✓ 11/10

cc 1 Gow

Nat Ind.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

wmj

PS/ Secretary of State for Industry

11 October 1979

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

Sent to Blackpool

Dear Nick,

We spoke earlier about the Daily Mirror front page article on a letter sent by my Secretary of State to nationalised industry chairmen about pay and cash limits.

11/10

The article is substantially correct in that a letter has been sent by my Secretary of State to the chairmen of three of the four nationalised industries for which he is responsible but he has not yet written to the chairman of British Steel. The letter was drafted by Treasury officials as a result of the decision taken by Ministers at E Committee on 20 September, item 2. Accordingly I have asked Martin Hall to provide you with a short note and line to take for Ministers should they be questioned about the letter. The Mirror article is inaccurate in two respects. First, my Secretary of State has not, of course, written to the chairmen of all nationalised industries. This misunderstanding probably arises from the drafting of the letter. The second, and crucial, inaccuracy is that the article says that "the letter insists that all pay rises for these workers should be "less than the forecast increase in the retail price index"". The letter in fact says that in broad terms the pay bill (in terms of unit labour costs) should go up by less than the forecast increase in the retail prices index. That would allow industries to make higher pay awards provided they were offset by increased productivity.

... I attach copies of the letters sent by my Secretary of State to the three chairmen. As you will see the crucial paragraphs are identical.

I am copying this letter to Martin Hall at the Treasury and to Ian Fair at the Department of Employment. I am also copying it to the private secretaries to the Secretaries of State for the Environment, Scotland, Trade and Energy, the Minister of Transport and Sir John Hunt.

Yours ever,
Pete

PETER STREDDER
Private Secretary

Mr Butler
Mr Marshall
Secretary
Mr Dearing
Mr Ridley
Mr Lippitt
Mr Farrow
Mr Gross
Mr Russell
Mr Treadgold
Mr Croft
Mr Burbridge
Mr Irwin
Mr Nieduszynski
Mr. George

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

4 October 1979

Admiral Sir Anthony Griffin GCB
British Shipbuilders
243 Knightsbridge
London SW7 1DG

Dear Admiral.

I am writing to let you know the Government's intentions on the setting of cash limits for next year and their implications for pay bargaining in the nationalised industries.

As you know, the Government's aim is to reduce the burden of financing the public sector and to cut inflation. We believe that the system of cash limits in the public sector has a key role to play in achieving this aim. We have accordingly decided that the cash limits for all the nationalised industries should be set this autumn, before any major pay settlements in the industries have been concluded. This, I am afraid, sets a tight timetable for our discussions with you.

The Government's explicit intention is that the cash limits so set should exert a downward pressure on the level of pay settlements. However, as you know, we are determined to avoid specifying any sort of pay norm.

If the cash limits are to be credible and realistic they will need to be founded on a considered view of each industry's prospects for next year, and so will need to reflect forecasts of prices, costs (including pay costs), output and investment. The fact that the cash limits will depend to an important extent on judgements about the appropriate allowance for increases in the pay bill was clearly recognised at the meeting we had with the Nationalised Industries Chairmen's Group on 23 July.

In approaching the judgments about the appropriate allowances for increases in the pay bill, sponsoring departments will be starting from a general presumption - consistent with the Government's overall determination to counter inflationary pressures - that real costs per unit of output should fall. In very broad terms this means that each industry's pay bill (in terms of unit labour costs) should go up by less than the forecast increase in the retail prices index. The extent of the reduction in real unit costs will need to be explored in discussions between the sponsoring departments and the industries; the margin - which is bound to vary markedly from industry to industry - will need to reflect the specific circumstances of each of them, and take into account factors like performance

/aims ...

aims where these already exist or are proposed. The discussions will need to cover as well assumptions about increases in costs other than pay, and about prices, output and investment.

The Government's intentinn is to publish the cash limits some time in November and this implies firm decisions by late October. I suggest therefore that officials from the Departments of Industry and Treasury should start discussions with yours as soon as possible.

The cash limits, once set in this way, will present a considerable challenge to the industries. In this situation, we attach particular importance to effective monitoring of each industry's performance, so that action necessary to avert a threatened breach in a cash limit can be taken at the earliest possible moment. The existing monthly and quarterly returns provide a part of the necessary framework for this monitoring, and are usefully complemented by the cash flow forecasts that you send us when you need to draw more long-term finance. It will also be important for returns to be made expeditiously. Furthermore, as experience during the current year has shown, the pressure of pay negotiations may constitute a particularly dangerous threat to the cash limits, and the Government have therefore concluded that the industries should be asked to consult their sponsoring departments before entering into commitments in any major pay negotiations, (including those involving productivity bargaining).

