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PRIME MINISTER

c. Mr. Wolfson  
Mr. Hoskyns  
Mr. Ingham

Meeting with the Chancellor: Pay  
12 November

You have asked for a regular discussion with the Chancellor on public sector pay, on the basis of the report of the official monitoring group (Flag A). This note suggests the issues you may wish to discuss with the Chancellor tomorrow.

1. Procedure

You may want to have a brief word about the procedure for handling public sector pay issues. The official monitoring machinery seems to be working well; a regular discussion of the report with the Chancellor will ensure he is aware of your particular concerns; and ad hoc groups of your colleagues can be summoned at any time - as in the cases of the miners and the firemen - to consider action urgently required.

- Does the Chancellor agree that nothing more formal is required?

2. Points arising from the Official Report

Your comments on three particular issues in the latest report have been passed on to the Chancellor, and he will be expecting you to raise them:

(i) Handling of nationalised industry pay

You asked if all sponsor Ministers had informed their Chairmen of the need for single-figure settlements. The Chancellor will be writing to you this evening to say that all sponsor Ministers have spoken to their Chairmen, but some in more specific terms than others.

- Does the Chancellor agree that the 6% RSG pay assumption, and the EFL's when decided, constitute a basis for Ministers speaking again and in very specific terms to their chairmen?

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(ii) University technicians

You said this case strengthened the case for an early cash limit announcement, because of a provisional agreement at an 18 per cent annual rate. There was of course no such announcement; and the Vice Chancellors have confirmed their offer, which it is expected ASTMS will accept.

(iii) University teachers

You said the Government must resist the proposed 13 per cent offer. There have been no further developments, but the link with university technicians (above) is awkward.

- In the absence of a cash limit announcement, the Chancellor may want to ask Mr. Carlisle to remind the negotiators of the "broadly the same financial considerations" formula.

3. Other Active Groups

You will want to review with the Chancellor the state of the negotiations on the other active public sector groups:

- (i) UK Atomic Energy Authority workers have settled for 9 per cent, which is satisfactory, given the 30 per cent claim and that it is not cash limit controlled.
- (ii) The Miners: the NUM meet the NCB tomorrow. Negotiations appear to be going in accordance with the plan broadly endorsed at your meeting with the Chancellor and Mr. Howell on 21 October; there is wide public expectation that the miners will get away with more than others, and a settlement in the range of 10-15 per cent on basic rates would probably not affect pay behaviour elsewhere too badly.

- Would the Chancellor agree that if it looks as though the settlement might go above 15 per cent, Sir D. Ezra should be encouraged to stand firm?

(iii) The Firemen: The firemen's initial reaction to the 6 per cent offer has been adverse, but we shall not know the formal FBU position until after their conference on 21 November. Between now and then we must try and mobilise public opinion; and persuade the firemen it is not in their interest to strike.

- Would the Chancellor agree that he should discuss with Mr. Whitelaw and Mr. Heseltine whether to encourage the local authorities to give the firemen, who constitute a small proportion of the local authority wage bill, a few percentage points more than 6 per cent? It is a difficult judgement whether the risk of setting the pattern for others is worth the attempt to avoid industrial action.

4. Groups which are about to cause difficulty

Three difficult groups can be seen clearly on the horizon:

- (i) Local Authority workers - manuals and craftsmen both have settlement dates of 4 November and have been awaiting the RSG announcement. Now that the 6 per cent pay assumption is known, the Government can only influence the outcome of the negotiations by repeated explanation of the policy, and by encouraging the use of the flexibility inherent in a 6 per cent assumption for the pay bill, as opposed to a 6 per cent incomes policy.
- (ii) Water workers - the Chancellor wrote to Mr. Heseltine on 23 October asking whether we should try and influence the relative timing of the local authority negotiations and those of the water workers, whose settlement date is 7 December.

- What is Mr. Heseltine's view? Surely, since the water workers are a more powerful group than local authority manuals, we should try and settle the manuals first?
- (iii) The Civil Servants - although their settlement date is not until 1 April 1981, the suspension of PRU and the RSG pay assumption announcement makes it more likely that selective industrial action will be called for.
- Can such selective action be forestalled by continuing to withhold the cash limit pay assumption?

5. Presentation

There are two particular presentational points you may wish to discuss:

- (i) The 6 per cent pay assumption  
Public expenditure considerations have led to the choice of a rather lower pay assumption than was expected. We shall need to emphasise, as Mr. Whitelaw did yesterday and you did today, the difference between a pay assumption and an incomes policy. But because the figure is low, there is a danger that it will be accepted this year only at the expense of higher expectations for next year, as wage bargainers attempt to recoup lost purchasing power.
- Should we act now to lower future expectations by emphasising that pay assumptions in the remaining years of the MTFS will certainly be no higher?
- (ii) The Armed Forces  
The commitment to honour the AFRB report is widely seen as an anomaly. Without breaking that commitment, its possible effect on other groups could be reduced:

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- (a) by announcing that the MOD cash limit pay assumption will be no different from that of the civil service, and
  - (b) by letting it be known that the AFRB do take into account the pay of civil servants.
- Should we adopt both of these courses?
- (a) would of course require a Cabinet decision.

J.V.

John Vereker  
11 November 1980

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