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## MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

## PAY, PRICES AND EFFICIENCY IN NATIONALISED INDUSTRIES

Memorandum by the Secretary of State for Industry

## BACKGROUND

1 The attached paper has been prepared for me by the interdepartmental Committee on Nationalised Industry Policy in response to the request by the Prime Minister. It suggests that our broad approach to nationalised industries should be based on the determination of:

cash limits

financial objectives and in appropriate cases

performance objectives.

2 The paper brings out the limitations of the approach and the extent to which the Government is likely to become involved in pay issues, but I think in concept it provides a clear way and I commend it to my colleagues.

3 We must expect severe difficulties when unions exert their monopoly power in key industries. The paper by officials nevertheless advises that tough cash limits should be set but may need to be revised if union power is exerted to excess. But if there is to be any discipline in the public sector, any short term concessions on the cash limit need to be limited to determined efforts to secure at least partial recovery in the following year from savings in labour costs, economies in the capital programme and withdrawal of uneconomic plants. To the extent that this is inescapable we should make clear to the public the price implications of excessive wage awards. We should also be prepared to make references on efficiency to the Monopolies & Mergers Commission so that they can identify any scope for cost saving.

## RECOMMENDATIONS

4 I recommend that:

a) Departmental Ministers should negotiate with the nationalised industries for which they are responsible financial targets, cash limits and performance targets on the lines described in the paper;

/b) ...

- b) cash limits for 1980/81 should be fixed for each industry before the start of their respective pay negotiations during the pay round beginning in August this year;
- c) Departmental Ministers should stress in their contacts with the nationalised industries, and more generally, that any long-term increase in real earnings will be dependent on improved efficiency and manpower savings and that increases in wages unmatched by improvements in productivity will merely result in higher prices;
- d) guidance should be given to the nationalised industries on the need to keep Departments informed about pay negotiations as they take place; and
- e) we need to decide and to inform the nationalised industries of the contribution we shall expect each industry to make to the reduction of the PSBR over the next two to three years.

K J

Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

# PAY, PRICES & EFFICIENCY IN THE NATIONALISED INDUSTRIES

Note by Officials

## Introduction

1. At its meeting on 1 June the Ministerial Committee on Economic Strategy decided (E(79)2nd, Item 1) to consider questions of pay, prices and efficiency in the nationalised industries. This paper has been prepared by the interdepartmental official Committee on Nationalised Industries Policy under Treasury Chairmanship at the request of the Secretary of State for Industry.

## The Government's Position

2. Officials understand that within the framework of firm monetary targets Ministers wish to deal with the nationalised industries on the basis of the following broad objectives:

- a) there is to be no general norm for pay increases applying across the board in all industries;
- b) pay should be responsive to market considerations, reflecting the contribution of workers to each industry's performance and its ability to pay;
- c) the Government itself should not finance pay increases and workers who obtain increases which their industries cannot afford should meet the cost either through improved productivity or by manpower reductions;
- d) wage negotiations in those industries where trades unions have monopoly power should not lead to settlements which pre-empt resources for the public sector and so cause bankruptcies and unemployment in the private sector; and
- e) the Government should pursue a line of maximum disengagement from the day-to-day management of nationalised industries and should confine itself to determining, and strictly enforcing, financial targets and limits on individual nationalised industry calls on the PSBR.

These general objectives imply that wage negotiations in the nationalised industries should so far as possible be a matter for the management and unions concerned and not for the Government.

## Major Problems

3. The implementation of this general approach will encounter problems:
- i) Trades unions expect to obtain broadly similar pay increases in different industries and there are knock-on effects from one pay settlement to another e.g. surface mineworkers on electricity manuals and railwaymen. (This suggests that the arrangements under which the industries keep departments informed about pay negotiations should be maintained.)

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- ii) The nationalised industry Chairmen consider that it would not be practicable to submit their industries to a tougher regime on pay than the rest of the public sector and that their industries cannot be treated in isolation from the rest of the economy.
- iii) Since several of the nationalised industries supply vital goods and services, strikes in them can cause very considerable economic damage particularly if they are prolonged; the instruments discussed in this paper are therefore vulnerable.
- iv) The process of determining and enforcing cash limits necessarily involves the Government in making an assumption about the level of future wage costs in the industry concerned (and therefore implicitly about pay increases if there were no change in employment or productivity).
- v) In the main loss-making nationalised industries (coal, rail, steel and shipbuilding) the Government is in effect providing the funds out of which wage increases are being paid. The Government will of necessity be involved in decisions about their wage costs.