In asking the industries to keep sponsor departments informed in this way of the progress of pay negotiations, the Government are not seeking to make judgments about the appropriate pay levels for particular industrial groups. Our objective is to secure essential information about developments which could lead to breaches in cash limits, whether in the industry directly involved or in other nationalised industries where in the past pay settlements in one industry have - however unjustifiably - had repercussions in another. The fact that the pay bill element in costs will have been identified in the course of the construction of the cash limit figures should help considerably in judging the implications of particular pay offers. I must emphasise that it will be up to the industries concerned to put forward proposals for any action necessary to accommodate pay settlements that would raise the pay bill above the level contemplated at the time the cash limits were set; the Government's concern is only to ensure that such action as is necessary to avert a breach in the cash limits is taken as quickly as possible.

We recognise that our decisions will not be easy for the industries to implement. Detailed discussions of the trading and financial prospects of each industry will need to be completed in a very short time. But there is no room for delay if the cash limits are to serve the purpose the Government intend, and we therefore look for the support of the Chairmen as an essential element in our plan of action to squeeze out inflation.

I am writing in similar terms to Chairmen of the other industries for which I am responsible.

Yours sincerely, K— [illegible]

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

Mr. Butler
Mr. Marshall
Secretary
Mr. Denning
Mr. Ridley
Mr. Lippitt
Mr. Farrer
Mr. Russell
Mr. Gross
Mr. Treadgold
Mr. Croft
Mr. Burbridge
Mr. I. Lightman
Mr. Niedbalszynski
Mr. Buckley

2 October 1979

The Rt Hon The Lord Beswick JP PC
Chairman
British Aerospace
Brooklands Road
Weybridge
Surrey

Dear Frank,

I am writing to let you know the Government's intentions on the setting of cash limits for next year and their implications for pay bargaining in the nationalised industries.

Of course our aim is to introduce a substantial private sector shareholding into British Aerospace during 1980/81: and once that has taken place cash limits will no longer be applied. However, it seems necessary to establish a cash limit for 1980/81 as a contingency measure in case flotation should be delayed.

As you know, the Government's aim is to reduce the burden of financing the public sector and to cut inflation. We believe that the system of cash limits in the public sector has a key role to play in achieving these aims. We have accordingly decided that the cash limits for all the nationalised industries should be set this autumn, before any major pay settlements in the industries have been concluded. This, I am afraid, sets a tight timetable for our discussions with you.

The Government's explicit intention is that the cash limits so set should exert a downward pressure on the level of pay settlements. However, as you know, we are determined to avoid specifying any sort of pay norm.

If the cash limits are to be credible and realistic they will need to be founded on a considered view of each industry's prospects for next year, and so will need to reflect forecasts of prices, costs (including pay costs), output and investment and the need for adequate profits. The fact that the cash limits will depend to an important extent on judgements about the appropriate allowance for increases in the pay bill was clearly recognised at the meeting we had with the Nationalised Industries Chairmen's Group on 23 July.

In approaching the judgements about the appropriate allowance for increases in the pay bill, sponsoring departments will be starting from a general presumption - consistent with the Government's overall determination to counter inflationary pressures -

/that ...

that real costs per unit of output should fall. In very broad terms, this means that each industry's pay bill (in terms of unit labour costs) should go up by less than the forecast increase in the retail prices index. The extent of the reduction in real unit costs will need to be explored in discussions between the sponsoring departments and the industries; the margin - which is bound to vary markedly from industry to industry - will need to reflect the specific circumstances of each of them, and take into account factors like performance aims where these already exist or are proposed. The discussions will need to cover as well assumptions about increases in costs other than pay, about prices, output and investment and about demand, the market and profits.

The Government's intention is to publish the cash limits sometime in November and this implies firm decisions by late October. I suggest therefore that officials from the Department of Industry and Treasury should start discussions with yours as soon as possible.

The cash limits, once set in this way, will present a considerable challenge to the industries. In this situation, we attach particular importance to effective monitoring of each industry's performance, so that action necessary to avert a threatened breach in a cash limit can be taken at the earliest possible moment. The existing monthly and quarterly returns provide a part of the necessary framework for this monitoring, but this framework will in some cases need to be buttressed by a forecast of the time-profile of the cash flow through the year with which the subsequent outturns can be compared. It will also be necessary for returns to be speeded up in the case of those industries which do not at present meet the deadlines. Furthermore, as experience during the current year has shown, the pressure of pay negotiations may constitute a particularly dangerous threat to the cash limits, and the Government have therefore concluded that the industries should be asked to consult their sponsoring departments before entering into commitments in any major pay negotiations (including those involving productivity bargaining).

In asking the industries to keep sponsor departments informed in this way of the progress of pay negotiations, the Government are not seeking to make judgements about the appropriate pay levels for particular industrial groups. Our objective is to secure essential information about developments which could lead to breaches in cash limits, whether in the industry directly involved or in other nationalised industries where in the past pay settlements in the first industry have - however unjustifiably - had repercussions. The fact that the pay bill element in costs will have been identified in the course of the construction of the cash limit figures should help considerably in judging the implications of particular pay offers. I must emphasise that it will be up to the industries concerned to put forward proposals

/for ...

for any action necessary to accommodate pay settlements that would raise the pay bill above the level contemplated at the time the cash limits were set; the Government's concern is only to ensure that such action as is necessary to avert a breach in the cash limits is taken as quickly as possible.

