indicate that it was unacceptable. The two sides met again on 21 January. For external reasons this meeting was short and the management restricted discussion to holiday pay. At present holiday pay is related to total earnings including overtime but subject to a cut off. In response to union dissatisfaction with the cut off, management, who wish to eliminate the overtime element, proposed that holiday pay should be calculated on the basis of a standard working week.

Negotiations on the main pay claim will resume on 8 February.

Comment: Any improvement in the current offer would have implications for current negotiations in the water industry and subsequently in the electricity supply industry. The Gas workers will no doubt have in mind the miners settlement, worth 6.5% but presented as 8.2% to 9.1%.

CONFIDENTIAL

11 Electricity Supply: Manuals

Settlement date: 17 March

Unions: NJIC - EETPU, GMBATU, AUEW, TGWU

At a meeting on 6 January the unions delivered a claim including (unquantified) substantial increases in basic rates, improvements in shift pay, reduction in the working year, earlier retirement and extra long service award. The effect on average earnings is not known.

At the meeting the employers listened to the claim but did not make an offer.

The General Secretary of the GMBATU has been quoted in press reports as saying that the union will not consider an offer below the settlement agreed with the miners and that an offer similar to that made to water service manuals (4%) would be totally unacceptable.

Comment: Last year's settlement (7.4% on average earnings) was achieved only after intervention by ACAS following a ballot of all union members who had voted in favour of industrial action.

PART II SETTLEMENTS CONCLUDED SINCE THE LAST REPORT

12 Coalmining: Clericals (12,500) NUM, APEX
Weekly Paid Industrial Staff (9,150) NUM
Deputies (17,600) NACODS
Managerial grades (16,500) BACM

Settlement date: 1 November

The groups have now accepted a settlement at the same level as the manual group (ie equivalent to 6.5% on average earnings).

Econ Pol
Public Sector
Pay: Pt 9

Econ. Pol.

Prime Minister

Please see the Chancellor's minute, attached.

MES 6/1

MR SCHOLAR

cc Mr Mount
Mr Ingham

NATIONALISED INDUSTRY PAY

I do not think the Prime Minister need reply substantially to the Chancellor's note to her dated 21 December reporting the outcome of E(NI). E(NI) clearly took note of the Prime Minister's views as set out in your letter of 20 December, and the action proposed in respect of BGC, BR, BT and the Post Office is satisfactory.

The handling of the water service remains the major difficulty in the nationalised industries. It is no surprise that the water workers seem, in their consultation, to be rejecting their 4% offer, particularly since it was widely reported when the offer was made that it would have have 6% but for Mr King's intervention. There is little point in repeating to her colleagues the Prime Minister's view, recorded in your letter, that there is no need for the offer now to be increased before arbitration takes place. But I have discussed with Bernard Ingham the desirability of the media appreciating that the water workers are bound to go to, and accept the results of, the arbitration, and I will be briefing him further on this when I have been able to establish what, if anything, ACAS has been up to over the last two weeks.

J.

5 January 1983

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

PRIME MINISTER

NATIONALISED INDUSTRY PAY

At its meeting on 22 December (E(NI)(82) 10th Meeting, Item 3) the Ministerial Sub-Committee on the Nationalised Industries discussed nationalised industry pay on the basis of my minute to you of 16 December and the letter of 20 December from the Minister for Local Government and Environment Services to the Secretary of State for Energy, which was copied to you. Your private secretary's letter of 20 December asked me to report the outcome to you.

2. The Sub-Committee agreed that there were several general points which needed to be impressed on the management of nationalised industries, notably:

i. the increasing reluctance of trade unions to call for industrial action because of the Government's success in withstanding strikes in the public sector and the recognition by workers that any small improvement in a pay offer secured by industrial action might be more than offset by the cost to them of a lengthy strike;

ii. the inhibitions on taking industrial action where there would be severe consequences for the community;

iii. the change in pay expectations since the start of the pay round which made it possible to open negotiations with lower offers reflecting the declining path of inflation.

3. The Sub-Committee therefore agreed that sponsor Ministers should press the Chairmen of the nationalised industries to consider these factors carefully in deciding on their tactics for their pay negotiations and in particular on their opening offers.

4. As regards particular forthcoming pay negotiations, the water workers' negotiations will resume on 7 January, when the outcome of the trades unions' consultations on industrial action will be known; the Minister for Local Government and Environmental Services is, of course, in close touch with the water industry employers and will keep colleagues informed about developments. Negotiations for the gas manual workers open on 6 January. The Secretary of State for Energy has already discussed the British Gas Corporation's (BGC) tactics in general terms with the Chairman and may need to do so again in the light of the Sub-Committee's discussion if the BGC's final views on tactics and opening offer prove disappointing. The Secretary of State for Transport has raised with the Chairman and Chief Executive of the British Railways Board the possibility of a pay settlement in 1983 on the basis that no new money would be involved and that any pay increase would have to be funded entirely from improved productivity. They did not rule this out and the Secretary of State will be discussing it with them again in due course. Finally, the desirability of lower settlements in British Telecom and the Post Office is being pursued vigorously with their respective Chairmen.

5. I am copying this minute to the members of E Committee, the Secretaries of State for Scotland and Wales, John Sparrow and Sir Robert Armstrong.

GH.

(G.H.)

31 December 1982

ECON POL: Public Sector Pay Pt 9.

E 4 JAN 1983

CONFIDENTIAL

JV

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT
AND ENVIRONMENTAL SERVICES

Prime Minister (2)

An important letter.

MCS 21/12

20th December 1982

Dear Nigel,

NATIONALISED INDUSTRY PAY

I note your letter to Geoffrey Howe of 9 December on the prospects for opening offers in both the gas and electricity industry.

With my immediate interest in water and having, with considerable difficulty, at last persuaded them to start at 4%, I am obviously concerned to see that both gas and electricity are thinking of starting at 5%.

I thought it might be helpful if I told you of my own experiences in dealing with the assortment of people that make up the water employers negotiating committee (this includes private water companies as well as water authorities - and I may say that they were no more helpful initially than the water authorities). What I found was a widespread failure on the part of the employers to appreciate firstly, the change of situation regarding inflation and the real prospects of 5% in the Spring and, secondly, how much harder it is for unions to persuade their members that there is anything worth striking for now that the figures are so much lower. In other words, when there may be another 5 or 10% to go for that might seem worth fighting for but if it is merely for another ½ or 1%, any loss of pay from strike action takes a long time for the employees to recover.

I believe these two factors have significantly altered the balance of wage bargaining this year in a way the majority of employers have still not yet appreciated. During my efforts to get a sensible low opening offer, I received continual warnings that 4% would certainly provoke major trouble and if there was no immediate move towards a national strike that industrial action in a number of areas would be quite inescapable. For the reasons I have given above, I did not actually believe this. You may be interested to know that I have since checked with the water authorities and they have had to confirm to me that there has, in fact, not been one single hour of industrial action of any sort since the 4% offer was made.

I hope that these thoughts may be helpful to you in further contacts with both electricity and gas as, obviously, it is absolutely essential for us all that we achieve the lowest level of settlements this year.

I am copying this to the Prime Minister, other members of E(NI) and to the Home Secretary.

Yours
Tom

TOM KING

The Rt Hon Nigel Lawson MP 2F

Econ Pol

Public sector Pay

Econ Pol

Econ Pol
Public Sec Pay

10 DOWNING STREET

cc: E Cttee
SO
WO
CO
CPRS

From the Private Secretary

20 December 1982

Nationalised Industry pay

The Prime Minister was grateful for the Chancellor's minute of 16 December.

She shares his view that it would be useful for there to be a discussion on this issue at this week's meeting of E(NI). She would be grateful if he would let her know the outcome.

The Prime Minister has commented that she does not see why it is necessary to make any increase at all in the 4% offer to water workers, given the arbitration agreement; and that British Rail should be planning on a nil or very small pay increase indeed, given the continuing difficulties of securing delivery of the agreed productivity improvements, and British Rail's financial weakness. She also agrees with the Chancellor's inclination to lean particularly hard on the Post Office and British Telecom.

I am sending copies of this letter to the Private Secretaries to the members of E Committee and to Muir Russell (Scottish Office), Adam Peat (Welsh Office), Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

Miss Margaret O'Mara,
H.M. Treasury.

CONFIDENTIAL

Prime Minister (1)

Please see the Chancellor's minute (attached).

Agree I write as at X?

MCS 17/12

Yes

MR SCHOLAR

NATIONALISED INDUSTRY PAY

The Chancellor, in his note of 16 December, describes the outcome of discussions that have taken place with Nationalised Industry Chairmen as "clearly unsatisfactory". Although I think that is a little strong - as I indicated in my note last week, the position is certainly no worse than we expected - I do agree that steps should be taken to bring about lower settlements where possible. We have to recognise that in general settlements may turn out to be a little higher than forecast by the industries at this stage, and of course average earnings will be higher still.

X

If the Prime Minister agrees, therefore, you could suggest to the Chancellor's Office that she would like to have this discussed in E(NI) as the Chancellor suggests - he is Chairing a meeting next Wednesday - and that the outcome should be reported to her, together with recommendations for action.

It might also be useful to pass on one or two comments on particular industries before E(NI) meets. The Prime Minister may feel, for instance, that you should say that she does not see why it is necessary to make any increase at all in the 4% offer to the water workers, given the Arbitration Agreement; that BR should be planning on a nil or very small pay increase indeed, given the continuing difficulties of getting ASLEF to deliver the agreed productivity improvements (these difficulties are still holding up payment of this year's 6% increase) and the virtual certainty that the Serpell Report, due early next week, will highlight BR's financial weakness; and that she agrees with the Chancellor's inclination to lean particularly hard on the Post Office and British Telecom.

J.

17 December 1982

CONFIDENTIAL

Econ Pol
Public Sector Pay

CONFIDENTIAL

2 cc JV

Prime Minister (2)

MCS 28/12

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

PRIME MINISTER

MONITORING REPORT : PUBLIC TRADING SECTOR

I attach the latest monitoring report on the public trading sector. As regards the issues raised, there is nothing to add to my minute of 16 December about nationalised industry pay.

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

G.H.

17 December 1982

CONFIDENTIAL

SECRET

PUBLIC TRADING SECTOR

PART 1 CURRENT NEGOTIATIONS

1981/82 PAY ROUND

1 British Rail: Clerical and Conciliation grades (136,000)

Settlement date: 20 April 1982

Union: NUR, ASLEF, TSSA

On 13 September the Railway Staff National Tribunal recommended a 6% increase on basic rates from 6 September and a 6% increase in the Minimum Earnings level from 19 April 1982, worth together 4% on average earnings in the settlement year. In addition the Tribunal recommended that there should be agreement to 1 additional day's holiday to be effective in 1983 and a further pay review to be completed and agreed before the next annual settlement date of 17 April 1983.

The Tribunal did not explicitly make their non-binding award conditional upon agreement being reached on outstanding disagreements about productivity but made clear a view as to which productivity commitments it considered to have been properly fulfilled and how outstanding commitments should be resolved. The Tribunal also recommended that in future any links which are established between pay and productivity should be clear and unambiguous.

The BR Board and all three unions have accepted the Tribunal's recommendations as a basis for negotiation.

At a meeting of the Railway Staff National Council on 20 October the BR Board made it clear that implementation of the 6% increase was conditional upon agreement to settle those productivity matters still outstanding from the 1981 pay round. Although objecting to this proviso, the unions agreed to take part in further negotiations and meetings at Railway Staff Joint Council level have been taking place with the NUR and ASLEF; TSSA are not involved in further negotiations. Agreement has been reached with the NUR and ASLEF on the principle of driver-only operated trains on the Bedford/St. Pancras line and with ASLEF for single-manning on freight trains on a trial basis. Negotiations continue on the extension of single-manning and the trainman concept. Detailed discussions are now centring on the 'specific rewards' for those affected by the new working arrangements. BR has offered a supplement of £5 per shift for driver only operation

SECRET

on the Bedford/St. Pancras line and for single manning trials on freight trains. The drivers had claimed an additional £50 per week on basic rates. Signalmen on the Bedford/St. Pancras line have been offered a £2 per shift supplement. The negotiation of payments linked to specific changes in working practices formed part of the RSNT's recommendations and, when agreed, will be paid in addition to the general increase of 6% on basic rates. Negotiations continue (probably on Monday 20 December) on the question of specific rewards for staff whose responsibilities will change with the introduction of driver only operation (DOO) on the Bedford - St Pancras line and on the freight train DOO trials. The NUR have accepted the Board's offers. ASLEF rejected them, but agreement is nonetheless believed to be near on this, and on the only other remaining issue of urgent talks to achieve further easement of single manning restrictions. The 6% pay award from 6 September has not yet, therefore, been triggered.

Comment: The payment of supplements for driver only operation and single manning may set a precedent if these arrangements are extended throughout the rail network.

1982/83 PAY ROUND

2 United Kingdom Atomic Energy Authority: Manuals (4,760)

Settlement date: 1 October 1982

Unions: AUEW, TGWU, GMBATU, EETPU

At a meeting on 17 November management improved their original 3% offer to just under 3.7% on average earnings. The unions stated that they were unable to recommend the offer to their members. A further negotiating meeting has yet to be arranged.

SECRET

3 Water Service: Manual grades (29,400)

Settlement date: 7 December 1982

Unions: GMBATU, NUPE, TGWU

At a meeting on 21 September the National Joint Industrial Council presented a claim for average earnings in the industry to be brought in line with the upper quartile of manual earnings generally, one extra week's holiday and a reduction of one hour in the work week. It is unclear whether a cost of living increase for this year is also implied.

The claim for comparability follows from an agreement made at the same time, although separate from, the 1981 pay settlement when the employers agreed, without commitment, to give consideration to the position of water manual's earnings in relation to manual earnings in the economy generally and in return for improvements in productivity. Subsequently, the unions submitted evidence in support of their claim for parity which, according to the NWC, would have meant an increase of around 15%. Management made it clear that such an increase was unacceptable. At the meeting on 21 September the unions requested an immediate response, or at least a commitment in principle, to upper quartile relativity. The employers refused to respond to the claim before the next scheduled meeting on 11 November and the unions subsequently called a one day strike on 18 October.