These points and particularly (iii), (iv) & (v) will make it difficult for the Government to disengage completely from pay negotiations and from pay disputes. There is no way in which the problems can be avoided or of predicting the industries in which the problems will arise in a particular year,

#### Pricing & Investment

4. Economic pricing and investment are fundamental to efficiency. They provide the starting point for setting financial targets, although social and sectoral considerations are also relevant. In the case of monopoly industries, economic pricing will ensure that cost increases are passed through quickly into prices, affecting demand and hence new investment. Economic pricing also defines the appropriate relativities between, for example, peak and off-peak prices, thus preventing unwarranted cross-subsidisation. Economic pricing and investment policies will in principle ensure that economic returns are earned on new investment. The application of these policies to the nationalised industries should produce the benefits which market forces produce in competitive sectors. It is therefore important that these policies - elaborated in the Nationalised Industries White Paper of April 1978 (Cmd 7131) - should continue to be applied but the rest of this paper concentrates on instruments for exerting pressure on costs, including wage costs.

## INSTRUMENTS FOR EXERTING PRESSURE ON COSTS

5. The instruments considered are financial targets, cash limits, and performance targets for costs and for quality of service. There is some scope for making greater use of these instruments but they are of course by no means a complete or reliable solution, mostly because of their vulnerability to industrial disputes.

### Financial Targets & Prices

6. Where prices are constrained by competition, financial targets exert pressure on nationalised industry managements to keep down costs, including labour costs. At present medium-term financial targets have not been fixed except for the Post Office businesses, British Airways, the British Transport Docks Board and British Rail's shipping. It is important to fix targets consistent with economic pricing and investment for all nationalised industries wherever possible and Ministers have asked officials to prepare proposals for these targets.

### Cash Limits

7. Individual cash limits apply to each industry's external financing (its total financing requirement net of internal resources) and hence to its contribution to the PSBR. The limits have been set at the time of the Budget each year on the basis of forecasts supplied by the industries and scrutiny by departments. These forecasts, which represent the difference between the very large flows of revenue on the one hand and current and capital expenditure on the other, are subject to many uncertainties. They incorporate a view not only about the industry's investment but about its costs, including wage costs, and its prices as well. In the past some industries have built headroom into their cash limits and there have been large shortfalls. But these have been falling as a result of efforts by departments and, if anything, cash limits on average probably exert a tighter constraint on the industries than overdraft limits do on the private sector. It has been recognised that nationalised industries, like private sector companies, may on occasion exceed their borrowing estimates for reasons beyond their own control, for example because of a change in trading conditions. But in practice there have been very few significant breaches or revisions (which are announced in Parliament) in the three years of experience so far. Cash limits are taken seriously by the industries and have served as an effective discipline on some of them.

8. If cash limits are to exert pressure for responsible pay bargaining in the nationalised industries, there will be three consequences. First, although there is a good case for setting them as late as possible so as to take account of the most up-to-date information, they do need to be set in advance of the pay negotiations they are intended to influence. This means that some cash limits would have to be set well before the Budget but (as Annex A shows) the important ones would not need to precede the decision on the cash limit for the rate support grant (November).
9. Secondly, the Chairmen have pointed out that the process of setting cash limits "requires Ministers in effect to take an explicit view on . . . the tolerable level of wage increases . . .". This is true, but the 'explicit view' need not involve a uniform assumption. There could in principle be a range of different figures for different industries, though in practice unions will be looking for similar increases. The assumptions would be less apparent than in the case of the public services where some cash limits consist almost exclusively of pay. But they would inevitably become known in the course of negotiation and might be taken as a new "pay norm". Ministers could argue that it was up to negotiators to decide on the balance between pay increases and jobs, but the assumption necessarily implies a figure for the maximum level of pay increase that could be accommodated within the cash limit, on the basis of existing levels of productivity and manning.
10. Thirdly, it is inherent in using cash limits in this way - in which there is an element of bluff - that the assumptions may have become unrealistic by the time the negotiations come to a crunch. But any attempt to build in flexibility e.g. by setting loose cash limits for the industries which could do most damage to the economy, would be self-defeating. If cash limits in the event need to be changed, this will have to be presented in whatever way does least damage (for example allowing for additional redundancy payments might make sense in a particular case). In some industries, for example British Rail, there are particular difficulties in offsetting the cost of high pay settlements within a single financial year. Annex B outlines the main features of the pay negotiations in the major industries.
11. The effects of a cash limit will vary, and Ministers are likely to have differing aims, for different industries. The cash limit should exert most pressure on the pay bill where labour costs are a big share of total costs (the share varies from 10% to 60%), where prices are constrained by the market, and where the industry is a net borrower from the Government (in most years gas and electricity and the Post Office are net repayers). The problem of industries which can pass on increased wage costs in prices is covered in paras 13-16 under the heading of Performance

Targets. Other industries may be able to stay within the cash limit either by reducing investment, which may do some economic damage but may also exert some restraint on the unions, or by reductions in employment. In some industries Ministers may in any case wish to set cash limits at a level designed to reduce employment and increase productivity. In the case of the major loss-making industries such as coal, rail, steel and shipbuilders, Ministers may wish to exert a direct influence on the level of the total wage bill since for these industries additional wage costs are in effect financed by the taxpayer. As their banker, the Government is bound to be concerned with the total bill, though it would be for the management to carry out wage negotiations and to allocate available funds according to their own business judgment.