We recognise that our decisions will not be easy for the industries to implement. Detailed discussions of the trading and financial prospects of each industry will need to be completed in a very short time. But there is no room for delay if the cash limits are to serve the purpose the Government intend, and we therefore look for the support of the Chairmen as an essential element in our plan of action to squeeze out inflation.

I am writing in similar terms to Chairmen of the other industries for which I am responsible.

Ever,

Keith

Mr Marshall
Secretary
Mr Dearing
Mr Ridley
Mr Lippitt
Mr Farrow
Mr Gross
Mr Russell
Mr Treadgold
Mr Croft
Mr Burbridge
Mr Irwin or
Mr Nieduszynski

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
Telephone *Direct Line* 01-212 3301
Switchboard 01-212 7676

2 October 1979

Sir William Barlow
Post Office
23 Howland Street
London W1P 6HQ

Dear Bill.

Following our discussions recently, which I look forward to resuming with you shortly, on this year's cash limit I am now writing to let you know the Government's intentions on the setting of cash limits for next year and their implications for pay bargaining in the nationalised industries.

As you know, the Government's aim is to reduce the burden of financing the public sector and to cut inflation. We believe that the system of cash limits in the public sector has a key role to play in achieving these aims. We have accordingly decided that the cash limits for all the nationalised industries should be set this autumn, before any major pay settlements in the industries have been concluded. This, I am afraid, sets a tight timetable for our discussions with you.

The Government's explicit intention is that the cash limits so set should exert a downward pressure on the level of pay settlements. As you know, we are determined to avoid specifying any sort of pay norm. If the cash limits are to be credible and realistic they will need to be founded on a considered view of each industry's prospects for next year, and so will need to reflect forecasts of prices, costs (including pay costs), output and investment and the need for adequate profits. The fact that the cash limits will depend to an important extent on judgments about the appropriate allowance for increases in the pay bill was clearly recognised at the meeting we had with you and your colleagues on 23 July.

In approaching the judgments about the appropriate allowance for increases in the pay bill, sponsoring departments will be starting from a general presumption - consistent with the Government's overall determination to counter inflationary pressures - that real costs per unit of output should fall. In very broad terms, this means that each industry's pay bill (in terms of unit labour costs) should go up by less than the forecast increase in the retail prices index. The extent of the reduction in real unit costs will need to be explored in discussions between the sponsoring departments and the industries; the margin - which is bound to vary markedly from industry to industry - will need to reflect the specific circumstances

/of each....

of each of them, and take into account factors like performance aims where these already exist or are proposed. The discussions will need to cover as well assumptions about increases in costs other than pay, about prices, output and investment, and about demand, the market and profits.

The Government's intention is to publish the cash limits some time in November and this implies firm decisions by late October. I suggest therefore that officials from the Department of Industry, and Treasury should start discussions with yours as soon as possible with a view to you and me meeting in about ten days' time.

The cash limits, once set in this way, will present a considerable challenge to the industries. In this situation, we attach particular importance to effective monitoring of each industry's performance, so that action necessary to avert a threatened breach in a cash limit can be taken at the earliest possible moment. The existing monthly and quarterly returns provide a part of the necessary framework for this monitoring, but this framework will in some cases need to be buttressed by a forecast of the time-profile of the cash flow through the year with which the subsequent outturns can be compared. It will also be necessary for returns to be speeded up in the case of those industries which do not at present meet the deadlines. Furthermore, as experience during the current year has shown, the pressure of pay negotiations may constitute a particularly dangerous threat to the cash limits, and the Government have therefore concluded that the industries should be asked to consult their sponsoring departments before entering into commitments in any major pay negotiations (including those involving productivity bargaining).

In asking the industries to keep sponsor departments informed in this way of the progress of pay negotiations, the Government are not seeking to make judgments about the appropriate pay levels for particular industrial groups. Our objective is to secure essential information about developments which could lead to breaches in cash limits, whether in the industry directly involved or in other nationalised industries where in the past pay settlements in the first industry have - however unjustifiably - had repercussions. The fact that the pay bill element in costs will have been identified in the course of the construction of the cash limit figures should help considerably in judging the implications of particular pay offers. I must emphasise that it will be up to the industries concerned to put forward proposals for any action necessary to accommodate pay settlements that would raise the pay bill above the level contemplated at the time the cash limits were set; the Government's concern is only to ensure that such action as is necessary to avert a breach in the cash limits is taken as quickly as possible.

We recognise that our decisions will not be easy to for the industries to implement. Detailed discussions of the trading and financial prospects of each industry will need to be completed in a very

/short time....

short time. But there is no room for delay if the cash limits are to serve the purpose the Government intend, and we therefore look for the support of the Chairmen as an essential element in our plan of action to squeeze out inflation.

We are also writing to the Chairmen of other nationalised industries.

Yours,

Keith