The intention of the employers had been to make an opening offer at around 6% followed by a reference to arbitration if rejected but in discussions with the Minister for Local Government and Environmental Services the employers agreed not to make an offer in excess of 4%. Subsequently at a meeting on 11 November the employers offered a 4% increase on basic rates, an increase in shift payments and one additional day's holiday for employees with over eight years service; worth 3.8% overall on average earnings. The unions rejected the offer; the employers then suggested a reference to arbitration which was also refused.

According to the NJIC agreement the Joint Council must refer a disagreement to arbitration at the request of either side and this would appear to give the employers a clear right to insist upon arbitration. The union's view however is that the procedure agreement has been broken by the employers because of their failure to exhaust normal negotiating procedures first and, in any case that the Joint Council must first agree terms of reference. The unions are also

SECRET

fully aware that the employers were willing to open negotiations with a 6% offer and that the lower offer actually made was a result of pressure from Ministers. The employers wrote to ACAS indicating that they would likethe matter settled by arbitration but ACAS has not received a formal request to arbitrate. ACAS has held discussions with both sides and are thought to be meeting the unions again before Christmas, but it is understood that it has not yet found sufficient common ground to set up a joint meeting.

The Minister met the employers on 6 December prior to their discussions that day with ACAS. The employers thought they might be asked whether they would be prepared to re-open negotiations on the basis of an improved offer provided, as now seemed possible, the unions dropped their insistence on a commitment to upper quartile relativity. They also thought that a gesture on those lines made through ACAS might dissuade the GMBATU executive, meeting the following day, from going out to ballot which was bound to result in endorsement of the rejection of the 4% offer and a mandate for strike action. They saw little prospect of a negotiated settlement unless they could eventually move as necessary up to the 6% limit set by the Combined Employers Committee, but it was not clear what might be needed to get the unions to agree to arbitration. The Minister recognised that in the circumstances envisaged, especially if ACAS could not arrange a reference to arbitration on the present terms, the employers might have to indicate a willingness in principle marginally to improve their offer but he would prefer that no figures should be mentioned. If that could not be avoided they should not go higher than 4½% pending negotiations which should not take place before 20 December by which time the NHS union consultations should be complete. He was not prepared to give any firm views on possible levels of offer thereafter until the employers consulted him prior to any further specific developments.

The Executive of the GMBATU is ballotting members asking them to endorse the Executive's rejection of the 4% offer and to signify support for strike action should it be considered necessary. The Executives of the other unions are known to be consulting members about strike action on similar terms. The results are expected by 7 January.

Comment

ACAS can only arbitrate "with the consent of all parties to the dispute" (Section 3 Employment Protection Act 1973). It is arguable that the trade unions have in effect already agreed to arbitration by virtue of being parties to a procedural agreement which provides for unilateral access. However, in practice arbitration against the wishes of one party would be difficult to arrange and the outcome may not be accepted by the dissenting party. The Secretary of State for Employment has ensured that the Chairman of ACAS is aware that the Government would be happy for this dispute to go to arbitration.

It seems unlikely now that the unions will make any moves toward re-opening negotiations or on the arbitration issue until they take decisions on 7-9 January on the basis of the results of their consultations which will almost certainly give them the mandate they seek. They will probably then threaten early industrial action if the employers do not indicate a willingness to re-open negotiations on the basis of an improved offer. However present indications are that they may themselves then show a willingness to make concessions especially on the upper quartile issue. The employers are at that stage likely to wish to improve the 4% offer but by how much will depend to an extent on whether they believe a negotiated settlement at a reasonable level is in prospect or whether they may have to seek recourse again to arbitration. Developments in other major public sector pay negotiations could aslo be influential.

4 Water Service: Craftsmen (5,700)

Settlement date: 7 December
Union: CSEU

On 2 December the group was offered a 4% increase on basic rates (3.8% on average earnings) in line with the offer made to water service manuals. Details of the craftsmen's claim are not known. The offer was rejected.

Comment: The craftsmen traditionally settle in line with the water service manuals.

5 Greater Manchester Passenger Transport Executive: Platform Staff (5,595)

Settlement date: 1 November
Union: TGWU

The union has presented an uncosted claim for a substantial pay increase which management estimates is worth 20% overall. At a negotiating meeting on 22 November management's tentative offer of a 4% increase on basic rates with a further 3% for productivity improvements was rejected. Negotiations continue.

Comment: Management has already reached a settlement with craft and maintenance grades which provides a 6.97% increase on basic rates. It has been previous practice to reach a settlement with the platform staff at the same level as the maintenance grades. The Secretary of State for Transport will shortly be circulating an assessment of prospects for the negotiations.

6. Municipal Buses: Platform Staff (15,555)

Settlement date: 1 January 1983
Unions: TGWU, GMBATU

The unions have submitted a claim for parity with Group F local authority drivers (estimated to require a 4% increase), a 13% increase in addition to the claim for parity, 1 day's additional holiday, a reduction in the working week to 38 hours and improvements to sick pay and holdiay pay for semi and unskilled maintenance workers. The claim is estimated to be worth about 40% on average earnings. Negotiations opened on 10 December when the employers tabled an offer worth 3 per cent on rates (and a broadly similar amount on earnings). The unions agreed to put this offer to their members without a recommendation, which may suggest that they are not expecting more than a moderate settlement this year.

SECRET

7 National Bus Company: Platform and non-craft maintenance grades (31,945)

Settlement date: 1 March

Unions: NCOI, TGWU, NUR, GMBATU

At a meeting on 7 December, management received a claim identical to that submitted by platform staff employed by municipal buses (see item 6). Negotiations commence on 21 January.

General Comment: The settlement reached with craft and maintenance grades in the Greater Manchester Passenger Transport Executive (6.97% on basic rates) and a subsequently high settlement with the platform grades will have repercussions throughout the public bus industry. Personnel Managers in other PTE's have expressed dismay at the settlement; the PTE's were generally hoping to conclude settlements below 5% in this pay round.

8 British Airports Authority - All grades (7,000)

Settlement date: 1 January

Unions: JNCC - staff IPCS, SCPS, CPSA, CSU,

industrials TGWU, AUEW, GMBATU, EEPTU, NUSMWCHDE, UCATT

The unions have submitted a joint claim for improvements in basic rates and salaries, London Weighting allowance, a shorter working week for firemen and some restructuring. The claim is estimated to be worth 13% overall on average earnings.

At a meeting on 29 November the Authority offered 4% on basic pay and miscellaneous allowances. At a subsequent meeting on 13 December BAA improved their offer to include shift allowances within the 4% increase, which now applies to basic salaries and all allowances. In addition they agreed to improve increments, which have remained unchanged for four years. This is BAA's final offer and it is expected to increase average earnings by rather less than 5 per cent. The unions are expected to respond favourably by the second week in January.

SECRET

9 British Steel Corporation: All grades

Settlement date: 1 January 1983
Unions: ISTC, NCCC, NUB, GMBATU, TGWU, SIMA, MATSA, ACTSS

Pay negotiations are about to commence; no formal claims have yet been received. The ISTC has been reported as preparing a claim for a 9.5% increase in addition to the consolidation of existing bonus earnings and the staff unions have written to BSC asking for a "substantial" increase in earnings.

There was no national pay award in 1982; all increases were to come from locally agreed produtivity schemes. Bonus earnings of 2.5%, were consolidated into basic rates from July 1982 out of total bonus earnings of 6.3 per cent.

Comment: Pay negotiations will take place against a background of closures and redundancies.

10 Gas Supply - Manuals (41,600)

Settlement date: 16 January
Unions: GMBATU, TGWU

At a meeting on 25 November the unions presented their claim for an unquantified substantial increase in pay, consolidation of the General Obligations Payment (in respect of flexible working procedures), an increase in holiday pay, shift and staggered working payments, improvements to holiday and other leave entitlements and a reduction in hours. The unions are believed to have assessed the claim as representing a 13% increase on average earnings.

BGC are expected to respond to the offer on 6 January. The unions have said that they would like a fairly speedy settlement. Nevertheless, they may first want to see what happens in the water industry.

11 Electricity Supply: Manuals

Settlement date: 17 March

Unions: NJIC - EETPU, GMBATU, AUEW, TGWU

On 3 December the Financial Times reported that the unions have agreed to jointly submit a claim for an increase in line with the miner's settlement (quoted as 8.2% to 9.1%), additional increments in salary scales, substantial increases in shift payments and a shorter working year. The unions are expected to present a claim to the Electricity Council at a meeting on 6 January.

The General Secretary of the GMBATU has been quoted in press reports as saying that the union will not consider an offer below the settlement agreed with the miners and that an offer similar to that made to water service manuals (4%) would be totally unacceptable.

Comment: Last year's settlement (7.4% on average earnings) was achieved only after intervention by ACAS following a ballot of all union members who had voted in favour of industrial action.

Econ Pol

Public sector Pay Policy

CONFIDENTIAL Econ Pol cc JV

2 pp

SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

NBPM
MCS 17/12

17 December 1982

Dear Geoffrey

Your Monitoring Report of 29th November on the Public Trading Sector referred to the 7% on which Greater Manchester PTE was negotiating. You may like to know the action taken since then.

First my officials followed up an earlier paper in September to all bus employees with a letter on 30th November to each of the PTEs stressing the importance of reasonable wage settlements. The Greater Manchester Director wrote back on 2nd December to say he well recognised the importance of this. He said that the offer to platform staff was 4% but with some important items of a productivity nature to secure, which they would have to make additional payment for (i.e. the further 3%). But with the backing of the letter he was hopeful that 4% would be the benchmark for the next set of negotiations.

Second, Reg Eyre in the Transport Bill Committee stressed the importance of reasonable settlements and referred to the Government's view that in their own sector the pay bill increase ought not to exceed 3½%. We know the proceedings of this Committee are being very carefully read by all Metropolitan Counties and their PTEs.

CONFIDENTIAL

Third, in response to a Priority Question from Alf Morris today about my officials' letter to the PTEs Reg Eyre took the opportunity to make the point once more.

It is impossible to assess what effect these actions will have, given I have no formal locus in the pay negotiations. But authorities are taking very seriously the point about the protected levels of expenditure, and we will take all future opportunities to stress the need to prevent revenue support being dissipated in excessive pay costs, meaning higher fares for any given level of subsidy.

I am copying this to the Prime Minister, Willie Whitelaw, Michael Heseltine, Patrick Jenkin, Nigel Lawson, Norman Tebbit, Arthur Cockfield and to Sir Robert Armstrong and John Sparrow.

Yours ever

David

DAVID HOWELL

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

PRIME MINISTER

NATIONALISED INDUSTRY PAY

Michael Scholar's letter of 8 November asked sponsor Ministers to arrange discussions with the chairmen of their nationalised industries to emphasise the need for lower pay settlements and to enquire what strategy the chairmen would be pursuing for pay in the coming round. You asked sponsor Ministers to report the outcome to me.

2. I have now had letters from the Secretaries of State for the Environment, Transport, Industry, Energy, and Trade. I am grateful for the efforts which have been made to clarify the intentions of the industries. The results help to fill the gap which there has been in the past between the assumptions made by the industries for the Investment and Financing Review, and notification of actual offers 7 days before they are made.

3. The picture which emerges is a depressing one and does not suggest that the industries intend to play any very active part in getting pay settlements down. With a couple of exceptions, they are aiming for settlements in the 4½ to 6½ per cent range, which seems to reflect their perception of inflation prospects and their view of likely settlements in the economy generally. On this basis, I think we are heading for an outcome similar to the last pay round: settlements lower than in the previous year, but a little higher in the nationalised industries than elsewhere. This is clearly unsatisfactory and I think we need to consider urgently whether there is anything more that could be done to achieve a better result.

4. In examining what we might do to improve the climate for low settlements, we need to take account of the different circumstances of the individual industries. The water industry negotiations are already taking place. Here we have at least averted an offer of 6 per cent with arbitration, which could have led to a settlement well above even the 6.5 per cent settlement for the miners. It is most important that the employers should not revert to their initial approach. No doubt Tom King will continue to keep us informed of developments, and in particular will give us the maximum possible notice of any intention to increase the 4 per cent offer.

5. Negotiations are under way at British Steel and BSC's aim is a nil pay settlement nationally. This must be right; and it is also important that not too much should be given away in plant level productivity negotiations.

6. A pay offer is shortly to be made in the gas industry. Nigel Lawson has urged the Corporation to consider offering less than the 5 per cent figure which they seem to have in mind. The situation in the electricity industry is much the same, except that the Electricity Council seem to have been franker about their likely offer and more forthcoming about making a lower offer if that made tactical sense at the time. I share Nigel's view about the importance of getting below 5 per cent: opening offers in line with forecast inflation mean settlements above inflation and a substantial increase in real earnings after allowance is made for drift. The industries can hardly maintain that this would be a defensible outcome.

7. British Shipbuilders, the Post Office, and British Rail all have April settlement dates. British Shipbuilders, like British Steel, are aiming for a zero settlement. British Rail, on the other hand, are thinking of 4½ per cent, subject to developments in the pay round. I do not think we should accept, in the face

of British Rail's financial problems, the implication that a settlement in line with the general average would be acceptable. An approach more in line with that of British Steel and British Shipbuilders would be much more appropriate.

8. Neither the Post Office nor British Telecom, who follow in July, seem to have adopted very challenging aims on pay. Their thinking appears to be based on the rate of inflation, even though settlements in line with inflation are likely to mean an increase in real earnings because of drift. The Post Office make something of having settled at less than the rate of inflation in recent years; but that is true of settlements generally. Surely our aim for these industries should be settlements which are more in line with what we would expect to achieve in the public services.

9. I think it would be useful if we could discuss how we might proceed from here at next week's meeting of E(NI).

10. I am copying this minute to members of E Committee, the Secretaries of State for Scotland and Wales, and to Sir Robert Armstrong and John Sparrow.

G.H.

16 December 1982

Econ Pol : Public Sector Pay

17 DEC 1982

2 Econ Pol

MR SCHOLAR

Prime Minister

cc Mr Mount
Mr Walters
Mr Ingham

MLS 10/12

PAY

As you know, we are now approaching one of the periodic critical weeks for the pay round. It may be helpful for the Prime Minister to have this note in her weekend box by way of interpretation of where we have got to, and as an indication of what we may expect. No decisions are sought: the necessary action is being pursued through the normal monitoring machinery.