12. To sum up, cash limits can exert a useful discipline on the nationalised industries but their use inevitably involves certain risks and their strength and precision should not be exaggerated.

#### Performance Targets

13. There are particular problems in those nationalised industries which are monopolies or near-monopolies. Although the managers of these industries no doubt seek to restrain costs and to promote efficiency, they can in practice recoup the cost of inflationary wage increases or of avoidable inefficiencies by putting up prices or reducing the quality of service. The market does not restrain their wage negotiations or provide much incentive for increased efficiency. This situation could have and sometimes has had serious knock-on effects on other wage negotiations.

14. There is therefore a case for supplementing financial targets by setting performance targets for unit costs or quality of service for the monopoly or near-monopoly industries. The Post Office, which commands some of the most complete monopoly situations, is the only industry which has so far agreed to such objectives: no rise in real unit costs in the postal service despite falling volume, and a 5% per annum reduction in real costs in telecommunications over the period to 1982/83. Similar performance targets could in principle be established for other monopoly or near-monopoly nationalised industries, reflecting the particular circumstances of the individual industries. Decisions on their level - and on the associated assumptions which management would understandably wish to attach to the targets - are bound to contain a larger subjective element than decisions on financial targets. The same goes for apportionment of blame if the targets are not hit, since actual performance will be affected by factors outside the industries' control e.g. the weather or the overall level of activity in the UK economy.

15. It will sometimes be difficult to specify quality aims and in any case some industries may be unwilling to accept demanding performance targets. But where they can be established performance targets could be used to get negotiators to recognise the impact of wage increases on total costs and hence on prices and also on jobs; and the link between productivity and higher wages. Such targets should therefore contribute to increased efficiency in the public sector. Since the nationalised industries account for about 9% of the Retail Prices Index, any such contributions would help to restrain inflation.

16. Performance targets could in principle be extended to non-monopoly nationalised industries but their pay, prices and efficiency may be adequately regulated by the combination of market disciplines, financial targets and cash limits (e.g. British Aerospace and the National Freight Corporation, shipping services of British Rail, the British Transport Docks Board and British Airways).

#### The Role of Nationalised Industry Chairmen

17. An approach based on financial targets, cash limits and performance targets does not lend itself to fine tuning once the targets etc have been fixed. Nor is it likely by itself to secure the right answers on pay in the course of a single year. The burden of securing success will be on the Chairmen and Boards of the nationalised industries concerned and it will be their responsibility to act commercially, to restrain wage claims which are unmatched by improvements in productivity or reductions in manpower, and to deal with restrictive labour practices. They will need to operate in the knowledge that they have firm Government support for the actions necessary to remain within their targets and limits.

18. Once performance targets are fixed, nationalised industry Boards would be expected to keep them. But failures could often be legitimately explained (para 14) and even when management was clearly to blame, Ministers will in most cases have no sanction except public opinion, which will not necessarily always support the consequences of adopting a tough line in a particular case. In the last resort the replacement of the Chairman might be justified, but that is not a sanction that can be used often, particularly given the existing difficulties of recruiting suitable Chairmen and Board members. This will no doubt be eased by the decision to pay salaries sufficient to attract people of the right calibre for the job, but probably only marginally.



19. Chairmen and Board members may seek reinsurance that, if in pursuit of their targets they need to implement decisions which provoke industrial action or which require large-scale redundancies, the Government will support them and that they will not be held to account if the resulting industrial action causes them not to meet their targets in any year taken in isolation. Officials recommend that no such blanket reinsurance should be given in advance. Ministers could make the point that decisions about whether to raise cash limits and how to present such changes would have to be taken when such a situation arose, but it would be important to ensure that the Boards were not left with the feeling that they would be penalised, whatever the result of an attempt to face up to their industrial problems.

