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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 25 September 1980

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MF

Prime Minister

A useful first report. It does not attempt to provide answers to the issues raised as the group was set up to monitor. But I am assured by the Treasury that they will be following them up - through their Ministers as necessary.

Dear Tim,

PUBLIC SECTOR PAY

I attach the first fortnightly monitoring report produced by a group of officials under Treasury chairmanship dealing with current and prospective pay negotiations, and issues arising from them. The issues identified are spelt out in the covering note. The details of the current state of negotiations are set out in the Annexes, and the issues are cross-referenced to the appropriate negotiations. As agreed in previous correspondence, the report confines itself to a purely monitoring role, and does not attempt to stray into areas of policy by attempting to indicate how any of the issues raised might be handled.

As you know, circulation of this report is to be very restricted. Accordingly I am sending a copy only to Richard Dykes: Terry Mathews has already received a copy internally.

(and R. Armitage, CSD, CPMS).

*Yours ever,
Peter*

P S JENKINS
Private Secretary

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PUBLIC SECTOR PAY: NEGOTIATIONS AND ISSUES

Introduction

This is the first in a series of reports prepared with the assistance of officials in the Department of Employment, Civil Service Department, Cabinet Office, CPRS and No 10.

2. The report identifies those current or immediately prospective pay negotiations in the public sector which, in the opinion of officials, are important enough, either in themselves or in terms of the issues they raise, for Ministers to consider them. We have described the issues which seem to arise, but as instructed by Ministers, we have not ourselves considered them or made recommendations.

Background

3. In the pay round which effectively ended on 31 July 1980, most public services, except those with independent pay reviews, settled for about 14% increases; the delayed settlement and implementation of previous round increases and wage drift raised average earnings for public service workers by a further 12% (making 26% in all) compared with the previous year; the year on year earnings comparison was higher than in the private sector even though the level of new settlements was lower. The public trading sector had increases in the 1979/80 pay round averaging 18%, about the same level as in the private sector.

Issues arising from negotiations

4. We deal in separate sections (Annexes A and B) with negotiations in the public services and the public trading sector. The policy issues raised by these negotiations overlap, however, and they are therefore described in this general section of the report, with cross-referencing between it and the Annexes.

5. The important issues which we see arising are as follows:

- (i) The presentation of outstanding settlements from the 1979-80 pay round

Such settlements are likely to be at a higher rate than
/Ministers

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Ministers intend to achieve in the current round. In the case of the local authority Administrative, Professional, Technical and Clerical grades will there be a role for the Government (as well as the local authorities) in seeking to minimise the repercussive impact? (A similar problem, where the Government cannot avoid becoming involved, will arise with the outstanding Clegg references, for example on New Town Staff.)

- (ii) Ministers will shortly need to decide on the pay element to be included in cash limits for FY 1981-82

This will be coming up for decision in the course of October, with announcement planned for November. It will apply to most public service settlements in the 1980-81 pay round. Decisions will also be needed on External Financing Limits for nationalised industries.

- (iii) Some settlements in the 1980/81 pay round (university teachers, Atomic Energy Authority, local authority manuals, firemen and NHS ancillaries) are covered not only by the cash limits for FY 1981-82, but also the pay element in the FY 1980-81 cash limit, which was set at 14%; should adjustment be made to bring the total cash available in the pay year into line with Ministers' decisions on the pay element in cash limits for FY 1981-82?

- (iv) Ministers attach importance to low settlements early in the round in the public services (university teachers, Atomic Energy Authority, local authority manuals)

Does this involve any greater pressure being put upon employers than that exerted by cash limits? Are Ministers prepared to allow employers to use flexibility within their cash limits to finance excessive pay settlements (as might happen with the Atomic Energy Authority)?

- (v) Binding arbitration with unilateral access is a problem in a number of areas in the public sector (eg local authority Administrative, Professional, Technical and Clerical Staff, University Teachers).

Mr Prior has a remit to report to E Committee on the general issues. Should the Government seek to persuade the employers concerned to renegotiate their arbitration agreements? Is there any other action the Government can take?

- (vi) Should Ministers seek to encourage the local authority employers to break the firemen's index-linking

This could lead to a firemen's strike, and also to

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questions about the Government's attitude to police index-linking. If the employers themselves decide to break the link, what should the Government attitude be on supporting them (in public if necessary)?

6. The situation in particular negotiations is discussed more fully in Annexes A & B as follows:

Annex A - Public Services

1. Local Authority Administrative, Professional, Technical and Clerical Grades
2. University Teachers
3. Fire Services
4. (a) Local Authority Manuals
(b) Water Manuals
(c) NHS Ancillaries
5. Civil Service non-industrials

Annex B - Public Trading Sector

6. UK Atomic Energy Authority Manuals
7. Coal Mining

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24 September 1980

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PUBLIC SERVICES1. Local Authority Administrative, Professional, Technical and Clerical Grades (650,000)

*Settlement date: 1 July 1980
 Unions involved: predominantly NALGO

Management has stood firm on an offer of 13 per cent in response to a claim of over 21 per cent. The employers' agreement with the unions provides for unilateral access to binding arbitration, and the unions have taken the claim to arbitration, which the employers were unable to prevent.