There have been two important developments this week. First, the special pay conferences of the Civil Service Unions have met. They have made extensive disapproving noises about the Megaw pay system, but have in each case authorised their Executives to negotiate without commitment. And they have endorsed the principle of preferential treatment for the low paid, of which we are going to hear a lot more during this pay round. We shall have to work particularly hard to establish in the public mind the connection between raising low pay and raising unemployment. Second, the employers have made their 3% opening offer to local authority manuals. This is correctly being interpreted as another attempt by the Government to encourage the NHS unions to accept their deal, which of course includes 4½% for next year; but it is a lower offer than I personally expected, and a tribute to the effectiveness of the lobbying which the Chancellor and Mr Heseltine have been able to do with the now Conservative-controlled LACSAB. And first indications are that although the Unions expect a bit more, they are not in the mood for a fight.

Next week, as Mr Fowler has reported to Cabinet, the NHS dispute comes to yet another head with the meetings on Wednesday of the TUC Health Service Committee, and on Thursday of the NHS Whitley Council. I think there is little doubt that the Nurses will be shown to have accepted their offer; but I am less sure than Mr Fowler that that will do the trick with the Ancillaries.

On the limited evidence available so far, both NUPE and COHSE are split. I doubt very much if there will be extensive support for the all-out strike which the union executives have said is the only alternative to acceptance; but I do think it likely that the outcome will be confused, with some unions wanting a one-year deal only, and some wanting to continue a degree of industrial action. So the dispute may drag on untidily into the new year.

Meanwhile, all these developments may be having some effect on the Water Workers. They are not likely to be much influenced by what happens in the NHS, but the 3% offer to the local authority manuals does make their 4% look better. There are some indications now that the position of both sides in the dispute is softening a bit. The TUC has been leaning on the unions to honour the arbitration agreement. And Mr King has told the employers that he would condone an increase in the offer to 4½% if that would make it easier to get to arbitration. It would still be much better for the employers to make no move at all, and keep up the pressure on ACAS; but the scene does seem to be setting for a compromise rather than industrial action.

The Prime Minister will have seen the letters coming in from her colleagues responsible for the Nationalised Industries. Discussions have now taken place with all the main Nationalised Industry Chairmen, and their expectations do seem to have been reined back a bit. The hardest nuts to crack will be the monopoly energy industries, where opening offers in the region of 5% are expected, but settlements within 6.5% of the actual miners' settlement (rather than the 8.2% widely quoted) are possible. In the transport sector, BR are planning on 4½%, which could be worse. And Patrick Jenkin reports that his clients, who in the past have often been leading offenders, are beginning to see the light; British Shipbuilders are aiming for zero, as are BSC (although BSC usually gives big payments for productivity); the Post Office hopes to be below the prevailing rate of inflation; and even BT has given notice of termination of their unilateral arbitration agreement. Nonetheless, in general the prospect in the Nationalised Industries is for settlements 2% or so higher than we would wish, and Treasury officials will be asking the Chancellor whether he wishes to intervene more directly.

Assessment

The prospects for the pay round are broadly satisfactory at this stage. There is no likelihood of public sector pay breaking loose. We may well end up with average earnings roughly in line with the low rate of inflation that is expected for next year, which is much as we hoped when Cabinet decided on the pay factor earlier in the Autumn. But, with our competitors in Germany and Japan settling for a couple of points ~~pounds~~ below their rates of inflation, pay is not making much contribution yet to higher employment.

J V.

JOHN VEREKER
10 December 1982

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

Prime Minister 2

MCS 10/12

CONFIDENTIAL

John Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

9 December 1982

Dear John

NATIONALISED INDUSTRY PAY

My Secretary of State has seen Michael Scholar's letter of 8 November to you and also the Chancellor's of 19 November to the Secretary of State for Energy.

Lord Cockfield has now written to the Chairman of both British Airways and the British Airports Authority, stressing the main points made in the attachment to the Chancellor's letter. (He thinks this will be more effective than meetings.)

As you know, British Airways negotiated a pay settlement a few months back for the whole of the two years 1982 and 1983, and no new settlement is due until early 1984. They should not therefore give any further trouble for the next year or so. However, Lord Cockfield has once again stressed to Sir John King the need to keep in close touch and to consult him in advance about pay settlements.

The Secretary of State has made the same point to Mr Payne. The British Airports Authority pay negotiations have just started and Mr Payne has assured Lord Cockfield that the Authority has the Government's message about the need for low pay settlements firmly on board and will now seek a lower settlement than was assumed a few months ago. Lord Cockfield has nevertheless stressed again the importance of not allowing a low offer to drift upwards.

I am copying this letter to the Private Secretaries to the recipients of the Chancellor's letter of 19 November.

Yours sincerely
John Whitlock

JOHN WHITLOCK
Private Secretary

CONFIDENTIAL

Econ Pol, Public Sector Pay, Pt 9

CONFIDENTIAL

cc BI
cc B.1.

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

Prime Minister (2)

MCS 8/12

01 211 6402

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

9th December 1982

Dear Geoffrey

NATIONALISED INDUSTRY PAY

As requested in the letter from the Prime Minister's Private Secretary of 8 November, I am writing to report the position on this year's pay round in the nationalised industries for which I am responsible.

British Gas Corporation

I have discussed the prospects for the gas industry with Sir Denis Rooke and Charles Donovan (the personnel member on on the BGC Board).

Our discussion concentrated on the negotiations with the manuals, whose settlement date is on 16 January. Negotiations with the staff come much later in the pay round.

The situation is complicated by the increasing pressure the unions have been exerting over the last two years for the consolidation of the bonus element in gas industry pay, which forms a relatively high proportion of total earnings. This was the issue which took last year's negotiations to ACAS, and the trials recommended by ACAS, which are designed to prove an alternative system, are still in progress. Consolidation as such is therefore not expected to be a main issue this year, but it will be prominent in the background.

The unions presented their claim on 25 November; it included a demand for a substantial increase on basic rates, with full flow-through to bonus and overtime payments (an increase unquantified in the claim, but the unions claim to be thinking in the region of 10-15%) and for a reduction in hours. The latter element seems to be associated with a more receptive approach than hitherto to a degree of flexibility in working hours, which could be of benefit to the industry in the longer term, though they do not expect to be able to afford a reduction in hours this year.

The unions are anxious that negotiations should not drag on too long after the settlement date and the Corporation have agreed to have a negotiating session, at which they would respond to the claim, before the settlement date.

They were unwilling at this stage to be precise about their initial offer. Much will depend on the circumstances at the time, including the results of soundings on intentions in other industries and the latest prospects for inflation. However they indicated that they might open in the region of 5%. I urged them strongly, in view of the certainty that there would be some upward movement in negotiations, to consider opening at a lower figure, and drew attention to the 4% opening offer to the waterworkers. (It is fair to add that, as they reminded me, the gap between initial offer and final settlement has generally been narrower in this industry than in some others).

The Corporation readily agreed to let us have a week's notice of the offer they have in mind to make.

Electricity Supply Industry

I have discussed the position in the electricity supply industry with Austin Bunch and Roger Farrance (the Council Member for industrial relations).

Bunch told me that he aimed to settle at as low a figure as possible, which should be below the miners settlement of 6.5% on average earnings, while avoiding strike action. Strategy would be considered at the January meeting of the Council's Industrial Relations Committee. They will aim to present settlements in money rather than percentage terms.

The first negotiation will be with the manual workers whose settlement date is 17 March; negotiations usually run into April. The result will influence negotiations with the other three groups:- engineers; clerical; and managers. Bunch and Farrance thought that they would have to offer 5 percent initially if they were not to risk a strong and counter-productive reaction. Again, the industrial settlement in the esi is usually close to the initial offer, and they judged that a lower initial offer could result in a longer negotiation with a higher final settlement. However, I was assured that if a lower offer than 5% was sustainable in the then prevailing circumstances, such an offer would be made. I made it clear that I attached importance to this point. As with BGC, they agreed to give me at least a week's notice of their proposed offer.

Their general assessment of the mood of the workforce suggested that there was little desire to take industrial action over pay.

UK Atomic Energy Authority

I have already written to you about AEA manuals' pay. As you know the Authority has offered just under 3.7%.

British Nuclear Fuels Limited

Settlements for BNFL are not due until 1 April (staff) and 1 July (manuals) but my officials are making early contact with them to get our view across before negotiations open, and John Moore will be reinforcing it on appropriate occasions.

British National Oil Corporation

BNOC employs only about 100 staff and their salaries must be competitive with those in the international oil industry. They have not yet decided on their strategy, which is to be considered by a committee of some of the non-executive directors before further discussion at Board level, but they seem to be thinking of increases of around 6%. However, the Civil Servant Board Member did make clear the Government's view at the Board meeting on 29 November. He will keep in close touch with the Corporation on this question.

I am copying this to the Prime Minister, members of E Committee, Nicholas Edwards and George Younger, and to John Sparrow and Sir Robert Armstrong.

Yours
Nigel

NIGEL LAWSON

Econ Pol

JH 464

CONFIDENTIAL

Prime Minister (2)

MCS 8/12

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

8 December 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

NATIONALISED INDUSTRIES: PAY

The letter of 8 November from No 10 to your Private Secretary recorded the Prime Minister's wish that Ministers who sponsor nationalised industries should hold discussions with their Chairmen on pay and report the outcome to you.

2 Of the nationalised industries which I sponsor only one, the British Steel Corporation, has an early settlement date (1 January). For the rest it is too early to be precise about likely settlement levels as much as will depend on the course of the pay round.

The position with regard to my industries is as follows:

BRITISH STEEL CORPORATION

I have discussed pay restraint with Ian MacGregor as part of our consideration of the grave financial and commercial position facing BSC. He said that, because many BSC workers were on short-time working, average earnings had dropped in recent months. He proposes in the next pay round to adopt the same strategy as last year: a nil national pay increase, but with plant level negotiations linking pay increases to reduced costs and still greater drives for efficiency. Negotiations will continue through December.

BRITISH SHIPBUILDERS

Norman Lamont wrote to the Chairman in October making clear our view that there is a strong case for those nationalised industries which are dependent on continuing subsidies to settle for a nil wage increase, leaving any earnings increase to be financed from improvements in productivity. He also asked for adequate advance notice of any pay offers. He followed this up when he met the Chairman on 29 October. Mr Atkinson said that BS were aiming for a zero pay increase. The EFL for the industry has not yet been set, but it will be such that, if BS is to carry out all its capital expenditure, it will be able to afford only a very small increase in pay.

The BS pay settlement date is April 1983. Negotiations normally begin in January. However, in October the Chairman took the initiative by writing to the General Secretary of the Confederation of Shipbuilding and Engineering Unions about the difficulties facing the shipbuilding industry. He emphasised that he could not justify to Government the need for increased financial support if this were to be consumed in increased wages, sought union co-operation to avoid unrealistic wage claims and suggested that any claims should reflect the present decline in this and other industries. He asked for a meeting with the CSEU to discuss these issues and this has now been arranged for 13 December. It is not BS' intention that this meeting should be used to start pay negotiations. Rather it is seen as an opportunity to acquaint the unions with the state of the industry. Norman will be meeting the Chairman again on 10 December to discuss pay before this approach to the unions and will again be making the Government's position clear.

POST OFFICE AND GIROBANK

Kenneth Baker last month twice met the Chairman to impress on him the importance of keeping pay settlements as low as possible. Ron Dearing fully supports the Government's position. It is too early to predict the likely outcome of the negotiations since the postal workers are not due to settle until 1 April 1983, and those in Girobank not until 1 July. However, Mr Dearing believes that, with the new union leadership, the lowest settlement that could be achieved in the postal business without provoking damaging industrial action might be nearer to the prevailing rate of inflation than to 3½%; the Post Office has, of course, secured settlements below the rate of inflation in each of the last 3 years. For Girobank much will depend on settlements in the private banking sector. Clearly Kenneth Baker and I will need to review the situation in the New Year before negotiations start in February. Mr Dearing accepts the need for seven days' advance notice wherever this is possible.

BRITISH TELECOM

Although the BT settlement is late in the pay round (1 July 1983)

I have written to the Chairman stressing its importance, and have also discussed the matter with him. An encouraging point is that BT have now given the required 6 months' notice of termination of their unilateral arbitration agreement, so that arbitration will not be available to the unions after the beginning of May. The main negotiations usually start around then and the key POEU Conference is in June. In addition BT are hoping to replace their present practice of corporation-wide productivity bonuses by Divisional schemes. Sir George's objective is a deal on bonuses and general increase payments which overall will increase the pay bill (for the same volume of work) by less than the prevailing rate of inflation. Frankly, I do not regard this as a very challenging objective and I am taking it up with him. There will be further opportunities to press the point home between now and when negotiations start. Sir George has undertaken to keep me adequately informed of what is happening.

I am sending copies of this letter to the Prime Minister, to the other members of E Committee, to George Younger and Nicholas Edwards and to John Sparrow and Sir Robert Armstrong.

Yours ever

Patrick

Econ Pol

Public Sector pay

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Econ Pol
Prime Minister (2) c/c JV

Mrs 6/12

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

6 December 1982

Dear Geoffrey

NATIONALISED INDUSTRIES PAY

The letter of 8 November from the Prime Minister's Private Secretary suggested that sponsor Ministers should report to you the outcome of their discussions with the Chairmen of their nationalised industries about the prospects for the coming pay round. I have since seen the Treasury guidance notes attached to your letter of 19 November to Nigel Lawson.

I have spoken to Sir Peter Parker and made clear the Government's position. British Rail have already based their plans on an aim to hold the rise next year down to $4\frac{1}{2}$ per cent, but they will of course be looking at this again in the light of the eventual outcome of this year's pay round. I have also raised with Sir Peter the idea of getting away from the annual pay round ritual altogether and thinking in terms of longer term pay contracts, and he has agreed to consider this.

Lord Shepherd has been out of the country, but I will meet him shortly and will take that opportunity to establish the objectives with him so far as the National Bus Company

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is concerned, though their room for manoeuvre is very much affected by the prior settlements for the municipal bus men. But here, too, I intend to put into his mind the thought that it is now time to think about ways of moving away from the old annual pay round provisions if possible.

So far as the British Transport Docks is concerned, the impending privatisation makes the general line of policy for the public trading sector less relevant. The Board for their part will be aiming for settlements in their various ports which will be viewed well by potential investors, while avoiding disruptions that might be damaging to flotation.