#### Fixing & Monitoring Targets

20. Decisions on the level of cash limits and of financial and performance targets will be critical. They must not be unrealistically tight or they will have no effect on management. Equally they must not be so loose that they provide no incentive for efficiency and afford headroom for pay increases unmatched by improvements in productivity or reductions in manpower. In the end a judgment will have to be made on levels which are both realistic and demanding. But these will be difficult to get right both because there are genuine uncertainties and because departments will have less information than the industries, particularly on performance targets. In some cases, however, the industries themselves have adopted demanding targets (or assumptions which could be used as targets). For example British Airways have an explicit medium-term target for raising output per man towards international levels.

21. Three to five-year targets are reasonable for a rate of return on assets or for unit costs but are not easy to use as a discipline even where an annual path has been agreed; there are always good reasons why one year's performance is untypical and for things to get better next year. This suggests that performance should be monitored on an annual or more frequent basis, to take account of developments over the past year and to make comparisons with performance levels elsewhere. The expertise and staff available to departments may limit the extent to which detail can be checked. Ministers have agreed to refer the efficiency and costs of certain nationalised industries to the Monopolies & Mergers Commission.

#### The Guarantee against Bankruptcy

22. The labour force of the nationalised industries have long taken it for granted that the Government will always bail them out at the end of the day and that the industries will not be allowed to go bankrupt. This undermines the credibility of management in pay bargaining and hinders efforts to improve efficiency. It has been

suggested that a regime of strict financial targets, cash limits and performance targets might stand a greater chance of success if the implicit guarantee against bankruptcy were withdrawn. In practice it is unlikely that the Government would refuse to honour a guarantee given by a public body of this sort to another lender. But it is already open to Ministers to withhold finance from a nationalised industry in order to force closures. This is a real threat and one that could be embodied in a tight cash limit. The real limitation on its use is the consequential damage to the economy as a whole if an essential industry like one of the public utilities were shut down either because it could not pay its bills or because extensive closures provoked a long strike throughout the industry.

#### THE VULNERABILITY OF TARGETS

23. Financial targets, cash limits and performance targets are of course, like other policies wholly or partly directed at keeping wage costs down, vulnerable to major strikes which can do great damage to the economy. There is no way round this problem. It does not help to fix slack targets to accommodate powerful unions; most of the major industries provide scope for damaging strikes, as Annex B shows. To the extent that Ministers set targets or cash limits at levels intended to make nationalised industries' performance conform with the Government's objectives, they will run the risk of facing strike situations. And this may mean that, in the last resort, the Government has to change cash limits or targets.

24. Other difficulties are that the approach will be critically dependent on the judgment about the initial targets, the validity of the assumptions on which they are based and the extent to which performance is monitored in practice; and that targets and cash limits involve assumptions about future wage costs, which are bound to become known and themselves become targets for union wage-policies.

#### CONCLUSIONS

25. Despite the risks indicated above and the ultimate inability of Government to remain disengaged if there were prolonged and damaging disputes, there is certainly some scope for using financial targets, cash limits and performance targets to promote responsible pay negotiation, economic pricing and efficiency in the nationalised industries.

26. Ministers are invited to agree that:

- a) Medium-term financial targets based on economic pricing and investment (including sectoral factors) should wherever possible be set for those industries which do not already have them.

- b) Financial targets should be supplemented wherever possible, particularly in the case of industries which have a substantial monopoly or freedom to pass on cost increases in prices, by performance targets for costs which would need to be monitored at least once a year.
- c) Prices of the monopoly and near-monopoly industries would be the resultant of the financial targets, and the cost levels implied by the performance targets. They should not be artificially depressed for social or counter-inflationary reasons.
- d) Cash limits for 1980/81 should be set for all the industries before the pay settlements which are mostly in the period from January to April (see Annex A). There should be no attempt to fix a uniform figure for pay increases in nationalised industries but decisions about cash limits and performance targets are bound to reflect a view about the size of each industry's pay bill.

27. In considering whether to accept (b) and (d) Ministers will wish to bear in mind both the vulnerability of financial targets and cash limits to industrial muscle and the practical limitations stemming from the difficulty of settling the initial targets or cash limits at the 'right' level and of monitoring them effectively. These weaknesses have to be weighed against those of any alternative approach.

