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cc Pub Secton

Pay

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MR SCHOLAR

cc Mr Hoskyns
Mr Ingham

PRIME MINISTER'S MEETINGS ON PAY

We had a word about the Prime Minister's meetings on pay tomorrow and Thursday, and I agreed to try and clarify what should be the main issues for discussion at them. I have discussed this with Peter Gregson and Peter le Cheminant. The Prime Minister might find this note helpful in preparation for the meetings.

1. Meeting on Civil Service Pay, Wednesday 6 January

Page B — This originates with the Chancellor's minute of 22 December, suggesting that this very small group concert a view on the basis of a Treasury paper (now received) on the handling of the Civil Service pay claim. This group forms the core of the MISC group that will handle the negotiations, and which will also include Mr. Nott and Mr. Jenkin.

Points for decision are:

- (i) Machinery for handling the negotiations at Ministerial and Official levels.

We think the Prime Minister should chair the MISC group herself, because she will want to be closely involved in the decisions on the opening and final offers, and on how to deal with arbitration. We agree with Robert Armstrong that the Treasury (in practice, Peter le Cheminant) should chair the official group; we hope the Policy Unit will be represented on it.

- (ii) Strategy for dealing with the claim.

The basic strategic questions are set out in paragraphs 27-29 of the Treasury paper. The Prime Minister may find it useful to break down the issues for immediate consideration like this:

- (a) Should we proceed with the intention of reaching a negotiated settlement which would have to be significantly above 4%; or should we be tough from the start, expecting to end up in the hands of the arbitrator (paragraph 40)?

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A quick settlement around the 7% mark the Treasury suggest might be necessary is not an attractive prospect now. It is much higher than we want to see, and it would have adverse effects elsewhere on the pay round. Unless Ministers are doubtful of Parliament's willingness to override an arbitration award (which might be around the same level) the case for going for a quick settlement seems weak.

- (b) When should we make the opening offer, and what should it be (paragraphs 31 and 41)?

The 13 per cent claim provides an opportunity to reassert the 4 per cent pay factor at a time when that could encourage other groups to accept their (much higher) offers. This effect would not be large: the miners are probably impervious to that kind of pressure (and might act perversely anyway); and the water workers will have completed their consultations by the end of this week; but the Local Authority manual workers will still be open to influence up to around 20 January. So there is a case for acting sooner rather than later.

- ① The minimum immediate Government response to the claim would be simply to reject it as not forming a possible basis for negotiations. A more dramatic impact might be
- ② achieved by making a low counter offer, say 2 per cent, but the risk to industrial relations in the Civil Service, and the inevitability of having to look weak by making a series of increases, would probably outweigh the uncertain benefits elsewhere.

- (c) Can we usefully form a preliminary opinion about two points of detail in the offer - skewing to the higher paid (paragraph 31d) and fringe benefits (paragraph 35)?

Skewing to the higher paid would help with the differential problem, though it is most needed at levels covered by

/the TSRB.

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the TSRB. At a minimum, Ministers might agree that any further skewing to the lower paid is unacceptable. Two of the fringe benefits - season ticket loans and group health insurance - certainly merit study: they could make a considerable difference to the negotiating climate at low cost.

2. Meeting on Public Service Pay, Thursday 7 January

This meeting has a number of origins and purposes. It is needed to endorse the conclusions of the smaller group (above); to consider the general line the Government should take on public service pay in view of recent developments - the options are set out in the Chancellor's minute of 18 December; and to look at the pay publicity effort (your letter of 22 December). There is no need to discuss the NHS: the nurses are being considered separately.

Points for decision are:-

- (i) Endorsement of the approach to Civil Service pay.

There will be no paper: the Chancellor will report orally. The Prime Minister may feel it worthwhile reminding her colleagues that the chances of achieving a moderate settlement would be greatly enhanced if Ministers are, and are seen to be, united in their approach.

- (ii) Whether to indicate that the Government will veto more than 4 per cent for the teachers.

Keith Joseph has said this would be inconsistent with the Concordat with the Local Authority employers, and might lead them to repudiate it. This should be explored: there may be some indication the Government can give without going that far; and it may even be worth looking at the consequences (e.g. a move away from national bargaining) of ending the Concordat.

and George Younger
(who can't make Thursday's
the meeting)

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- (iii) How to influence the employers of Local Authority white collar workers.

The Prime Minister has agreed that Mr. Heseltine should speak to them; he should be asked to report.

- (iv) What should be done to give fresh impetus to the pay publicity effort.

We think that the continuing effort that is made by Ministers is often under-rated, and that the effectiveness of a publicity campaign is often over-rated. But we understand that the Chancellor is considering two initiatives: a fresh set of speaking notes for colleagues on the need for pay restraint, and a major speech either by himself or another senior Minister. Both should be treated on their internal merits, i.e. whether they have anything worthwhile to say.

J.

5 January 1982

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