I am copying this letter to the Prime Minister, other members of E, and to Sir Robert Armstrong and John Sparrow.

Yours ever

David

DAVID HOWELL

Econ Pol:

Public Sector Pay

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Mr Vereker

ECONOMIC POLICY, D: pl cc for our file, then → CF for theirs
Jv.

MR SCHOLAR

I have done X. Thanks.
MCS 30/11

cc Mr Mount

MONITORING REPORT: PUBLIC TRADING SECTOR

There is just one point which it might be useful for you to make, on the Prime Minister's behalf, arising from the monitoring report attached to the Chancellor's note of 29 November.

You will recall that there was an exchange of minutes between the Chancellor and the Prime Minister (27 October and 8 November) about the prospects for nationalised industry pay generally, which concluded with the Prime Minister's proposal that the Chancellor should invite sponsor Ministers to speak to their Chairmen. The Prime Minister will have seen a copy of the Chancellor's letter dated 19 November to Mr Lawson, which enclosed a speaking note for his colleagues to use. The purpose of all this is to lower the expectations of nationalised industry Chairmen about what would be an appropriate settlement rate in their industries, and to identify potential inconsistencies which may need to be corrected.

The Prime Minister suggested that sponsor Ministers should report to the Chancellor by the end of November, which is today. The Chancellor himself gave no deadline. The case of the British Airports Authority, to which the Chancellor refers in his latest note, illustrates the need for this exercise to be completed quickly. I think, therefore, that it would be helpful for us to X indicate to the Chancellor that the Prime Minister would like to have a report from him, based on the reports he has received from his colleagues, say by the end of next week.

JOHN VEREKER

30/11/82

ECONOMIC POLICY ~~JL~~

Prime Minister (2)

MLS 29/11

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

PRIME MINISTER

MONITORING REPORT : PUBLIC TRADING SECTOR

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

2. The major item here is the pay negotiations in the water industry. The employers' tactic was to make a low offer and then, when this was rejected, to go straight to arbitration, to which they have unilateral access. But that unilateral access is effectively to ACAS, who are statutorily unable to arbitrate without the consent of both parties. As we heard in Cabinet last week, the resulting procedural complications may prevent the matter from coming to a head immediately. But meanwhile, it is most important that the employers should not increase their 4 per cent offer. No doubt Michael Heseltine will continue to see that our views on this are made clear to the employers. There is obvious potential here for repercussions on what is likely to be offered to the local authority manuals on 9 December, and on the NHS unions' response to their offers on 15 December.

3. On other matters, my last report mentioned the Passenger Transport Executives, where the Greater Manchester PTE is setting a precedent for 7 per cent settlements. We still await David Howell's assessment. Another cause for concern is the apparent intention of ~~the~~ British Airports Authority to offer the equivalent of 6 per cent on earnings. I hope that Arthur Cockfield can persuade them to offer less.

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

G.H.

29 November 1982

PUBLIC TRADING SECTOR

PART 1 CURRENT NEGOTIATIONS

1981/82 PAY ROUND

1 British Rail: Clerical and Conciliation grades (136,000)

Settlement date: 20 April 1982

Unions: NUR, ASLEF, TSSA

On 13 September the Railway Staff National Tribunal recommended a 6% increase on basic rates from 6 September and a 6% increase in the Minimum Earnings level from 19 April 1982; worth together 4% on average earnings in the settlement year. In addition the Tribunal recommended that there should be agreement to 1 additional day's holiday to be effective in 1983 and a further pay review to be completed and agreed before the next annual settlement date of 17 April 1983.

The Tribunal did not explicitly make their non-binding award conditional upon agreement being reached on outstanding disagreements about productivity but made clear a view as to which productivity commitments it considered to have been properly fulfilled and how outstanding commitments should be resolved. The Tribunal also recommended that in future any links which are established between pay and productivity should be clear and unambiguous.

The BR Board and all three unions have accepted the Tribunal's recommendations as a basis for negotiation.

At a meeting of the Railway Staff National Council on 20 October the BR Board made it clear that implementation of the 6% increase was conditional upon agreement to settle those productivity matters still outstanding from the 1981 pay round. Although objecting to this proviso, the unions agreed to take part in further negotiations and meetings at Railway Staff Joint Council level have been taking place with the NUR and ASLEF; TSSA are not involved in further negotiations.

Agreement has been reached with the NUR and ASLEF on the principle of driver-only operated trains on the Bedford/St Pancras line. Detailed negotiations are now centring on the 'specific rewards' for those whose responsibilities are changed, and BR have made an offer which would give an extra £17.50 to drivers working a normal week. (Under the 1981 Understanding on Productivity such rewards should be paid to all staff directly affected by the items covered by that understanding). Agreement has also been reached with ASLEF for a trial period of single-manning on freight trains in three areas. Negotiations continue on the extension of single-manning, the trainman concept and the level of payments which those affected by the new working arrangements are to receive. TSSA is pressing the NUR and ASLEF to reach agreement quickly so that the pay increase can be agreed and implemented before Christmas.

1982/83 PAY ROUND

2 United Kingdom Atomic Energy Authority: Manuals (4,760)

Settlement date: 1 October 1982
Unions: AUEW, TGWU, GMU, EETPU

The first formal negotiating meeting took place on 16 September when, in response to an uncosted claim for a substantial increase, management offered 3% on average earnings. The offer received a hostile response from the unions. A further meeting took place on 17 November when management improved their offer to just under 3.7% on average earnings. The unions stated that they were unable to recommend the offer to their members. No further negotiating meetings were arranged.

3. Greater Manchester Passenger Transport Executive: Platform staff (5,595)

Settlement date: 1 November 1982
Union: TGWU

The union has presented an uncosted claim for a substantial pay increase which management estimates is worth 20% overall. At a negotiating meeting on 22 November management's tentative offer of 4 per cent increases with a further 3 per cent for productivity improvements was not well received. No further meeting has yet been arranged.

Comment: The employers have already reached a settlement with craft and maintenance grades which provides a 6.97% increase on basic rates and have in the past applied a policy of harmonisation of pay increases.

The settlement will be the first in the pay round for platform grades in the seven Passenger Transport Executives and will have repercussions throughout the bus industry. Personnel Managers in other PTE's are known to have expressed dismay at the Greater Manchester settlement with craft grades; the PTE's were generally hoping to conclude settlements below 5% in this pay round.

Transport Ministers in committee stage of the Transport Bill are stressing the importance of sensible and realistic settlements in the bus industry.

4 Water Service: Manual grades (29,400)

Settlement date: 7 December 1982

Unions: NJIC-GMWU, NUPE, TGWU

At a meeting on 21 September the National Joint Industrial Council presented a claim for average earnings in the industry to be brought in line with the upper quartile of manual earnings generally, one extra week's holiday and a reduction of one hour in the working week. It is unclear whether a cost of living increase for this year is also implied.

The claim for comparability follows from an agreement made at the same time, although separate from, the 1981 pay settlement when the employers agreed, without commitment, to give consideration to the position of water manual's earnings in relation to manual earnings in the economy generally and in return for improvements in productivity. Subsequently, the unions submitted evidence in support of their claim for parity which, according to the NWC, would have meant an increase of around 15%. Management made it clear that such an increase was unacceptable. At the meeting on 21 September the unions requested an immediate response, or at least a commitment in principle to upper quartile relativity. The employers refused to respond to the claim before the next scheduled meeting on 11 November and the unions subsequently called a one day strike on 18 October.

At the meeting on 11 November the employers offered a 4% increase on basic rates, an increase in shift payments and one additional day's holiday for employees with over eight years service. The offer is worth 3.8% overall on average earnings. The unions rejected the offer; the employers then suggested a reference to arbitration which was also refused.

The employers have written to ACAS indicating that they would like the matter settled by arbitration; although ACAS has not received a formal request to arbitrate. The unions maintain that there have not yet been meaningful negotiations and that arbitration should not be comtemplated until normal negotiating procedures have been more fully used. ACAS has conducted informal discussions with both sides.

Comment:

There are complications in the procedure for referring a dispute to arbitration. According to the NJIC agreement the Joint Council must refer a disagreement to arbitration at the request of either side and this would appear to give the employers a clear right to insist on arbitration. The unions view, however, is that the procedure agreement has been broken by the employers because of their failure to exhaust normal negotiating procedures first and, in any case, that the Joint Council must first agree terms of reference. ACAS can only arbitrate 'with the consent of all parties to the dispute' (Section 3 Employment Protection Act 1975). It has never been clear whether a procedural agreement which provides for unilateral access meets that condition but in practice arbitration against the wishes of one party would be difficult to arrange and acceptance of the outcome by the dissenting party would be unlikely. The situation will not be clear until the preliminary discussions with ACAS are concluded.

The recent settlement for the miners will influence expectation in the water industry and, if arbitration is arranged, may be a consideration in the minds of the arbitrators. The settlement is worth 6.5% on average earnings but was widely reported in the press as worth 8.2% to 9.1%.

A settlement for the water workers will have repercussions for the gas and electricity industries and may have repercussions on the NHS dispute. Unions in the electricity industry are already reported as having said that they will expect not less than the miners or the water workers, whichever is the higher.

FORTHCOMING NEGOTIATIONS

5 British Steel Corporation: All grades (103,000)

Settlement date: 1 January 1983
Unions: ISTC, NCCC, NUB, GMWU, TGWU, SIMA, MATSA, ACTSS

Although claims for the January 1983 pay settlement have yet to be submitted by the unions representing manual grades, the ISTC has been reported as preparing a claim for a 9.5% increase in addition to the consolidation of existing bonus earnings.

The staff unions have written to BSC asking for a "substantial" increase in earnings. There was no national pay award in 1982; all increases were to come from locally agreed productivity schemes. Bonus earnings of 2.5%, out of a total bonus yield of 6.3% so far this year, were consolidated into basic rates from July 1982.

Comment: Pay negotiations will take place against a background of closures and redundancies. A one day strike recommended by the TUC Steel Committee took place on 22 October in protest at BSC's announcement that further cutbacks may be necessary and a further demonstration will take place in London on 23 November.

6 Municipal Buses: Platform Staff (15,555)

Settlement date: 1 January 1983
Unions: TGWU, GMWU

The unions have submitted a claim for parity with Group F local authority drivers (estimated to require a 4% increase), a 13% increase in addition to the claim for parity, 1 day's additional holiday, a reduction in the working week to 38 hours and improvements to sick pay and holiday pay for semi and unskilled maintenance workers. The claim is estimated to require an overall increase of about 40%. Negotiations resume on Friday 10 December.

Comment: Negotiations may be influenced by a settlement for platform staff employed by the Greater Manchester Passenger Transport Executive (see item 3).

7 British Airports Authority - All grades (7,000)

Settlement date: 1 January
Unions: JNCC - staff IPCS, SCPS, CPSA, CSU
Industrials TGWU, AUEW, GMWU, EEPTU, NUSMWCHDE, UCATT

The unions have submitted a joint claim for improvements to basic rates and salaries, London Weighting allowance, a shorter working week for firemen and some restructuring. The claim is estimated to be worth 13% overall on average earnings.

The Authority expect to respond to the claim at the end of November when they will make an offer of 4% on basic pay and allowances and may concede in negotiations an increase in London weighting (though this applies to only half its employees). It is expected that average earnings, including the effect of an increase in productivity earnings, will increase by about 6%. The paybill is expected to increase by less because of further cuts in the number of staff and a reduction in the amount of overtime worked.

8 Gas Supply: Manuals (41,600)

Settlement date: 16 January 1983

Unions: GMWU, TGWU

The unions will formally present their claim to BGC on 25 November. They have already indicated informally to BGC that the main elements of their claim will be "a substantial increase in pay" (unquantified); consolidation of the General Obligations Payment (a payment in respect of flexible working procedures); increase in holidays and other leave entitlements; improvement in holiday pay; reduction in hours; and improvement in shift and "staggered" working payments. BGC will merely take note of the claim on 25 November.

Press reports indicate that the claim will include a minimum £15 per week increase on average earnings, the total claim being said to be worth around 13%.

SETTLEMENTS CONCLUDED SINCE THE LAST REPORT

9 Coalmining: Manuals (188,000)

Settlement date: 1 November 1982

Union: NUM

The ballot of the NUM membership on 28/29 October resulted in a vote of 125,233 to 81,594 (61:39) against the executive's call for strike action to obtain a higher pay offer and to prevent pit closures. Following the vote, the overtime ban imposed from 4 October was immediately called off and the CoalBoard's offer was accepted.

The overall settlement will increase average earnings by 6.5% although the Coal Board has presented it as equivalent to an increase of 8.2% to 9.1% on base rates.

Parallel offers to other groups will be accommodated within the estimated total of £155 million set aside by the Board for this year's settlement.

Prime Minister (2) c/c JU
MES 29/11

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: H/PSO/17662/82

Your ref:

26 November 1982

Dear Geoffrey.

NATIONALISED INDUSTRY PAY

The Prime Minister has asked that sponsor Ministers should report to you on the outcome of discussions with our nationalised industry chairmen.

You are aware of the developments in the water industry pay negotiations, and Tom King has kept you fully informed of the discussions he has been having with various representative water authority and water company chairmen over the last few weeks. A major difficulty has recently been resolved by Sir Robert Marshall's decision to hand over the chairmanship of the Combined Employers Committee, which takes strategic decisions on pay, to Sir William Dugdale. The fact that he did not do so earlier has meant that there has been no single person to whom we were prepared to speak with the authority to represent the industry. But, in so far as we have been able to impress directly on a considerable number of regional chairmen the Government's pay objectives and the factors they should take into account, we have in the event probably been able to influence events more effectively than at any time in the recent past. We have, of course, used the outcome of the miners settlement to indicate the ineptitude of their original intention to open negotiations for the manuals at 6% but now, with 4% on the table, we are not encouraging them to relate to the miners at all.

All British Waterways Board settlements fall at the end of the round in July. The Chairman was left in no doubt of all aspects of the Government's position on pay in the discussions we had with him in talks leading up to the recently concluded negotiations for the last round. I do not think there is anything that we could carefully add at this stage, and it is too early to expect the Board to decide on a strategy for next July's negotiations.

8

I shall discuss this matter with the Chairman fully at an appropriate time next year in the light of developments during the round, and I will report back to you then.

I am copying this to the Prime Minister, to members of the E Committee, Nicholas Edwards and George Younger, and to Mr Sparrow and Sir Robert Armstrong.