NATIONALISED INDUSTRIES: PAY DATES FROM START OF PAY ROUND

ANNEX A

<u>Month</u>	<u>Nationalised Industry</u>	<u>Negotiating Group</u>	<u>No. of workers approx.</u>	
October	UKAEA and BNFL	Manuals	11,800	
January	British Road Services National Carriers and Freightliners	Operating grades	14,000	
		Operating grades	16,000	
December	Water Service (NWC)	Manuals	35,000	
January	British Shipbuilders	All grades	84,500	
		Manuals	185,000	
	Post Office	All grades other than pilots and engineering officers		50,000
	British Airways			
	Gas supply	Manuals	40,000	
	British Airports Auth.	All grades	5,000	
Steel (BSC)	Manuals	124,000		
	Technical, supervisory and clerical	41,000		
	Management	15,000		
	BNOG	All grades	1,000	
February	Electricity supply	Technical engineers	29,000	
March	Electricity supply	Manuals	96,000	
		Manuals	231,000	
	Coalmining (NCB)	Clericals, and deputies and managers	48,000	
	Buses (NBC)	Manuals	63,000	
April	British Airways	Pilots and engineering officers	4,000	
	Railways (BR)	All grades	224,000	
	Civil Aviation Authority	All grades	8,000	
	Post Office	Clericals	39,000	
	UKAEA and BNFL	Staff	13,500	

<u>Month</u>	<u>Nationalised Industry</u>	<u>Negotiating Group</u>	<u>No. of workers approx.</u>
July	Post Office	Engineering	125,000
	Gas supply	Staff	61,000
	Water Service (NWC)	Non-manuals	30,000
	Waterways (BWB)	Manuals	2,100
	Electricity supply	Chemicals	50,000

Notes: British Aerospace, British Transport Docks Board pay settlements are scattered throughout the year and so are not shown in this table.

## RAIL PAY

### 1. Machinery

The settlement date for the main rail pay settlement, which covers the clerical and conciliation grades numbering about 150,000, is 21 April 1980. It thus comes towards the end of the pay round. Claims are submitted about three or four months' ahead but serious negotiation does not usually take place until the last few weeks. The negotiating body is the Railway Staff National Council (RSNC) of which NUR, ASLEF and TSSA are members, and the agreement of all three is needed for a settlement. In case of dispute any of the parties can refer the issue to the Railway National Staff Tribunal (RSNT) but the Tribunal's decision on a unilateral reference is not formally binding.

### 2. Relative position of railwaymen

Average earnings of British Rail wages staff have been declining since 1975, relative to the national average for all industries and services. The decline from 1975 to 1979 is about 10%. Average weekly earnings of railwaymen in the conciliation grades may still be just above the national average, because of the longer hours worked; in 1978, railwaymen worked an average week of 51.5 hours compared with the national average of 46 hours. It must be expected that the railway unions will make efforts towards recovering their earlier position or at least preventing further deterioration, in the remainder of this pay round and in the next.

### 3. Current pay round

The outstanding issues in the current pay round are:

- a) the negotiation of a new productivity scheme;
- b) the reference to the Railway Staff National Tribunal of the Unions' claim for a 35-hour basic week;

- c) the reference to the Railway Staff National Tribunal of the Unions' claim for consolidation of the outstanding £4 from the £6 supplement of Phase I of the last Government's incomes policy.

Any of these could produce difficulties for railway policy and finances, but it seems unlikely that they could precipitate a major issue of Government pay policy.

#### 4. Costs of disruption

A national rail strike can cost £3m to £4m per day. Considerable financial damage can also result from disruption stopping short of a strike. A relatively small number of men (particularly signalmen) can effectively bring the railways to a halt. Services can very substantially be disrupted by refusals to work overtime or rest-days, or by "work to rule".

#### 5. Prices

On the assumption that the Railways Board manage to avoid a fares increase for the remainder of this year, the next general fares increase will be at the beginning of January. The Board will have to decide the amount of that in October ie well before they can see the way the pay round is developing. Having taken a fares increase in January, the normal pattern is for the Board to decide in May or June whether or not they need to go for a second increase in the autumn. This would depend very much on the main pay settlement and its timing (eg if it were referred to the RSNT).

6. The Board will be going for increases in their negotiated freight contracts in this September. They have been seeking to move towards a pattern of annual increases, but might need to revert to their previous pattern of smaller increases at six monthly intervals. In any event, the effects of changes in their costs feed through only after substantial lags into their major long-term contracts, and the costs of a large pay settlement are thus felt particularly sharply by the freight business.

## NATIONAL COAL BOARD

Structure of Pay Negotiations

1 There are five distinct negotiating groups in the coal industry (mineworkers, clericals, weekly paid industrial staffs, deputies, managerial grades). The mineworkers (223,000 strong, represented by the NUM) traditionally set the pace for pay negotiations in the industry. Other groups follow with an established order of differentials.

2 The negotiating forum for the NUM is the Joint National Negotiating Committee (JNNC). If agreement cannot be reached in the JNNC there is provision for reference, by mutual agreement, to a National Reference Tribunal. The NUM's National Executive Committee is empowered to administer the union's affairs subject to the resolution of Annual Conference. In recent years, the NEC has frequently by-passed Conference by holding pithead ballots (eg for the acceptance of this year's pay settlement).