Issues

- (i) Presentational problem - tail end of previous round
- (v) Binding arbitration with unilateral access.

2. University Teachers (38,000)

Settlement date: 1 October 1980
 Main Union: Association of University Teachers

The union are pressing for negotiations to start in September. The cash limit for FY 1980-81 contains a pay element of 14 per cent; that for FY 1981-82 has still to be decided. University teachers normally aim to keep their relativity with further education teachers, whose settlement date is 1 April, and whose recent increases have exceeded theirs. On the other hand, university teachers will receive from 1 October the second stage of their recent 17.0 per cent increase.

Issues

- (ii) This settlement depends on cash limits for 1981-82 which may not be settled in time to influence negotiation.
- (iii) The settlement will reflect also the cash limit for 1980-81 which may now be thought too generous.
- (iv) It is an important settlement in the new round.
- (v) The employers can be taken to binding arbitration.

*Settlement date means date of normal implementation; negotiations may not always be concluded by then.

3. Fire Services (36,000)

Settlement date: 1 November 1980
Unions: Fire Brigades Union, National Association
of Fire Officers

After a prolonged strike in 1977, an indexation agreement was made which, if adhered to, is likely to lead to an increase of around 20 per cent. There were earlier signs that the local authority employers might seek to break this agreement, but following the recent employers' meeting, this now seems unlikely.

Issues

(vi) Index-linking.

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- 4(a). Local Authority Manuals (1,100,000)
Settlement date: 4 November 1980
Unions: GMWU, NUPE, TGWU
- 4(b). Water Manuals (33,000)
Settlement date: 7 December 1980
Unions: NUPE, TGWU, GMWU, NAAAW
- 4(c). NHS Ancillaries (210,000)
Settlement date: 13 December 1980
Unions: NUPE, GMWU, TGWU, COHSE

LA manuals are the key public service group which sets the tune for all LA groups and many other manual groups. Relatively low increases last year may create pressure for a settlement little below the RPI. Mr Heseltine and other Ministers are meeting employers on 25 September for preliminary discussion of the prospects. The water manuals and NHS ancillaries settle in December. NHS ancillaries traditionally follow the LA manuals. The water manuals have in recent years seen themselves as closer to gas and electricity. But they are represented by the same unions as the LA manuals and, indeed, in Scotland are local authority employees.

Issues

There may be an issue (not an immediate one) in relation to timing, whether to take the water negotiations early (where a high settlement is likely - the National Water Council have a poor negotiating record and industrial action would present grave problems), and then seek to isolate this from the other manual negotiations by stressing the relationship to gas and electricity? Or, as last year, should the water negotiations be held back, at the risk of industrial action, until the LA manuals have settled?

5. Civil Service non-industrials

Although the settlement date is not until 1 April, the Lord President is currently negotiating changes to pay research with the unions, and is due to report to E Committee in mid-October. The Chancellor's paper on the longer-term options for Civil Service

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pay will be taken at the same time. The Lord President has already indicated to the unions that cash limits will be the major determinant of the 1981 settlement, and a letter is to be sent to the unions to make this absolutely clear.

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PUBLIC TRADING SECTOR6. UK Atomic Energy Authority Manuals (4,700)

Settlement date: 1 October 1980
 Unions: GMWU, AUEW, TGWU, EETPU

The claim is for about 30 per cent on the pay bill. Management were proposing to make an initial offer of 11 per cent on the pay bill, but E(EA) decided that this was too high. It would be consistent with cash limits as currently set, because the cash limit for FY 1980-81 contains a pay element of 14 per cent. The Chancellor's letter to Mr Howell of 12 September pointed out that the AEA could not assume that their 1980-81 cash limit would remain unchanged so far as the pay element was concerned.

Issues

- (ii) This settlement depends on cash limits for 1981-82 which may not be settled in time to influence negotiation.
- (iii) The settlement will reflect also the cash limit for 1980-81 which may now be thought too generous.
- (iv) It is an important settlement in the new round.

7. Coal Mining (223,000)

Settlement to operate from 1 January - 31 October 1981
 Union: National Union of Mine Workers

The claim is expected to be presented on 23 October. The conference resolution called for a £100 minimum rate (35 per cent increase) equal to about 29-30 per cent on earnings to be paid "on a salary basis". The formal claim is likely to clarify these objectives, and may revive other items, such as the 4-day week. The National Coal Board is expected to take time over negotiations, but the initial offer is unlikely to be delayed beyond mid-November. The crucial period is likely to be late November or early December, with a ballot (if needed) just before Christmas.

Comment

Although the start of the miners' negotiations is now likely to be later than expected, they will, as always, have an important effect on the pay round, particularly in relation to such major

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groups as gas, electricity and rail. It seems clear that the shortened time-table for negotiations leaves little scope for further delaying offers to the miners, even if this were thought desirable. The claim is not sufficiently well formulated to identify specific issues yet.

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