Yours ever

MH

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

ECON POL

PRIME MINISTER

PAY

You may care to be aware of the important pay issues that are coming up before Christmas and the action I have taken to try to influence the climate.

The issues are:

NHS - ballot results and delegate conferences leading up to the expected decision day, December 15.

Civil Service - pay conferences of Civil Service unions to decide on their mandate (December 6-10) leading up to a meeting of the unions in the week beginning December 13 to try to adopt a common position.

Local Authority Manuals - a key negotiation for the public services; offer below 4% is expected on December 9.

Nationalised Industries - waterworkers consulting in December on an all-out strike, depending on progress at ACAS.
- B/Rail; Government's response to Serpell inquiry due early in December will condition the industry's prospects.

All these issues will be affected by other events. Unfortunately the expected further substantial fall in the Index of Retail Prices will not be published until December 17.

Meanwhile, the fall in the £ is not helping to damp down expectations on inflation. Nor has the Sunday Times report of 15% pay rises for nationalised industry chairman helped. (This issue has unaccountably not produced much follow-up but there is plenty of dynamite around in the 17 settlements reached so far).

Mr Tebbit's consultative document on further trade union reform could also affect the climate.

At a meeting of Chief Information Officers this morning we decided to:

- try to let sleeping dogs lie on Nationalised Industry Board pay; when asked to comment we shall emphasise the extent to which the salaries have been held down in the past; and the spread of settlements which is inevitable with a policy of paying only enough to recruit and retain good management;

- brief the different specialist groups of journalists on the Government's approach to nationalised pay as set out in the Chancellor's notes for sponsor Ministers of November 19;

- encourage Ministers to hammer home the need for much lower settlements in 1983;

- all of us to bring out the need to improve our competitiveness which can only be further damaged, along with jobs, by any relaxation in the drive for lower pay settlements.

B. INGHAM
23 November 1982

23 November 1982

PA

MR SCHOLAR

NATIONALISED INDUSTRY PAY

The Chancellor's letter to Nigel Lawson is admirably resolute, but would it be worth suggesting that he should add a deadline for reply from the nationalised industry chairmen in order that we should have plenty of warning of their intentions?

FM

FERDINAND MOUNT

c.b. 3/

fn 23/11

cc FERL
AW
Mr Ingham
& file.

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

19 November 1982

This is a good presentation. Note the admission (for the first time) that we cannot indefinitely hold back public service pay if the NI's consistently outstrip them.

JV. 23/11

The Rt. Hon. Nigel Lawson MP
Secretary of State for Energy

Dear Nigel

NATIONALISED INDUSTRY PAY

You will have seen my minute of 27 October to the Prime Minister and her Private Secretary's reply of 8 November.

Following the miners' settlement, and with the improved prospects for settling the NHS dispute, it is clear that what happens in the public trading sector in the coming months will to a very large extent determine what happens in the pay round this winter. We must bring all the influence we can to bear on negotiations.

... I enclose a note for use by colleagues with responsibility for nationalised industries deploying the arguments for low wage increases in the current round; 3.5 per cent to 4 per cent is the sort of figure we shall be looking for. (I am grateful to Tom King for getting this message across to the employers' side in the current negotiations in the Water industry.) The note is in general terms and you will wish to augment this with material relevant to the circumstances of each industry.

I also think it important, in discussing pay with nationalised industry Chairmen, to get from them in specific terms what their objectives will be in the pay negotiations for which they are individually responsible. I am not suggesting that we should get involved in actual negotiations, but if any of the Chairmen are harbouring aims for their own industries which are inconsistent with ... the general thesis of the enclosed note, it is important we should all be aware of them at the earliest possible moment so that we can consider what action we may need to take to correct them.

Why no deadline for reply?

I am copying this to the Prime Minister, to members of E Committee, to the Secretaries of State for Scotland and Wales, the Minister for Local Government and Environmental Services, and to Mr Sparrow and Sir Robert Armstrong.

Geoffrey

GEOFFREY HOWE

NATIONALISED INDUSTRY PAY NEGOTIATIONS

Notes for Sponsor Ministers

1. The key to our economic recovery must lie in an improvement in industrial competitiveness. This in turn is heavily dependent on our ability to restrain increases in pay. As the CBI's recent presentations have underlined, pay is by far the largest single constituent of industrial costs. This applies to most nationalised industries as well as to the private sector.

2. Large pay settlements have been chiefly responsible for the very high wage costs per unit of output which prevail in the UK in comparison with the costs ruling in those countries with which we compete. We must attribute much of the current level of unemployment and the loss of jobs in manufacturing industry to this difference in relative costs which was aggravated by the pay explosion of 1979-80. But high pay settlements in the nationalised industries are particularly damaging since they push up the price of goods and services which are widely used throughout the economy and so feed back indirectly into industrial costs, worsening our competitive position still further. It is therefore disturbing that, over the year to August 1982, increases in average earnings in the nationalised industries were marginally ahead of those for the private sector and markedly ahead of those for the public services.

3. In the coming year, we must look for much lower settlements. Inflation has been slowing rapidly and we are forecasting only a 5% increase in prices for 1983 as a whole - a rate which we have not achieved for more than a decade. Expectations about pay must fall in line with inflation. They will do so, provided negotiations are handled firmly and the right message is put across. This must include the all-important connection between uncompetitively high industrial costs and unemployment.

4. In the public services, the Government has firmly resisted claims for wage increases beyond the levels necessary to recruit retain and motivate staff, despite prolonged industrial action by civil servants in 1981 and similar action by NHS workers this year. It has clearly signalled its intentions for the coming year by announcing that pay increases must be accommodated within an increased cash provision for 1983-84 of only 3½% over the previous financial year. Nationalised industry employers need to adopt an equally firm stance.

5. The miners' increase of 6.5% on earnings, while less than the increases in rates which have received publicity, was still too high, against our inflation forecasts and the current level of unemployment. It must on no account be taken as a general signal for settlements at that level in the other nationalised industries. Allowing for drift, even settlements at 4% would produce earnings increases of around 6%. The Government would find it increasingly difficult to maintain strict control over the pay of its own direct employees if settlements approaching twice the level it had planned for them became the rule in the nationalised industries. The public are already critical of the way in which nationalised industry prices have risen in recent years and would not tolerate further increases which could be attributed directly to excessive pay settlements.

6. At the same time, workers in the nationalised industries are now less likely to take prolonged industrial action than they were at the beginning of the 1970s. Levels of unemployment are much higher and claims on disposable incomes greater and more varied than they were then. As a result, rank and file union members, especially those enjoying above average earnings, are increasingly apt to weigh the likely loss of earnings during strike action against any possible advantages to be achieved from militancy.

We have already seen signs of the growing realism of the workforce in the size of the miners' vote against industrial action, despite the intensity of the NUM campaign. All this strengthens the case for nationalised industry employers taking a firm stand on pay in the coming months.

H M TREASURY
November 1982

CONFIDENTIAL ECONOMIC POLICY

MR INGHAM

cc Mr Scholar
Mr Mount
Miss Christopherson

PAY

There is a slight hiatus in public sector pay issues at present: but a number will come to a head in early December, and it may be helpful if I set out the main ones and suggest what we will need to cope with presentationally. This note is not intended to be comprehensive; but you might feel it raises issues worth addressing in the Group on Pay Policy Presentation run by Martin Hall.

The Main Groups and Dates

1. The NHS

The affiliated unions appear no longer to be distinguishing between consultation on the pay offer to the nurses, and on the offer to the other NHS groups. Decision day is December 15* and the build up looks like this: (* When the TUC Health Service Committee meets.)

NUPE:	Branch ballot results, following strong recommenations to reject	December 10
RCN:	Membership ballot results, following strong recommendations to accept	w/b December 13
COHSE:	Special delegate Conference, no recommendation yet	December 14
NALGO:	Special delegate Conference, no recommendation yet	December 14

I think the nurses are in the bag; the others are much less certain, but with union leaders talking about an all out strike as an alternative to acceptance, the moderates may still carry the day.

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2. Civil Servants

We are a long way off claim and offer for this pay round, but the tone will be set by the progress on negotiating a new Pay Agreement following the Megaw report. The key dates are these:

2 December:	E decide on the negotiating mandate for the Official Side.
6-10 December:	Special Pay conferences of the Civil Service Unions to decide on their negotiating mandate.
w/b 13 December:	COCSU meet to try to adopt common position.

No serious negotiations will take place before the New Year. It follows that negotiations cannot break down for some time - but adverse decisions by the CPSA and SCPCS might prevent them getting started.

3. Local Authority Manuals

This is a key negotiation for the public services, and the outcome will influence the expectations of both sides in negotiations with the teachers and civil servants. The only date we have at the moment, and not confirmed, is:

9 December: National Joint council meeting: offer expected.

4. Nationalised Industries

The Chancellor is sending a note on NI pay to his colleagues who sponsor NI's. He will stress that the miners should not be taken as the going rate, even at 6.5%; and that there should be a range of settlements with several very low indeed. Ministers will be asked to report, in early December, what the intentions of their Chairmen are. That will present difficult decisions about where and how to intervene to bring expectations down. And meanwhile -

(i) The Water Workers still pose a significant threat. ACAS are declining to intervene without the consent of the unions, and the union negotiators have recommended to their executives (GMWU, NUPE and TGWU) that they consult their members about an all out strike. The consultation will take place during December, but no decision is likely before the New Year. However the 4% is virtually certain to be rejected and, unless ACAS pulls the rabbit out of the hat, unofficial industrial action in December is possible.

(ii) BR has still not paid the 6% of the latest McCarthy award, quite rightly insisting on delivery of the productivity conditions first. That is unlikely to cause further problems, and the next increase is not due until April. But the future prospects of BR are dependent upon the Government's response to the Serpell Inquiry, due in early December: the handling of that is bound to have an important effect on union attitudes (and I have sent you a separate note about it).

Analysis

These points seem to me to emerge:

(i) A lot of pay issues will be coming to public attention during the first two weeks of December, and perception of them will contribute substantially to the tone of the current pay round.

(ii) There is a lot of consultation of branches and members - more than usual. We should welcome this: it provides a useful background to Mr Tebbit's forthcoming Green Paper on Trades Union Democracy.

(iii) For two of the most difficult groups (and the power workers later in the year may be a third) their strength is their weakness: neither the health service workers nor the water workers can readily contemplate all out action.

(iv) As always, there are non-pay events which may have a considerable bearing on pay: Megaw, Serpell, the inflation figures - and the current controversy over NI Board Members, on which I have provided a separate brief.

Points We Might Make (apart from the usual ones about moderation and declining inflation)

1. The more thorough the consultation is, the more often it is found that moderate pay increases are accepted - NUR and ASLEF last Summer, the miners, BL and hopefully the nurses. Only the unrepresentative union militants (Buckton, Scargill, Bickerstaffe) see any sense in pursuing claims which can't be afforded.

2. Few workers have a "stranglehold" on the economy, and those that might be tempted to think they have (water workers, power workers) have been very well rewarded indeed in the past.

3. And for such people to seek even more would be to cut off their noses to spite their faces - they are all part of the community which needs water, electricity and health care.

4. Dozens of figures for pay rises appear in the press every week, few of them typical or comparable one with another. The one incontrovertible fact about the new pay round is that most people are settling for less than they got last year, and that's a pretty good rule of thumb for what to expect.

5. In particular, there's no point in comparing industry-wide pay settlements with those of the dozen or so nationalised industry Chairmen. None of them get paid more than is necessary to keep competent management in often huge corporations; and their increases will range widely.

23 November 1982

SP Econ Pol Pay: Civil Service Pay

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SECRETARY OF STATE FOR EMPLOYMENT

Prime Minister (2)

MCS 19/11

Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

19 November 1982

Dear Michael

... I am enclosing a copy of the latest Pay Brief.

Copies also go to the Private Secretaries to Members of E, E(PSP) and E(EA).

Yours sincerely

Felicity Everiss

MS F M EVERISS
Private Secretary

CONFIDENTIAL

MT

PAY BRIEF: POSITION IN MID-NOVEMBER

1. Since the October pay brief 38 settlements covering 254,000 employees with operative dates after 31 July 1982 have been reported. In the private sector (37 settlements covering 66,000 employees) the weighted average level is about 5½%. The principal settlement is a 2 year agreement for BL (Cars) (37,000) giving increases in earnings of 5% from 1.11.82 and a further 5½% from 1.11.83. The only settlement in the public sector is for Coalmining (188,000) which provides for increases equivalent to 8.2% (average) on rates - 6.5% on earnings. A settlement for Fire Services (40,500) of 7.5% on rates is not included in the figures as the effect on earnings is not yet available.

2. The cumulative average level of settlements for the whole economy this round (124 settlements covering 496,000 employees) is just under 7½% (just under 6½% excluding Police), but less than 5% of employees about whom the Department expects to receive information have reached settlements.

3. In the private sector the cumulative average is just over 6% (122 settlements covering 170,000 employees). For manufacturing the average level is just under 5½% and in non-manufacturing is just over 7½%. About ¾ of settlements and of employees are covered by settlements in a 5% to 8% range.

4. The 2 settlements in the public sector are Police (138,000) at 10.3% and Coalmining (188,000) at 6.5%. The weighted average is just over 8%.

5. Coverage: The limitations of the Department's coverage of settlements were explained in the September pay brief (para 14).

6. Seven Wages Councils covering 1,059,400 employees have either made or decided to make orders to come into effect during the current round. The weighted average increase in representative minimum rates is 5%; manufacturing just over 6½% and non-manufacturing about 5%. If these are added to the settlements for this round, using rates as a proxy for earnings and DE estimates for the numbers of workers affected, the cumulative average for the private sector is reduced by about ¾ of a percentage point to just under 5½%, with manufacturing little changed at about 5½% but non-manufacturing some 2½ percentage points lower at just under 5½%.