Timing of Claims

3 The settlement date for all coal industry Groups is 1 March. It is traditionally 1 November but was pushed back as a result of the dispute during the winter 1971/72 until March 1972, after the Wilberforce Enquiry. There is constant pressure from the NUM to return to the November date.

Comparators and Repercussions

4 The mineworkers are concerned to maintain their position as one of the top earning groups in industry. They fell from third place in the earnings league in 1960 to twelfth in 1970, but recovered to first place by 1978. The rates for surface workers have an effect on settlements for manual workers in other industries, notably the electricity supply industry, where the unions make a direct comparison with surface workers at the pits.

Current/Next Pay Round

5 The NUM settled for a moderate increase in this pay round, Conference this week (2 - 6 July) has endorsed claims of 6% for 1979/80, but the NEC has previously been able to negotiate settlements substantially below the levels set by Conference. Militancy next winter will depend on the extent to which Joe Gormley can maintain his stand for compromise not confrontation.



In order to call an official strike a ballot of members with a 55% majority in favour is required (action short of strike can be called without a ballot).

Consequences of Industrial Action

7 The severe impact of the strikes in 72 and 74 resulted from the secondary picketing of power stations, and coal depots and docks supplying the power stations so as to prevent transfer of supplies. Apart from this, coal stocks at power stations and elsewhere would delay the impact of strike action by several weeks, but for next winter the CEEGB expect to be some 2 - 3 million tonnes below the level they would like to ensure a minimum of 6 weeks supply.

Cost/Pricing Implications

8 Labour costs represent a much higher proportion of costs in the coal industry than in the other fuel industries. The effect of absorbing wage increases in prices is illustrated by the figures (based on 1977/78 wagebill and turnover):

1% increase in wage costs    \$15 million - 0.6% on prices.

Coal price increases are normally constrained by the headroom available below fuel oil prices; from Government's point of view, however, price increases are needed to improve the Board's financial position. They should not be cancelled out by wage increases, which should ideally be paid for by cost reduction.

## BRITISH GAS CORPORATION

Structure of Pay Negotiations

1 There are four negotiating groups in the gas supply industry (manuals, staff and other senior officers, maintenance craftsmen, higher management). The key groups are the manuals (40,000, represented by GMWU and TGWU) and gas staffs (56,000, represented by NALGO and GMWU (MATSA)). Pay offers in their National Joint Councils are normally (though not when a Government pay policy operates) referred to delegate conferences of the unions involved for confirmation/approval.

Timing of Negotiations

2 The settlement date for the manuals and craftsmen is mid January; for gas staffs and higher management, 1 July.

Comparators and Repercussions

3 The manuals have links with the electricity supply industry, and to a lesser extent the water service industry and the local authorities. The gas staffs and senior officers also have some links with these industries by virtue of common union representation.

Current Pay Round/Next Winter

4 Gas staffs have still to settle in this round. Negotiations have been prolonged by NALGO's fears about job preservation, but BGC do not anticipate industrial action. Manuals settled for 9% but indicated that they might re-open negotiations if later awards (eg in the electricity supply industry) were at a substantially higher level - this is still a possibility.

Consequences of Industrial Action

5 Gas supply workers have no tradition of industrial action but the consequences could be severe especially of action by those gas staffs and senior officers who man the distribution terminals. Apart from interruption of supplies to consumers, storage facilities at onshore terminals are limited and any period of stoppage would force production shutdown in UKCS gas fields. Interruptions of supply can also prejudice safety - air entering mains can cause explosion.

Cost Pricing Implications

6 The effect of absorbing wage increases in prices is illustrated by the figures (based on 1977/78 wagebill and turnover)

cost of 1% increase in wages = £5 million = 0.2% on prices.

Domestic gas prices are well below those of competing fuels, so that there need be no market difficulty in raising domestic prices by the modest percentage required to cover a substantial increase in wages.

7 In any case, a price rise might not be required. The industry is in surplus with a negative cash limit (repaying £49 million this year to the Exchequer). Variation in financial results due to, for example, weather conditions, could far exceed the cost of an extra percentage or two on the wage bill; so it may be unrealistic to expect the cash limit rule to impose an effective constraint on pay bargaining in the industry.

Structure of Pay Negotiations

1 There are four negotiating groups in the esi (manuals, clericals, power engineers and managerial grades). The key groups are the manuals (96,000 - represented mainly by EEPTU, some GMWU, AUEW, TWU) and power engineers (29,000 - represented by the EPEA). The practice in the National Joint Industrial Council (manuals) is for the final Electricity Council offer on pay to be put to a postal ballot of members. In the National Joint Board (power engineers) negotiations, the EPEA negotiators are empowered to accept/reject offers.

