



~~CL. IV.~~ (1)  
Prime Minister

Content for me to write

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

as at X on

p 3 of John

Vereker's minute, attached?

PRIME MINISTER

Yes  
 not

MCS 21/12

PUBLIC SECTOR PAY

Important developments have taken place in the past week or so in three important pay negotiations: with the local authority manuals; with the miners; and with the water workers. We have had reports on these developments respectively in Michael Heseltine's letter of 11 December, Tom King's of 10 December, and in John Moore's of 10 December; and we discussed the prospects for coal at our meeting yesterday afternoon.

2. Briefly, the local authority employers have made an offer to their manual workers estimated as worth 6.9 per cent on the pay bill, and the unions are putting this offer to their members. The water industry unions had agreed to recommend acceptance of an offer worth 8.8 per cent on earnings (9.1 per cent on rates), though NUPE has since decided to withdraw its recommendation. The NUM Executive has rejected a slightly improved offer worth 7.4 per cent on earnings (and 9.3 per cent on rates). Following a Special Delegate Conference on 18 December there is to be a ballot of the membership on 14 or 15 January, on a resolution (and recommendation) to reject the offer and authorise the Executive to take strike action if necessary.

3. In all of these cases we would have wished for lower settlements (perhaps more strongly in some cases than in others). But there is clearly no prospect that any of these groups will settle for less than they have now been offered. The danger is that they might seek to get more. The best outcome is clearly therefore that the offers made should be accepted. We need to consider whether there is anything we can do to improve the chances of achieving that outcome.



4. A common feature of all three cases is that some form of consultation with the membership is now in train. A consideration which will obviously weigh with the membership is whether settlements at the levels offered are likely to compare adequately with settlements secured by other groups as the pay round progresses. A key factor in such an assessment will no doubt be the extent to which we are seen to be holding to a firm line on public services pay.

5. Apart from just letting events take their course, I think that there are essentially three approaches which might be adopted with the aim of creating the right climate:

- (a) we could stress publicly reasons why the workforces concerned should accept the offers made;
- (b) the negotiations for which the Government is directly responsible (in the Civil Service and NHS) will probably not take place until after the consultations which we want to influence are completed; and we cannot decide our tactics for those negotiations yet. Nevertheless we could:-

- i. stress publicly that the Government will be approaching them in the light of the 4 per cent pay factor;

- ii. and in the local authority sector, say that it will use its veto on offers made to the teachers to prevent any offer being made which would be inconsistent with the 4 per cent, while perhaps also inviting the employers' side of the NJC for the local authority white collar grades to a meeting with Ministers;

- (c) we could act as at b(i), but unattributably, and draw attention to the degree of Government influence on negotiations with the teachers rather than committing ourselves to use the veto in defined circumstances.



6. Any of these approaches would need to be combined with a continuing effort in speeches, interviews, discussions, etc., once the House rises, emphasising the need for pay restraint. All Cabinet colleagues might participate, as they have opportunity, in stressing:

(i) the crucial link between pay restraint and employment prospects;

(ii) the need to restrain current costs, including unit labour costs, if there is to be room for investment (and the profits which finance it) to grow;

(iii) the dangers of jeopardising the revival of output by excessive pay settlements.

7. As regards the choice between the approaches in paragraph 5 above, I am sure we should all agree (as we did in our discussion of the miners' ballot) in rejecting (a). It would probably cause all three of the negotiations to be represented as confrontations with the Government. It would make the workforce more, rather than less, likely to reject the current offers. It might also carry the implication that we thought settlements at these sort of levels were all right.

8. (b) would be the more robust approach. It would however complicate current discussions with the nurses; and might be represented as inconsistent with our undertakings to the Civil Service. As regards the teachers, Keith Joseph might feel that it put too much weight on a veto which depends ultimately on a voluntary concordat. George Younger will no doubt have views on the implications for the parallel Scottish negotiations. And Michael Heseltine will have views on the usefulness of a meeting with the local authority APTC employers side at this stage.

9. But (c) seems to me to be a minimum; and it would certainly need to be bolstered by the general publicity effort to which

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I have referred in paragraph 6 above.

10. If you and colleagues feel that (c) is best for the present, we might aim to have a meeting early in January with the Ministers directly concerned, to decide whether we stick to it up to mid-January, when the key decisions for all three groups discussed in paragraphs 2 to 4 above will be taken, or whether we should move to (b), or some variant of it, as these decisions become imminent.

11. Copies of this minute go to all members of the Cabinet, to the Chief Whip, and to Sir Robert Armstrong and Mr Ibbs.

(G.H.)

18 December 1981

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