7. In the PUBLIC SECTOR, talks are in progress on an increase of 6% from 6 September for British Rail clerical and conciliation grades (19 April - 136,000), recommended by the Railways Staffs National Tribunal under non-binding procedures. All the parties consider that the award forms the basis for a negotiated settlement. Discussions are now centring on responsibility allowances for the productivity improvements. A new two year pay offer has been made to NHS nurses and midwives (1 April - 482,600) averaging 12.3% from 23 Aug. The Royal College of Nursing is to ballot members with a recommendation to accept. RCN members have recently voted to retain the 'no strike' rule and against TUC affiliation. Discussions with the TUC affiliated unions on the financial framework for pay for ancillaries (1 April - 211,800), admin and clerical (1 April - 131,600) and ambulancemen (1 April - 18,100) for 1982/83 and 1983/84 have been concluded. The unions are to consult their members on whether to call off industrial action and resume negotiations in the Whitley Council on the basis of increases of 6% for 1982/3 and 4½% for 1983/4 (10.8% overall), with an additional 0.5% allocated for the introduction of a salaried structure for ambulancemen. The outcome will be known in mid-December. For the 1982/83 pay round, United Kingdom Atomic Energy Authority manuals (1 October - 4,760) are considering an improved offer of about 3¾% on average earnings. No further meetings have been arranged. The claim is for a substantial increase. Water Service manuals (7 December - 29,400) are threatening strike action in support of a claim for a substantial increase (about 15%) to bring them into line with the upper quartile of manual earnings generally, also a 1 hour reduction in the working week and a further 1 week holiday. An offer of 4% plus 1 extra day holiday has been rejected. The Employers have referred the case unilaterally to ACAS. ACAS are holding talks with the unions. The TUC Public Services Committee has agreed to present claims with 'common core' elements of at least 8% for public service groups, against a government cash provision of 3½% for settlements. Local Authority manuals (4 November - 1,041,700) have submitted a claim for a substantial flat rate increase, reduced hours and longer holidays. An offer is expected to be made at a meeting in early December.

8. In the PRIVATE SECTOR, an offer of 3½% on national minimum rates for workers covered by the National Engineering Agreement (1 November - 1,500,000) was rejected. A further meeting has been arranged for 19 November. The claim is for a substantial increase, an unskilled rate of 80% of the skilled rate (currently 71.9%) and a limit on overtime. The majority of Vauxhall Motors manuals (15 September - 15,600) have not accepted a 'final' offer of 8% on

basic rates plus improved holiday bonuses and sick pay in 1983, worth about 9% overall. Workers at Ellesmere Port (4,900) and 300 electricians at Luton and Dunstable have accepted. The claim is for £25 on basic rates, a 35 hour week and staff conditions of service - estimated to be worth over 30%. Union negotiators for Ford Motor Co Ltd, manuals (24 November - 50,000) have rejected an offer worth about 8% on earnings. The offer is to be put to shop stewards on 22 November. The claim is for an increase of £20 per week, consolidation of attendance supplements, further progress towards a 35 hour week and other benefits. An offer worth 6% on earnings for Merchant Navy Seamen (1 January - 30,000) is being put to a ballot without a recommendation. The result is expected in mid-December. Unions representing the Officers (1 November - 35,000) are to consult their executive councils on a 5.5% offer. A reply is expected on 1 December. The TGWU has presented a claim for a 14.5% increase on basic rates for Oil Tanker Drivers (1 November - 7,500). Pay talks with the major companies have yet to be arranged (settlements at about 7% have been agreed recently at Shell Oil refineries). ESSO (1 November - 1,500) negotiated separately and an offer of a new wage structure, which incorporates a 2 hour reduction in the working week and is designed to improve productivity, has been accepted. The package is estimated to increase average earnings by about 20% and bring earnings more into line with those paid by the other major oil companies. In Motor Vehicle Retail and Repair (3 January - 367,000) the unions have been asked to reply by 30 November to an offer of 9p per hour (4.2% to 6.0% on rates). The claim is for an increase of £10, a shorter working week and additional holidays. A 4% offer to Guardian Royal Exchange staff (1 January - 8,700) is being considered. A reply is expected on 3 December. The claim is for increases of 10%-15%.

PRICES AND EARNINGS INDICES

PRICES

9. In October the year on year increase in retail prices was 6.8% compared with 7.3% in September.

EARNINGS

10. In September the year on year increase in average earnings for the whole economy was 6.8% compared with 7.8% in August. The September increase was

substantially depressed by temporary factors; mainly because there was much less back-pay in September 1982 than a year earlier and the delay in reaching annual pay settlements for about $1\frac{3}{4}$ million public sector employees. Also average earnings in September 1982 were affected by industrial action. The underlying increase in September was $8\frac{3}{4}$%. This continues the downward trend in the underlying increase which was 9% in August, having fallen steadily from 11% in January 1982.

REAL DISPOSABLE INCOME

11. Real disposable income - taking account of the changes in earnings, prices and taxes - of a married man on average adult male earnings with a non-working wife and two children under 11 (with no other tax liabilities or allowances and not contracted out of the State Pension Scheme) remained at the same level in August 1982 as a year earlier.

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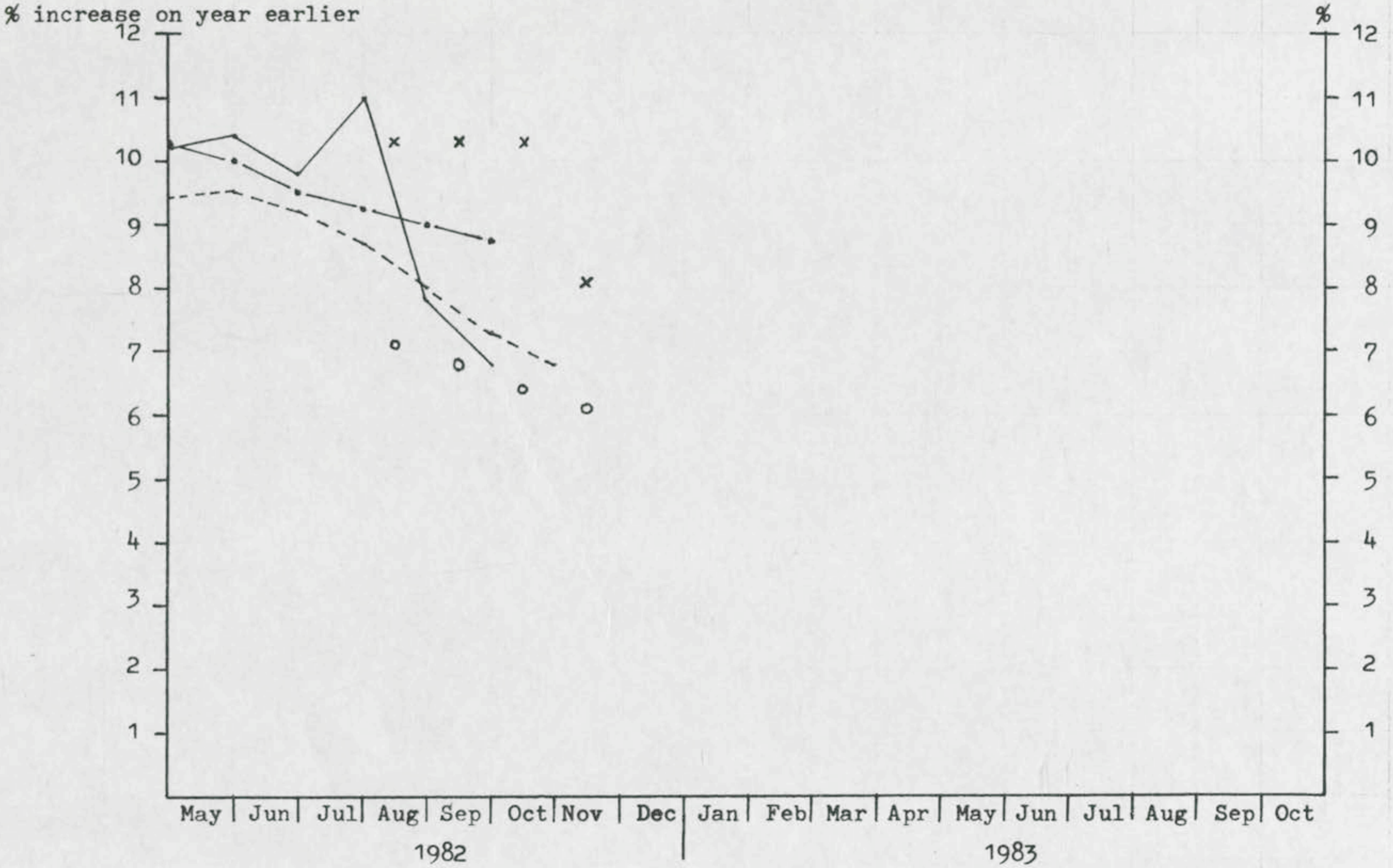
APPENDIX (

TRENDS IN EARNINGS AND PRICES



----- Retail Price Index
——— Average Earnings Index
•—• Underlying rate of increase in earnings

Cumulative Average Increase in Earnings
x Public Sector Settlements
o Private Sector Settlements

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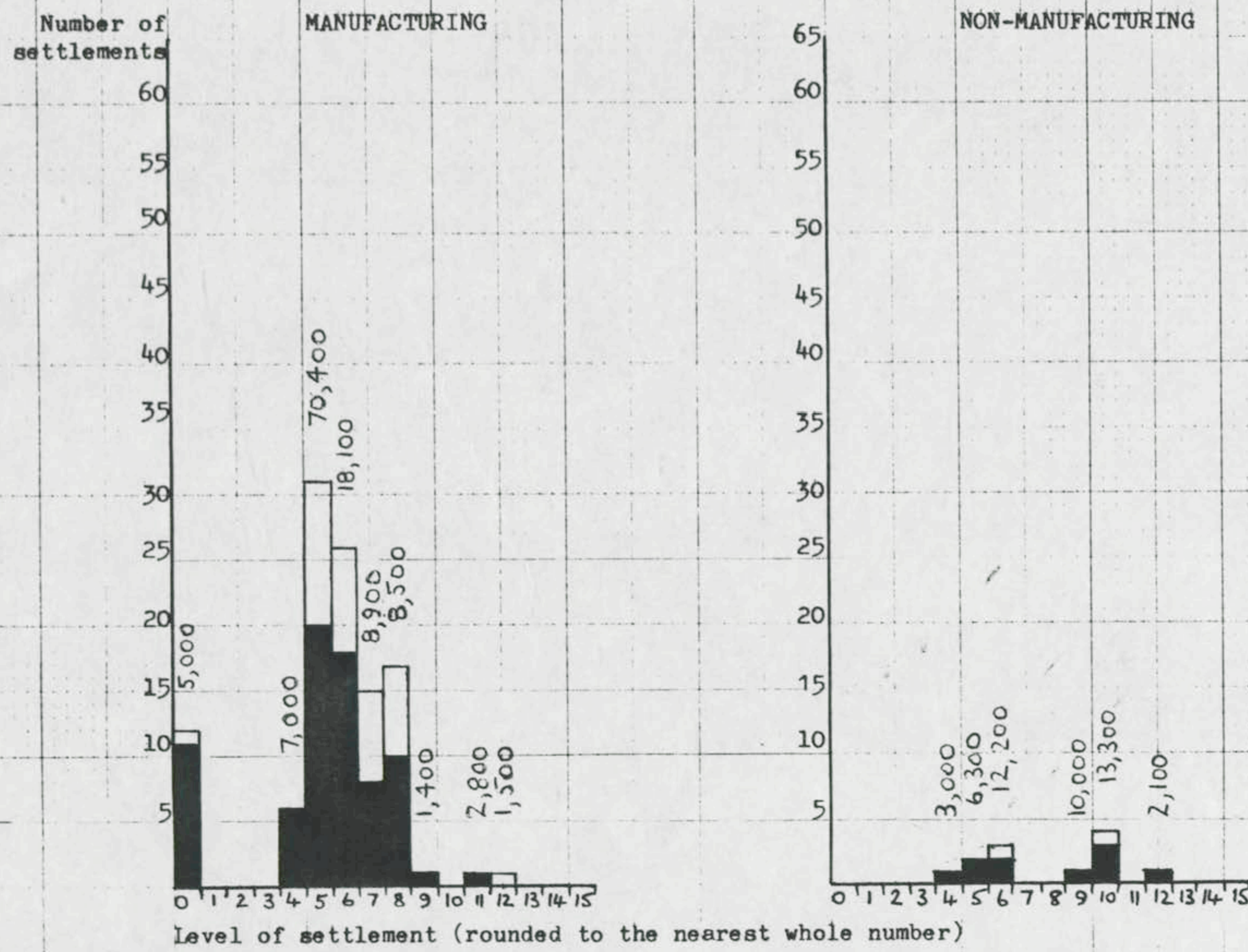
DISTRIBUTION OF SETTLEMENTS IN THE PRIVATE SECTOR BY LEVEL OF SETTLEMENT FROM 1 AUGUST 1982 — APPENDIX 2

KEY
- ■ SETTLEMENTS UP TO THE LAST PAY BRIEF
- □ SETTLEMENTS SINCE THE LAST PAY BRIEF



NOTE - THE NUMBER OF WORKERS (ROUNDED TO THE NEAREST HUNDRED) AFFECTED BY THE SETTLEMENT IS GIVEN ABOVE THE APPROPRIATE INDICATOR.

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Nat. Ind. ck JV cc BI

Prime Minister (2)

MCS 22/11

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

19 November 1982

The Rt. Hon. Nigel Lawson MP
Secretary of State for Energy

MF

Dear Nigel

NATIONALISED INDUSTRY PAY

Previous Part

You will have seen my minute of 27 October to the Prime Minister and her Private Secretary's reply of 8 November.

Following the miners' settlement, and with the improved prospects for settling the NHS dispute, it is clear that what happens in the public trading sector in the coming months will to a very large extent determine what happens in the pay round this winter. We must bring all the influence we can to bear on negotiations.

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I am copying this to the Prime Minister, to members of E Committee, to the Secretaries of State for Scotland and Wales, the Minister for Local Government and Environmental Services, and to Mr Sparrow and Sir Robert Armstrong.

Ever
Geoffrey

GEOFFREY HOWE

NATIONALISED INDUSTRY PAY NEGOTIATIONS

Notes for Sponsor Ministers

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3. In the coming year, we must look for much lower settlements. Inflation has been slowing rapidly and we are forecasting only a 5% increase in prices for 1983 as a whole - a rate which we have not achieved for more than a decade. Expectations about pay must fall in line with inflation. They will do so, provided negotiations are handled firmly and the right message is put across. This must include the all-important connection between uncompetitively high industrial costs and unemployment.