Timing of Negotiations

2 The settlement date for the manuals is 17 March, and for the power engineers 1 February. In practice, the NJIC unions have been content to let negotiations slip behind the settlement date to establish a clearer picture of how pay settlements are levelling out in a particular round (and especially to see the levels agreed for surface workers in the NCB). The EPEA tend to settle once the manuals' pay has been established - the engineers' are concerned to maintain (or increase) differentials with respect to the manual grades.

Comparators and Repercussions

3 Outside the industry, the NJIC unions compare rates with NCB surface workers, and with manuals in the gas and water industries and the local authorities. The NJIC unions have membership in a wide cross-section of industries, both private and public sector.

Current Pay Round/Next Winter

4 No groups in the esi have yet settled in this pay round. Manuals are currently balloting on a recent offer from the Council - union leaders have made clear that the only alternative to acceptance is industrial action. The EPEA have withdrawn a threat of industrial action on the understanding that the Council will make an improved offer increasing differentials with respect to the manuals - this could lead the manual unions to re-open, but it is hoped that a settlement with both groups can now be reached without industrial action.

Consequences of Industrial Action

5 The power station engineers in particular could adjust their action to produce any result they wished. At one extreme they could close down the power station system almost at once. Action by manual workers would probably not be so flexible or have such immediate results, at least if the engineers were working normally. But they too could quite soon have the most serious and damaging effect on electricity supplies.

Cost Pricing Implications

6. The effect of absorbing wage increases in prices is illustrated by the figures (based on 1977/78 wage bill and turnover)

cost of 1% increase in wages bill = \$6.1 million = 0.13% on prices.

The esi is naturally reluctant to increase prices since it is becoming increasingly uncompetitive compared with gas. In the circumstances of this year's cuts in capital investment and other cost reduction measures any additional wage costs would need to be reflected in higher prices, even though the proportional increase would be small.



## POST OFFICE (TELECOMMUNICATIONS BUSINESS)

1. Machinery

Bank and file grade engineers are represented by the Post Office Engineering Union (POEU), which has about 125,000 members. Telephone operators are members of the Union of Postal Workers (UPW) and junior and middle management grades are represented by the Society of Post Office Executives (SPOE) and the Post Office Management Staffs Association (POMSA). Clerical grades are represented by the Civil and Public Services Association (CPSA) and executive grades by the Society of Civil and Public Servants (SCPS). The settlement date for UPW, CPSA, SCPS, SPOE and POMSA 1 April and for POEU 1 July. The future settlement date for CPSA, SCPS, SPOE and POMSA will be 1 July - subject to completion of pay negotiations now under way.

2. Current Pay Round

The negotiations are dragging on and the recent POEU Conference endorsed the use of selective industrial action if the National Executive considered this appropriate.

3. Effect of Industrial Action

CPSA and SCPS have been taking industrial action since February in support of their claim for civil service type increases based on historic links. Computerised telephone billing has been brought to a halt with a backlog of bills totally £575m of which £60m has been recovered by manual procedures. Other action is being taken, including a strike by five CPSA members responsible for issuing stamps nationally.

4. The domestic telecommunications network is 99.9% automatic and over 90% of international calls are now dialled direct. A withdrawal of labour by the POEU would not therefore itself bring services to a halt unless more militant elements in the Union resorted to deliberate sabotage. But it would affect maintenance and cause a gradual and random deterioration in the service through individual lines being left unrepaired. Within 2-3 weeks the accumulation of random faults would make the service noticeably worse and from the on the deterioration might proceed rapidly. For a time faults in the international, trunk and junction circuits (ie those between exchanges in one city) and in exchanges, could usually be circumvented by re-routing at some cost in increased congestion, but where re-routing was not automatic this would depend on SPOE cooperation. International services would suffer from the loss of operator services and would be particularly liable to serious deterioration.

A number of public and commercial organisations have essential private communication links maintained by the Post Office. These include the electricity and gas industries. However, these private circuits would be less likely to develop serious faults in a period of a few weeks and there are standby arrangements for diverting the traffic to the public network. Government telecommunications services are for the most part fully integrated with the public service and are mainly automatic.

It has traditionally been the policy of the POEU National Executive

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that services should not be interrupted to hospitals, ambulance and fire services and the police. Nevertheless, difficulties could be experienced with the general deterioration of services. The National Executive has also accepted the need to maintain defence circuits. There are contingency plans to ensure that essential defence communications can be maintained by use of alternative Service means.

Television programmes, more especially ITV programmes, would be immediately hit if POEU members concerned with the switching of programmes also went on strike.

