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PS/ Secretary of State for Industry

4 June 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear Tim,

PUBLIC SECTOR PAY

At the Prime Minister's meeting of 19 May on public sector pay policy my Secretary of State, who is at present abroad, was invited to send the Prime Minister a note giving examples of overmanning and restrictive practices in the public sector areas for which he is responsible.

... A note is enclosed. This illustrates the general position on restrictive practices and overmanning in respect of the nationalised industries and refers to the action that is being taken by the management of those industries to increase productivity. For completeness it also describes the situation within BL and Rolls Royce.

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

Yours ever,
Pete.

PETER STREDDER
Private Secretary



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OVERMANNING AND RESTRICTIVE PRACTICES IN THE
PUBLIC SECTOR

Note by the Department of Industry

POST OFFICE

i) Postal Business

1. The recent report by the Monopolies and Mergers Commission on the Inner London Letter Post listed a number of restrictive practices. The two most significant practices are the refusal of the Unions to agree to work-measurement and their bar on casual labour. Others include:

- a) leaving work before the shift officially finishes;
- b) refusal to divert mail to under loaded offices;
- c) unnecessary overtime;
- d) inflexible procedures on the revision of manning levels and insistence on these levels even when the amount of work does not justify them.

The Post Office has estimated that productivity could be improved by some 10-20% nationally and up to 30% in some areas. If it were raised just to the levels of 1972-3 (not themselves very high) 3,500 fewer employees would have been needed in 1978/79.

2. In the light of the strictures in the Commission's Report, and of the threats to remove the postal monopoly, the Union of Postal Workers has now agreed to a new productivity scheme. Although it is early days yet, the service has improved recently because of better cooperation by the unions and the Post Office management seems determined to adopt a tougher line in future.

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ii) Telecommunications business

3. The Department is not aware of any specific instances of restrictive practices or overmanning in Post Office Telecommunications, but indications are that labour productivity is lower than that in major telecommunications systems abroad. The Telecommunications Business Plan for 1980-85 forecasts a continuation of rapid growth and accelerating technological change. Throughout the next five years manpower is planned to increase only marginally but this may still mask instances of overmanning in certain areas. The proposed relaxations of the telecommunications monopoly should prove a spur to productivity especially when coupled with current skilled manpower shortages.

BRITISH STEEL CORPORATION

4. Productivity is low by European standards. Overmanning is buttressed by 'standard manning agreements' and a guaranteed working week which tend to keep labour costs higher than they should be. The Iron and Steel Sector Working Party estimated that in 1978 the production of 1 ton of crude steel in the UK required 10.9 man hours - about twice that needed by our European competitors notably West Germany (5.9 man hours) France (6.4) Italy (5.2) Belgium (5.2) and Luxembourg (4.8).

5. BSC's proposals to shed 50,000 workers within a year depend partly on closing excess capacity and partly on increasing productivity at remaining plants. The recent 3 month steel strike took place mainly because management insisted that a large part of the pay increase must be financed by local productivity improvements which, BSC estimate, should result in the loss of some 12,000 jobs.



BRITISH SHIPBUILDERS

6. A lack of flexibility between trades, a refusal to accept dilutees, and traditional manning practices have long inhibited progress in the shipbuilding industry. Management organisation, and particularly a lack of competent middle management, has also been partly to blame for the fact that British Shipbuilders yards have on average lower productivity than most, if not all, of their European competitors. A measure of the degree of overmanning is the fact that BS secured their unions' agreement to reduce their total employment of about 75,000 by 3000 as part of their 1980 wage agreement. They also secured agreement to reduce overtime working to not more than 7½%, on average, of normal hours worked. Both these actions came on top of their current contraction programme for merchant shipbuilding which will reduce employment in that sector of their business from 27,800 to about 18,000 in two years.

7. Overmanning is one of the reasons why BS have lost money each year since they were set up in July 1977: low productivity generally is one of the reasons why BS have difficulty in competing, particularly on delivery. But BS have made a concerted effort to raise their productivity. Their 1979 and 1980 pay agreements were made conditional on the achievement of certain productivity gains, including redundancies, a ban on most adult recruitment, agreement to temporary transfers and the ending of restrictive practices on overtime. They are running a sustained publicity campaign at each yard and have set up self-financing productivity schemes in most subsidiary companies. Few of these schemes are yet paying bonuses and no significant gains in productivity have yet been seen. This is not surprising because orders have been lacking in the current recession, and morale has also been affected by the contraction programme.



BL LTD

10. As members of the Engineering Employers' Federation BL have had to live, as the engineering industry generally, with the working practices of the Confederation of Shipbuilding and Engineering Unions, e.g. men can be moved from one job to another on an assembly line, or line-speeds altered, only with extreme difficulty. An example of a restrictive practice involving another union (TASS) was the refusal until recently to allow design work on BL vehicles to be contracted out. This delayed work on BL's planned new medium sized car. Despite the efforts of the present Board, there is still considerable overmanning in BL. The company estimate that it employs proportionately about one third more men than its European competitors, whose productivity may be up to 50% better. BL's determination to increase productivity was shown by its imposition this year of a 5% wage increase on the majority of its workforce coupled with improved working practices and scope for productivity bonuses.

BRITISH AEROSPACE AND ROLLS ROYCE

11. It is not clear that these two aerospace concerns suffer particularly from restrictive practices compared with the rest of UK engineering industry. But undoubtedly productivity is much lower than that achieved by competitors abroad. The Aircraft Group of BAe has called for a 10% increase in efficiency over the next five years. Rolls Royce, under a productivity-gearred wages scheme introduced in 1978/79, recorded improvements of 10% and plan to raise personal productivity by 24% in total by the end of 1981. In addition shortage of skilled workers will put both BAe and Rolls Royce under considerable pressure to improve productivity over the next four years.

Department of Industry
3 June 1980



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