4. In the public services, the Government has firmly resisted claims for wage increases beyond the levels necessary to recruit retain and motivate staff, despite prolonged industrial action by civil servants in 1981 and similar action by NHS workers this year. It has clearly signalled its intentions for the coming year by announcing that pay increases must be accommodated within an increased cash provision for 1983-84 of only 3½% over the previous financial year. Nationalised industry employers need to adopt an equally firm stance.

5. The miners' increase of 6.5% on earnings, while less than the increases in rates which have received publicity, was still too high, against our inflation forecasts and the current level of unemployment. It must on no account be taken as a general signal for settlements at that level in the other nationalised industries. Allowing for drift, even settlements at 4% would produce earnings increases of around 6%. The Government would find it increasingly difficult to maintain strict control over the pay of its own direct employees if settlements approaching twice the level it had planned for them became the rule in the nationalised industries. The public are already critical of the way in which nationalised industry prices have risen in recent years and would not tolerate further increases which could be attributed directly to excessive pay settlements.

6. At the same time, workers in the nationalised industries are now less likely to take prolonged industrial action than they were at the beginning of the 1970s. Levels of unemployment are much higher and claims on disposable incomes greater and more varied than they were then. As a result, rank and file union members, especially those enjoying above average earnings, are increasingly apt to weigh the likely loss of earnings during strike action against any possible advantages to be achieved from militancy.

We have already seen signs of the growing realism of the workforce in the size of the miners' vote against industrial action, despite the intensity of the NUM campaign. All this strengthens the case for nationalised industry employers taking a firm stand on pay in the coming months.

H M TREASURY
November 1982

ECON POL

Prime Minister

To note X

MCS 10/11

CONFIDENTIAL

cc Mr. Mount
Mr. Ingham

MR. SCHOLAR

MONITORING REPORT: PUBLIC TRADING SECTOR

You invited my comments on the Monitoring Report attached to the Chancellor's note of 8 November.

The Water Workers remain the principal threat in the public trading sector. But there is nothing useful the Prime Minister can say to the Chancellor until we know the outcome of tomorrow's meeting between the employers and the unions. We shall then be able to see whether Mr. Heseltine's attempts to persuade the employers to open around 4% have been successful.

I am, however, concerned, as is the Chancellor, about the continuing repercussions of the way in which the miners' settlement is being seen as 8-9%. You will recall that Mr. Lawson wrote to the Chancellor on 2 November agreeing that Ministers should now make the point publicly that the increase on overall earnings of the miners' settlement is equivalent to 6.5%. I fear that they have failed to do so; and with every passing week, it becomes harder to correct the false impression. The Prime Minister may feel this is sufficiently important for her to raise in Cabinet tomorrow under the Industrial Affairs item; if not, I hope she would agree to your replying to the Chancellor's office to the effect that Ministers must now start to use the 6.5% figure publicly, as well as in private, to nationalised industry Chairmen.

X

J.

10 November 1982

JOHN VEREKER

CONFIDENTIAL

CONFIDENTIAL File cc: CPRS LPS
CO Env
WO MAFF
SO MOD
D/En NIO
D/Emp DES
CDL FCO
Ch Sec HMT HO
D/Trans
Trade
Ind

BM

File

10 DOWNING STREET

From the Private Secretary

8 November 1982

NATIONALISED INDUSTRY PAY

The Prime Minister was grateful for the Chancellor of the Exchequer's minute of 27 October on the public sector pay scene.

The Prime Minister agrees that the nationalised industries should be pressed to exercise much greater restraint in their pay settlements in 1982-83 than was the case in 1981-82 and that specific action is now desirable by sponsor Ministers to this end. As envisaged in E(82)54 and approved by E Committee on 1 July, sponsor Ministers should as soon as possible arrange specific discussions with the chairmen of their nationalised industries to make clear the Government's desire for lower settlements in the public trading sector, drawing attention to all the relevant factors cited in the Chancellor's minute and stressing the implications of the miners' acceptance of an offer amounting to an increase of around 6.5 per cent on average earnings. Each chairman should be asked to make clear the strategy for pay in his industry in the coming round and to state the contribution which his industry will be making towards the general objective of lower settlements.

The Prime Minister suggests that sponsor Ministers should report to you on the outcome of their discussions by the end of November. In any case where the industry's response appears to be unsatisfactory, Ministers will need to discuss what further steps might usefully be taken.

The Prime Minister has suggested that, as a basis for the discussions the Chancellor of the Exchequer should arrange for a note to be prepared and circulated as quickly as possible to sponsor Ministers about the Government's views on pay and the economic and other considerations which ought to be particularly emphasised to chairmen. Sponsor Ministers will wish to supplement these general arguments with points relevant to the performance and prospects of the particular industry.

/ The Prime Minister

CONFIDENTIAL

The Prime Minister has also asked that, when meeting chairmen, sponsor Ministers should take the opportunity, as envisaged in E(82)54 and approved by E Committee on 1 July to establish clear understandings with each industry, based on getting at least seven days notice of offers, especially initial ones.

I am sending copies of this letter to the Private Secretaries of the members of E Committee and of the Secretaries of State for Scotland and Wales, and to Mr. Sparrow and Sir Robert Armstrong.

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury

Prime Minister (2)

MES 12/11

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

PRIME MINISTER

MONITORING REPORT: PUBLIC TRADING SECTOR

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

2. Nigel Lawson has already reported on the outcome of the miners' ballot in his letter of 2 November. I entirely agree with him that attention now needs to be drawn to the 6.5 per cent earnings effect of the settlement (and the lower increases in the wage bill). Already the 10 per cent claim emerging in the gas industry is instead being compared with the impact of the miners' settlement on basic rates. We need to give further thought to how this might best be done: clearly much must depend on the NCB, and we should not put the Government in a position where it can be expected to answer for the details of nationalised industry pay settlements. But meanwhile it is important that the Ministers concerned should ensure that nationalised industry managements are aware of the figures, and that they make their workforces aware of them.

3. As regards the water industry, Tom King's letter of 4 November reports the latest position, and Michael Heseltine also mentioned this at Cabinet. I agree that the need for a low offer should be impressed on the employers. To go into negotiation - or even arbitration - on the basis of a 6 per cent offer would make a settlement at a higher level than this virtually certain, and such an outcome would undoubtedly be damaging.

4. In the gas industry settlements operative from last summer have been reached with staff grades for just over 7 per cent (Nigel Lawson's letter of 25 October) and with higher management for 7½ per cent. These are at least somewhat lower than the 7.9 per cent increase for the gas manuals. As regards current settlements I notice that the Greater Manchester Passenger Transport Executive seems to be moving towards a 7 per cent settlement from 1 November. Developments in this field have now been very satisfactory in the past: London Transport Rail's recent settlement (from last April) is worth 10 per cent in a full year. The Transport Bill may provide a means of controlling PTE

current costs for the future; but meanwhile David Howell might wish to consider whether there is any way of avoiding a string of 7 per cent settlements in the PTE's.

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

(G.H)
8 November 1982

PUBLIC TRADING SECTOR

PART 1 CURRENT NEGOTIATIONS

1981/82 PAY ROUND

1 British Rail: Clerical and Conciliation grades (136,000)

Settlement date: 20 April 1982

Unions: NUR, ASLEF, TSSA

On 13 September the Railway Staff National Tribunal recommended a 6% increase on basic rates from 6 September and a 6% increase in the Minimum Earnings level from 19 April 1982; worth together 4% on average earnings in the settlement year. In addition the Tribunal recommended that there should be agreement to 1 additional day's holiday to be effective in 1983 and a further pay review to be completed and agreed before the next annual settlement date of 17 April 1983.

The Tribunal did not explicitly make their non-binding award conditional upon agreement being reached on outstanding disagreements about productivity but made clear view as to which productivity commitments it considered to have been properly fulfilled and how outstanding commitments should be resolved. The Tribunal also recommended that in future any links which are established between pay and productivity should be clear and unambiguous.

The BR Board and all three unions have accepted the Tribunal's recommendations as a basis for negotiation.

At a meeting of the Railway Staff National Council on 20 October the BR Board made it clear that implementation of the 6% increase was conditional upon agreement to settle those productivity matters still outstanding from the 1981 pay round. Although objecting to this proviso, all three unions have agreed to take part in further negotiations. **Only one further meeting (at Railway Staffs Joint Council level) has taken place. At this meeting the NUR agreed to the Board starting (ASLEF) driver training for operation of the new driver-only rolling stock on the Bedford - St.Pancra electrified service. TSSA, whose members are not involved in these productivity talks are pressing the other two unions to reach agreement quickly so that pay can be agreed and implemented before Xmas.**

1982/83 PAY ROUND

2 United Kingdom Atomic Energy Authority: Manuals (4,760)

Settlement date: 1 October 1982

Unions: AUEW, TGWU, GMWU, EETPU

The first formal negotiating meeting took place on 16 September when, in response to an uncosted claim for a substantial increase, management offered 3% on average earnings. The offer received a hostile response from the unions. A further meeting has been arranged for 17 November.

3 Coalmining: Manuals (188,000)

Settlement date: 1 November 1982

Union: NUM

The NUM submitted a claim for a flat rate increase of £27.20 per week on basic pay for all grades. This amount represents a 31% increase on base rates for surface workers and around 23% for some face workers.

At a negotiating meeting on 23 September, the Coal Board made an offer comprising a 7.2% increase in basic rates and related payments, a 5% increase in incentive payments, and no increase in other allowances. The overall average effect on earnings is 6.5 per cent, though the Board have presented it as the equivalent of 8.2% on basic rates with some grades geeting up to 9.1%.

The NUM rejected the offer, called an overtime ban from 4 October, and balloted their membership (who include many ancillary and clerical staff as well as coalminers; these other staff will receive comparable offers) to seek authority to call a strike so as to obtain a higher offer and also to prevent pit closures. Despite intensive campaigning by the NUM leadership, the membership voted 61:39 against a strike and the union have now called off the overtime ban and accepted the offer.

Parallel offers for other groups will be accommodated within the estimated total cost of the offer of £155 million.

4 <u>Water Service: Manual grades (29,400)</u>

Settlement date: 7 December 1982

Union: NJC: - GMWU, NUPE, TGWU

At a meeting on 21 September the NJIC presented a claim for average earnings in the industry to be brought in line with the upper quartile of manual earnings generally, one extra week's holiday and a reduction of one hour in the working week. It is unclear whether a cost of living increase for this year is also implied.

The claim for comparability follows from an agreement made at the same time, although separate from, the 1981 pay settlement when the employers agreed, without commitment, to give consideration to the position of water manual's earnings in relation to manual earnings in the economy generally and in return for improvements in productivity. Subsequently, the unions submitted evidence in support of their claim for parity which, according to the NWC, would have meant an increase of around 15%. Management made it clear that such an increase was unacceptable. At the meeting on 21 September the unions requested an immediate response, or at least a commitment in principle to upper quartile relativity. The employers refused to respond to the claim before the next scheduled meeting on 11 November and the unions subsequently called a one day strike on 18 October.

The Combined Employers Committee met on 27 October, and gave their negotiators a negotiating limit of 6% of current paybill and authority to proceed to arbitration (unilateral access and binding) if agreement could not be reached at that level. The Minister for Local Government is writing to colleagues giving full details and outlining the action he is taking to persuade the negotiators that 6% is an unacceptably high figure and that in any case they should not commit themselves to a ceiling offer which will become a floor at arbitration. The employers are convinced that the unions are seeking confrontation if they do not make a 'constructive' response to the claim for upper quartile equivalence, and this view was supported by the decision of a recent GMWU delegate conference. The employers anticipate significant unofficial strike action even if they go to arbitration; there is in their opinion a high risk of official action though a reference to arbitration should in theory prevent this. Negotiations will resume on 11 November, and the employers, negotiating team will decide on their tactical approach that day as will the combined union side.

Recent press reports have referred to employers proposals based on more flexible working practices, limitations on the right to strike, secret ballots on industrial action, change in the settlement date. These were made, without commitment, during the earlier informal discussions on the manual earnings position and, though they aimed at improving that position on a quid pro quo basis, they made no concession to the principle of upper quartile equivalence. They are no longer on the table in the current negotiations; although the negotiators are authorised to negotiate on the basis of a 16 month deal if that would secure a settlement, and the unions know that flexible working practices are open to consideration at regional level. The other issues seem unlikely to be raised.

PART 2 FORTHCOMING NEGOTIATIONS

5 Greater Manchester Passenger Transport Executive: Platform Staff (5,224)

Settlement date: 1 November 1982

Union: TGWU

Negotiations began on 27 October when management received an uncosted claim for a substantial increase and other improvements. The date of the next negotiating meeting is not at present known, **but it seems very likely that the eventual settlement with platform staff will be identical to that recently reached with craft and "inside" grades (worth 6.97%).**

6 British Steel: All grades (103,700)

Settlement date: 1 January 1983

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

Although claims for the January 1983 pay settlement have yet to be submitted by the unions representing manual grades, the ISTC are reported to be preparing a claim for a 9.5% increase in addition to the consolidation of existing bonus earnings.

The staff unions have written to BSC asking for "a substantial increase in earnings in line with inflation".

There was no national pay award in 1982; all increases were to come from locally agreed productivity schemes. Bonus earnings of 2.5%, out of a total bonus yield of 6.3% so far this year, were consolidated into basic rates from July 1982.

Comment: Pay negotiations will take place against a background of closures and redundancies. A one day strike recommended by the TUC Steel Committee took place on 22 October in protest at BSC's announcement that further cutbacks may be necessary.

PART 3 SETTLEMENTS SINCE THE LAST REPORT

7 London Transport: Railway Supervisory, Booking Office and Conciliation grades (14,152)

Settlement date: 20 April

Unions: NUR, ASLEF, TSSA

A settlement based on the non-binding recommendations of the LT Wages Board has been reached. Basic rates will be increased by 7% from 18 October and a lump sum payment of 6.25% of gross earnings will be paid for the period 19 April to 18 October. The settlement includes one additional day's holiday and a 1 hour reduction in the working week (from 39 to 38) to be introduced at minimal cost from 1 January 1983. The monetary increase is worth 6.7% on average earnings in the settlement year; 7% in a full year. Implementation of the reduction in hours and additional holiday would, however, effectively increase earnings by almost 8.5% in the settlement year and by 10% in a full year.