The full effects on the nation of a prolonged all-out strike resulting in a complete breakdown of the telecommunications service are difficult to assess as nothing approaching this situation has occurred in the past.

### Prices

No decisions about telecommunications tariffs for the present financial year have been taken, but the Chairman of the Post Office has said publicly that there would be no increases in telephone charges before the end of this year. However, tariff increases are likely to be necessary in January 1980 if the Corporation is to meet this year's cash limit. The size of the increase will reflect the level of telecommunications' wage settlement, still to be agreed.



## BRITISH STEEL CORPORATION

### 1. Machinery

The unions with which BSC negotiate on a national basis over wages in the heavy steel sector, the predominant sector of the Corporation, are

The Iron and Steel Trades Confederation

The National Union of Blastfurnacemen, Ore Miners, Coke Workers and Kindred Trades

The Transport and General Workers Union for members of the Galvanising Conciliation Board

The General and Municipal Workers Union

The National Craftsman's Co-ordinating Committee comprising

- (1) Amalgamated Society of Boiler Makers, Shipwrights, Blacksmiths and Structural Workers
- (2) Electrical, Electronic and Telecommunications Union/Plumbers Trade Union
- (3) Amalgamated Union of Engineering Workers (Engineering, Foundry and Technical and Supervisory Sections).
- (4) Association of Patternmakers and Allied Craftsmen
- (5) Union of Construction, Allied Trades and Technicians
- (6) National Union of Sheet Metal Workers, Copper-Smiths, Heating and Domestic Engineers
- (7) Roll Turners Trade Society.

The Steel Industry Management Association.

The settlement date for all the members within these unions is 1 January.

The other sector in which BSC negotiates over wages is the diversified activities sector eg chemicals, construction. A number of the settlements in this sector apply from 1 January although others commence from other dates. It is BSC's aim to get all these settlements to a common date of 1 January.

### 2. Current Pay Round

There are no outstanding issues.

### 3. Costs of a Strike

(a) Inside the Corporation.  
Clearly the costs and effects of a strike in the Corporation would depend upon its extent. We have made some estimates of costs of a complete stoppage but the effects on production of the transport problems of last January (estimated to be between 240m and 250m) show how vulnerable the Corporation is to industrial action of relatively few workers in key activities. The cost of a complete stoppage could fairly easily be approached by concerted, selected but basically limited action. They would amount to about £120m in the first month but





sensible management of materials contracts, energy use, lay-offs of residual staff etc could probably reduce this figure to about £100m a month thereafter.

A major fear of the Corporation would be that in the event of any major disruption supply their customers would turn to foreign suppliers and might never return to BCC. This loss could well approach £200m per annum and this would reflect in the balance of payments.

(b) Outside the Corporation.

The Costs to consumers of a major reduction in, or cessation of, production would depend partly to the extent to which they were forewarned. Given notice, stocks could be built up and alternative sources found - given the productive capacity available elsewhere in Europe at present. Costs outside the Corporation might therefore be expected to be fairly small.



POST OFFICE (POSTAL BUSINESS)

1 Machinery

Rank and file postal, clerical and counter grades (150,000 +) are represented by the UPW. POEU members are responsible for the maintenance of mechanical equipment in parcel and letter offices and of vans. The settlement date is 1 January for the UPW (1 July for POEU).

2 Current Pay Round

The recent pay settlement of 10 $\frac{1}{2}$ % was regarded very much as an interim deal. Final settlement depends on the outcome of negotiations on the telecommunications side.

3 Effect of Industrial Action

A full strike by UPW would result in the cessation of postal services and Crown Office counter services, including agency services for pensions, allowances, insurance stamps, Giro, National Savings and licences. However, unless sympathetic action was taken by the National Federation of Sub-postmasters, which seems improbable, sub-post office counter services would continue.

So long as telephone services continue, a lengthy withdrawal of postal services and Crown Office counter services would not be too disastrous for the nation (although firms heavily dependent on postal services could suffer severely). Plans exist for paying pensions and allowances at other than designated offices and for continuing payment of pensions and allowances in the absence of renewal order books. However, some disruption in payments could occur.

Giro is dependent on the postal service and could thus be seriously damaged by a prolonged strike.

A strike by POEU members would interfere with the maintenance of postal sorting equipment and vehicles. Some deterioration in services would be inevitable and it might be necessary to limit the volume of mail handled.



#### 4 Prices

The recent tariff package agreed for posts (1p on basic letter rates from August) should enable the postal business to meet its financial target and help the Corporation achieve its cash limit this year. This tariff package was necessitated by the UPW wage settlement. Each 1% on top of this without productivity improvements would mean about  $\frac{1}{16}$ p on the basic letter rate (plus corresponding increases on the other services)