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To: PRIME MINISTER

From: J R IBBS

18 September 1981

CPRS Pay Report

1. At Monday's meeting Ministers are to consider the CPRS pay report (my minute of 11 September). The recommendations in it fall into several groups, and might be discussed in the following order:

(a) Strategic. The present system, even with the improvements we discuss, cannot be relied on to keep pay increases on a satisfactory downward path. Therefore the trend needs to be closely watched (and preparatory work done - see below) to enable Ministers to react quickly if necessary (recommendation (i)). Merely to assume that a freeze could be introduced is not enough (recommendation (xi)).

(b) Public Understanding. This is the most important part of Section 2, not covered elsewhere. Ministers need to consider whether the message is articulated as clearly as it can be (see our Section 1.1), and what more can be done to put it across - we have made some suggestions in our recommendations (ii) to (iv) (private meetings with employers, a code for management, employee communication, a push for current cost accounting).

(c) Further Work. We would like Ministers to commission further work on two main topics:

- arbitration (recommendation (v) - the arguments are in Section 2.3 of our report);
- contingency planning for a wage-inflation tax (recommendation (xii) - there may be a risk of leaks, but if Ministers agree that this option is worth pursuing, more work needs to be done).

2. This leaves over the bulk of Section 2, which is being considered elsewhere, so that Ministers need do no more than take note:

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(a) Industrial Relations Legislation (recommendation (vi)). Will be considered by E Committee shortly, on the basis of proposals from the new Secretary of State for Employment.

(b) Public Services (recommendation (vii)). Cabinet has set the provisional pay factor and will consider adjustments, e.g. for the NHS, in the public expenditure discussions. The PSP(0) Committee is preparing a separate paper for Ministers in E(PSP) on Review Bodies (and we have made proposals for further work on arbitration - above). The evidence to the Megaw enquiry will also be coming before Ministers shortly.

(c) Public Trading Section (recommendation (viii)). Ministers discussed the approach to the next pay round and reached conclusions in line with our views - though obviously this is a continuing battle which will need co-ordination and strategic thinking.

(d) Low Pay (recommendations (ix) and (x)). Covered in the Treasury labour market package, which we and they are to develop for consideration by Ministers.

3. There is just one point in Section 2.6 which may not be fully considered elsewhere. This is the argument on 'no-strike agreements', in paragraphs 70-73. Our conclusion is negative, but Ministers may wish to consider whether they agree with this, because it is relevant to the fire service (and other uniformed services) as well as the public utilities.

4. If the discussion has ranged widely, it would be helpful to conclude *Flag A* - by going through the recommendations (listed at the front of the Report) to make sure they are decided or will be considered elsewhere.

5. Sir Robert Armstrong has seen and is in agreement with this brief.