

CONFIDENTIAL

PRIME MINISTER

PAY RESEARCH UNIT BOARD

We heard earlier this evening that the Pay Research Unit Board will announce its collective resignation at 2300 tomorrow night (Thursday); and the attached letter from Lord Shepherd, asking you to accept his resignation with effect from 26 June, has just arrived.

This is not entirely unexpected. The background is that Lord Soames had made it clear to Lord Shepherd and his colleagues some time ago that they were unlikely to be needed after the Pay Research Unit itself had been wound down; it has been known for some time that Lord Shepherd wanted to go out on his own terms, rather than be wound up. The attached article in today's Financial Times speculates about this, but the more likely reason for the decision being made today is that the Board met this morning.

Although Lord Shepherd apparently told the CSD earlier today that he intended his resignation letter to be helpful, and although he has covered it with a personal letter to you asking whether you have any objection to it, there is no doubt that the general tone will be unhelpful in bringing the current dispute to an end. Willie Rickett has therefore sent a copy this evening to the Lord President's Office, asking them for a draft reply, which you might wish to consider giving to the press at the same time as Lord Shepherd publishes his; it

/may be



may be necessary to find time to have a word with Lord Soames about this tomorrow morning. The CSD's initial view, which we share, is that there is nothing to be gained in asking Lord Shepherd to change the terms of his resignation letter.

The two problems that arise from his letter are these:

(i) He refers to the proposals you yourself put forward last August. I attach a copy of your letter to him of 12 August (Flag A), which encloses suggested improvements to the pay research system. The statement that we wish to reinforce the independence and integrity of the pay research system might be held against us in the light of subsequent events; and if he refers publicly to these proposals, we shall be asked what they were.

(ii) Although we have always said that there will be a place for comparability in the new pay determination system, the emphasis given to it in Lord Shepherd's letter will enable the unions to claim that the PRU Board's resignation gives legitimacy to the unions' claim that the Government is being unfair in abandoning the principle of fair comparison. And the fact that the Pay Research Unit's report will also be published on 26 June will be equally unhelpful.

Apart from a well-judged reply to Lord Shepherd, therefore, I think we need also to be able to respond to the winding up

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CONFIDENTIAL

- 3 -

of pay research and the resignation of the Board by as early an announcement as possible of the establishment of the long-term inquiry. This development therefore adds urgency to the search for a Chairman. If we get stuck on that, I think we should consider seriously showing some movement by announcing the terms of reference, and our intention to appoint a Chairman shortly.

J.

24 June 1981