In separate negotiations a joint management/union working party is considering the introduction of a productivity scheme before the next annual settlement date (April 1983) which could add a further 1% to 2% to average earnings.

8 London Transport: Rail workshop grades (3,180)

Settlement date: 22 April 1982

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

Settled in line with conciliation grades (see 9 above).

9 Gas Supply: Staff and Senior Officers (57,000)

Settlement date: 1 June 1982

Unions: NJC - NALGO, GMWU, MATSA

Talks involving ACAS have resulted in a settlement which provides increases in basic salaries of 5.5% for junior staff and between 6.8% and 7.55% for others depending on grade; worth just over 7% on average earnings. The settlement includes an extra day's holiday for all staff which, overall, increases the wage bill by 7.4%.

10 Gas Supply: Higher Management (3,700)

Settlement date: 1 June 1982

Union: NALGO

At a meeting on 28 October the Higher Management accepted an improved offer which provides for an increase in basic salaries of 7.75%. Taking account of certain allowances which remain unchanged, this will increase average earnings by 7.5%.

11 British Waterways Board: Manuals (2,370)

Settlement date: 18 July

Unions: NJC - TGWU, NUR, CSEU

An offer of a 6.5% increase on basic rates, worth about 7% on average earnings has been accepted.

cc J.V.

Prime Minister

Agree to write as proposed by Peter Gregson?

MES 5/11

P.0886

MR SCHOLAR

NATIONALISED INDUSTRY PAY

We spoke yesterday about how the Prime Minister might be advised to respond to the Chancellor of the Exchequer's minute to her of 27 October about the public sector pay scene. We were particularly concerned about the vital need to try and ensure lower settlements in the public trading sector in this round.

2. There are two main problems about nationalised industry pay and both were recognised in the paper by the Chancellor of the Exchequer (E(82)54) which was discussed on 1 July (E(82)17th Meeting), ie:

i. Ministers are often told only at the last minute of the pay offer which a particular nationalised industry proposes to make, leaving insufficient time for consultations within Government or for sponsor Ministers to discuss with the industry the strategy from which the offer derives and the scope for a lower offer;

ii. still more important there is a lack of a proper dialogue between sponsoring Ministers and chairmen of their industries about pay at a formative stage, in time to influence management and union expectations and negotiating strategy.

3. E(82)54 therefore proposed, and E Committee agreed:

a. there should be clear understanding with the nationalised industry chairmen in the early autumn on objectives and broad strategy for pay in their industries in the year ahead;

b. clear understandings should also be established with each enterprise on the flow of information to be provided, based on getting at least 7 days notice of offers, especially initial ones.

4. The most helpful way for the Prime Minister to respond to the Chancellor's minute would be to reinforce those conclusions and to do so in a way which makes it clear what sponsoring Ministers are expected to do, within what time-scale and providing for a control in the form of reporting back. I attach a draft letter which, if the Prime Minister is content, could be sent out on these lines. Both Mr Quinlan in the Treasury and Mr Smith in the Department of Employment agree that an initiative of this kind would be valuable.

I asked Mr Gregson what he thought about this

5. I have also given some thought to whether there is a case for extra official machinery. In my view the problem is not so much lack of inter-departmental coordination but an inability by sponsoring departments to influence the thinking of their industries. Proper discussions with the industries now, of the kind envisaged in the draft letter, should therefore be the first priority. I have however also arranged with Mr Quinlan in the Treasury that, if a letter is sent on the lines of the draft, the Treasury will reinforce this with a meeting at official level, possibly in the Official Committee on Nationalised Industry Policy. The aim would be to ensure that officials in sponsoring departments thoroughly understand the message which has to be put across to their industries and are better equipped to have an informed dialogue with them about pay.

PLG

P L GREGSON

5 November 1982

DRAFT LETTER FOR MR SCHOLAR TO SEND TO THE PRIVATE SECRETARY TO THE CHANCELLOR OF THE EXCHEQUER

Agreed

NATIONALISED INDUSTRY PAY

The Prime Minister was grateful for the Chancellor of the Exchequer's minute of 27 October on the public sector pay scene.

The Prime Minister agrees that the nationalised industries should be pressed to exercise much greater restraint in their pay settlements in 1982-83 than was the case in 1981-82 and that specific action is now desirable by sponsor Ministers to this end. As envisaged in E(82)54 and approved by E Committee on 1 July, sponsor Ministers should as soon as possible arrange specific discussions with the chairmen of their nationalised industries to make clear the Government's desire for lower settlements in the public trading sector, drawing attention to all the relevant factors cited in the Chancellor's minute and stressing the implications of the miners' acceptance of an offer amounting to an increase of around 6.5 per cent on average earnings. Each chairman should be asked to make clear the strategy for pay in his industry in the coming round and to state the contribution which his industry will be making towards the general objective of lower settlements.

The Prime Minister suggests that sponsor Ministers should report to you on the outcome of their discussions by the end of November. In any case where the industry's response appears to be unsatisfactory, Ministers will need to discuss what further steps might usefully be taken.

The Prime Minister has suggested that, as a basis for the discussions, the Chancellor of the Exchequer should arrange for a note to be prepared and circulated as quickly as possible to sponsor Ministers about the Government's views on pay and the economic and other considerations which ought to be particularly emphasised to chairmen. Sponsor Ministers will wish to supplement these general arguments with points relevant to the performance and prospects of the particular industry.

The Prime Minister has also asked that, when meeting chairmen, sponsor Ministers should take the opportunity, as envisaged in E(82)54 and approved by E Committee on 1 July to establish clear understandings with each industry, based on getting at least 7 days notice of offers, especially initial ones.

I am sending copies of this letter to the Private Secretaries of the members of E Committee and of the Secretaries of State for Scotland and Wales, and to Mr Sparrow and Sir Robert Armstrong.

Econ Pol:
Public Sector Pay Pt 9

PA

MR SCHOLAR

cc Mr Mount
Mr Walters

THE PUBLIC SECTOR PAY SCENE

We spoke briefly last week about the Chancellor's note of 27 October to the Prime Minister, covering a paper by officials (myself included) on the Public Sector Pay Scene. I said then that we had uncovered little, if anything, surprising or new; and that the pay scene moved so fast at this time of year that these periodic snapshots of it soon became out of date. With the outcome of the miners' ballot now known, that is of course particularly true of this one.

But on reflection I think there is one point of which it would be useful to have the Prime Minister's endorsement. That is the Chancellor's suggestion that, as concerns nationalised industries, sponsor Ministers should now enter discussions with Chairmen on their pay intentions. In the course of the work of the official group it became apparent that nationalised industry pay assumptions were in general much higher than they ought to be for the forthcoming round - only the Civil Aviation Authority (5.0%), Post Office (6.0%) and British Shipbuilders (6.2%) plan to settle below 7%, and several plan significantly higher. Now that Cabinet has agreed the EFLs, and now that it is safe to explain to nationalised industry Chairmen that the miners' settlement is really worth only 6½%, it would be useful to launch a campaign on Nationalised Industry Pay.

If the Prime Minister agrees, therefore, I think it would be helpful for you to write to the Chancellor's office asking the Chancellor to arrange for sponsor Ministers to discuss pay with their Chairmen, making as much as possible of the continuing need for restraint and of the improved prospects for inflation, and to report back (perhaps to E) before the beginning of next month.

3 November 1982

Prime Minister

3 November 1982

Policy Unit

Econ Pol

top copy on National Health. Nurses Pay. Pt 2

PRIME MINISTER

The nurses review body point is now water under the bridge. Agree to Y?

MHS 3/11

CABINET, 4 NOVEMBER: INDUSTRIAL RELATIONS: PAY

Mr Fowler's proposals on nurses' pay, the miners' ballot result, and the decisions needed on the Megaw report raise far-reaching and fundamental issues about the Government's approach to pay and industrial relations. We see a clear risk that decisions are going to be taken which will set in concrete existing assumptions and expectations about pay. These run counter to what is needed to increase employment.

The Industrial Relations Background

We have achieved a significant and probably permanent shift in the balance of power, towards employers and away from unions. The unions have declining membership; increasing financial difficulties; and no role in Government. The three constituent elements of the triple alliance have each in turn been defeated - the steel workers after a long and fruitless strike in the first half of 1980, the railway workers after two strikes earlier this year, and the miners' executive has twice running been contradicted by the membership. Public service unions are even less effective: whatever the direct costs of the civil service strike of 1981, one clear benefit is that the civil service unions will be most reluctant to stage a repeat performance; and the health service unions show every sign of having no idea how to keep up the momentum of their industrial action. In the private sector, there have been few serious disputes in the lifetime of this Government, because the consequences in lost jobs are all too clear.

Now is the time, therefore, to follow up this advantage on all fronts: to give not an inch to those unions, such as NUPE, whose backs are to the wall; and to drive the hardest possible bargain with those, such as the water workers, who still have disruptive potential.

SECRET

The Longer Term

And now is the time to think of the longer term, and the next Parliament, during which we must get away from automatic annual pay increases, if we are to get our unit labour costs down to those of our competitors. We must prepare the ground for low multi-year settlements; for the end of the concept of the pay round; for greater regional pay differences; and, above all, for any pay increases to be linked to performance. The Government will be giving up all hope of taking a lead in these developments if it goes on putting more and more of public sector pay into the hands of arbitrators, review bodies, and Megaw-type systems. Affordability and market factors, the corner stones of our policy, will disappear from sight, to be replaced by an ever more pervasive, and ever less realistic, going rate.

Present Issues

Against that background it is clear to us that to offer the nurses a review body is unnecessary and undesirable. It is unnecessary because it is the unions, not the Government, who need a way out of the dispute, and because there are other and less damaging ways of meeting the Government's commitment to the nurses (these were covered in John Vereker's earlier note, which you have seen).. It is undesirable because it takes a very large number of public servants out of market-determined pay, and almost certainly sets a norm for the whole NHS.

Structuring the pay offer so as to provide 12.3% from August 1982 to March 1984, which Mr Fowler will propose, is also undesirable. He has authority to offer 7½% for this year and 4½% for next and it is far better to stick to those, defensible, figures than to put over 12% into circulation. And even if a Review Body/12.3% deal were to prove acceptable to the nurses, we still continue to doubt whether settling with the nurses makes it easier to settle with the TUC affiliates. It is not the nurses who are on strike.

Megaw will no doubt come to Cabinet separately. But it hangs like a shadow over all discussions of public service pay. The Chancellor's Committee, MISC 83, is recommending it. If we have to have it, it must be made consistent with our longer term objectives by the inclusion of satisfactory safeguards, including provision for temporary suspension at reasonably short notice.

Finally, the outcome of the ballot on miners' pay raises several questions about the future handling of coal issues. The most immediate is the point on which we understand Mr Lawson will be writing round today: how to get into circulation the fact that the pay offer amounts to only 6½% on average earnings. There are still dangers with the miners, especially over pit closures, and we should avoid allowing Scargill to accuse the NCB of bad faith. Bernard thinks it would be right to go as far as arranging a written PQ, the answer to which would contain the right figure, and drawing the media's attention to it. We agree.

Y

I am sending a copy of this note to the Chancellor of the Exchequer.

FM

FERDINAND MOUNT

SECRET

PART 8 ends:-

Chan Exch to PM + att 27/10/82

PART 9 begins:-

PSP(O)(82) 29 1/11/82

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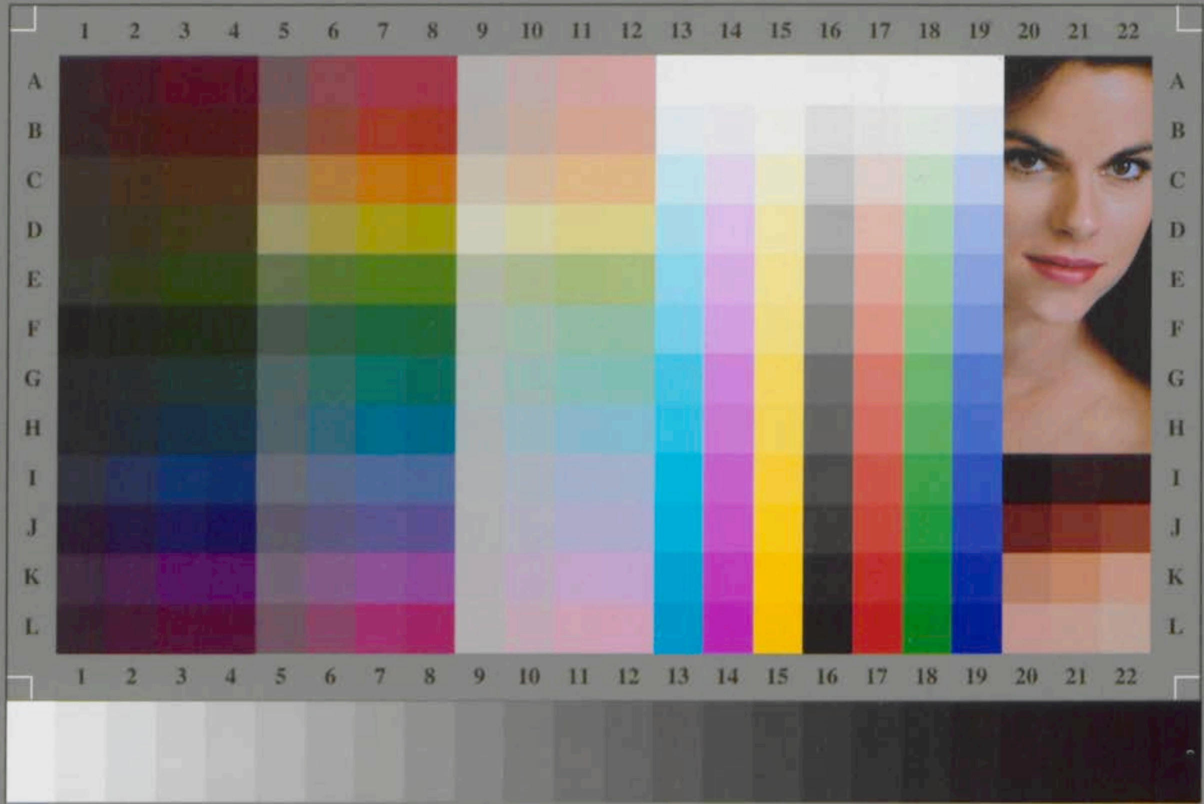

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