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PRIME MINISTER

cc. Mr. Wolfson  
Mr. Ingham  
Mr. Hoskyns

PUBLIC SECTOR PAY

You have agreed to discuss with the Chancellor this week:

- (1) The latest report from the official monitoring group (Flag A), and
- (2) The Chancellor's minute of 21 November on machinery for dealing with public service pay issues (Flag B).

This note identifies the main issues that need to be resolved.

1. Issues arising from the Monitoring Group Report

(a) Pay Review Bodies: Treasury officials are hoping that the Chancellor's paper can be put to E in the week beginning 8 December. There is no need for you to discuss this with the Chancellor yet.

(b) Cash Limit announcements: E decided that the pay factors in the cash limits should be finally decided, and announced, when operationally necessary. The NHS ancillaries have now put in their claim; the settlement date is 13 December but negotiations may not start in earnest until the New Year. Mr. Jenkin is understood to be reluctant to fix and announce the pay factor; but (a) an early announcement is needed to lower NHS expectations, and (b) the lack of an announcement tends to reinforce the belief that the Government is prepared to see the 6% pay factor edged upwards.

- Does the Chancellor agree that the NHS pay factor should now be settled and announced?

(c) Pressure on Nationalised Industry Chairmen: You asked sponsor Ministers to approach their Chairmen after the EFL announcement. The Chancellor fears this may lead to different

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interpretations in different industries, and suggests that he do it with all of them at the next Chairmen's group in mid-December. This seems sensible except in the case of the Water Service (see below) where earlier action is needed.

- If you agree, the Chancellor can be asked to speak to all NI Chairmen in mid-December, without prejudice to additional action being taken before then in the case of the water service.

(d) More effort needed to put the message across: The Chancellor's Private Secretary records the Chancellor's view that the message has not been getting across as clearly as desirable. There have certainly been difficulties over the 6% pay factor, partly because the RSG assumption has been announced without the central government cash limit pay assumption, and partly because the 11% for non-pay factors has not been announced; and the initial media reaction over firemen's pay was unfavourable. But the fall in pay expectations, and the fall in pay awards, since the summer has been dramatic - I doubt if anyone in July, when settlements were exceeding the rate of inflation by several percentage points, expected that by November settlements would be falling well short of a much lower inflation rate. The change in attitudes has probably largely been determined by events rather than by presentation, but Ministers have been, in general, very responsive to the need to explain the strategy. In the week of the announcement of the 6% pay factor, twenty Ministers - apart from Treasury Ministers - made speeches about pay and inflation. We have it in mind to stimulate more articles by Ministers in the national and regional press.

- Why does the Chancellor think the message is not getting across, and what more does he think should be done?

(e) Arbitration Agreements: Mr. Prior's paper comes before E tomorrow (I am briefing on that separately); there is no need to discuss with the Chancellor.

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(f) Danger Areas: The monitoring group has identified four groups who may take industrial action shortly in pursuit of their pay claims:

(i) Firemen: The employers may be willing to negotiate up from 6%, but the firemen have so far ruled out coming down from full indexation. Contingency arrangements are therefore in hand for a series of lightning strikes; and we need to decide whether the time has come to start actively swinging public opinion in the Government's direction, by more interventionist Ministerial statements. The attached memo from Nick True in Conservative Research Department <sup>attached</sup> (~~Flag C~~) makes a convincing case for going on the attack. That is reinforced by the fact that some unions - notably NUPE - have made it clear they will regard the outcome of the firemen's negotiations as a comparator, not as a special case.

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- Does the Chancellor agree we should now encourage Ministers to speak out on firemen's pay (if so I would put out a note through Mr. Maude's Office, cleared of course with the Home Office).

(ii) Water Workers: The Chairman of the National Water Council (NWC) has said that he hopes to keep the settlement within single figures; and has offered to talk to Ministers further before making an offer on 10 December (Letter at Flag D).

- Would the Chancellor agree that, before his own meeting with NI Chairmen in mid-December, Mr. Heseltine or Mr. King should have a further discussion with the NWC Chairman to stiffen his resolve (especially if the miners have by then voted to accept their offer).

(iii) NHS Electricians: The monitoring group is concerned about these negotiations. The electricians are seeking 24%,

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are hard negotiators, and have great disruptive power. Announcing the cash limit will help lower their expectations, but they are unlikely to accept 6%.

- Would the Chancellor agree that these negotiations should be considered soon by the appropriate Ministerial group (see below).

(iv) Ambulancemen: The ambulancemen may well prove difficult, but there are other groups in the firing line first. There is no need to discuss with the Chancellor.

2. Machinery for dealing with Public Service Pay

The Chancellor recommends:

(a) Official machinery: a Treasury-chaired interdepartmental group to coordinate public service (ie not nationalised industries) pay issues, serviced by the Cabinet Office; plus the continuation of the official monitoring group for both public service and NI pay; and

(b) Ministerial machinery: a sub-committee of E, under his own Chairmanship.

The proposal for official machinery has some disadvantages: there will be duplication of both effort and personnel between the new group and the monitoring group; and excluding the NI's means excluding important and potentially disruptive negotiations. No-one wants to revive the Official Cabinet Committee (PY, technically still in existence; it was far too large to be useful); but a more efficient approach would seem to be to expand the terms of reference of, and if necessary the representation at, the existing groups. The proposal for Ministerial machinery seems also to exclude the NI's; even so, some of the issues coming to it seem likely to be of such importance that you will wish to be involved, in which case you would at least need to be able to have such issues put directly to E.

The points for decision on machinery seem therefore to be:

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- (i) Should there be only one official group?
- (ii) Should it include nationalised industry issues?
- (iii) Should the important issues be taken in E, rather than in sub-committee?

My recommendation is Yes in each case.

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25 November 1980

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