

✓ JV AD



Prime Minister

(1)

Do you wish to
Commission officials to

Treasury Chambers, Parliament Street, SW1P 3AG draw up a list of
01-233 3000

PRIME MINISTER

*Let us see
a few cases
not.*

← cases where this approach
might apply - costed?

Or do you believe that this
approach has now been shown to
be not worth further
pursuit?

PUBLIC SERVICE PAY

At the meeting under your chairmanship on 7 January I was
asked to consider a number of points.

University and School Teachers Pay

MCS 5/2

2. If the universities can settle with the university
teachers at less than the 4 per cent on which the grant-in-
aid will be based, the money so saved can be used by the
universities for other purposes, including redundancy and
slimming costs. (The only qualification is that the
universities must not do anything which would make it
impossible to live within the expenditure plans for years
after 1982-83).

3. As I understand the position regarding school teachers,
the Government cannot prevent access to arbitration, if the
unions and the employers agree to it; but it does have power,
subject to the approval of both Houses of Parliament, to
override an arbitration award.

Earmarking of part of the Contingency Reserve

4. I was asked also to consider the practicability of
earmarking part of the Contingency Reserve for capital spending
so as to provide an inducement for moderate pay settlements.

5. The present cash limit system is set up to give some
incentive of this kind. Where a public service group settles



below the 4 per cent which we have allowed for in the cash programmes, then the balance can be made available to finance additional expenditure within the year. (There are some technical problems about switching money from pay to non-pay Votes but these can be overcome). The position within nationalised industry EFL's is similar.

6. The scope for action within a single year is limited. Luckily, most public sector pay negotiations are either completed before the financial year begins or are concentrated into the first few months. If a suitably low settlement were reached, the "savings" could be used to finance expenditure in the rest of the year. This would not usually extend to major capital projects. The lead times are too long. But it would allow minor maintenance and current expenditure. (The example of school books which was used at your meeting on 7 January happens to be a bad one, because this is local authority expenditure. I turn to this below).

7. But we need to think in a longer-term framework. I see little prospect of devising a scheme involving the use of the Contingency Reserve. In essence, such a scheme would be bound to refer to money over and above the cash limit for certain services, and urge on the unions that it should be used for capital expenditure, not pay. The unions would be unlikely to be attracted; importantly, we should have undermined our fundamental argument that pay increases should be contained within cash limits.

8. It may therefore be better to think in terms of expenditure programmes for future years. The British Railways Board had some success in securing a settlement (albeit at 11 per cent) with the NUR, because they deployed the half-promise of Government approval for major new capital developments, including electrification, thus safeguarding NUR jobs in future. This involved making promises of capital expenditure in future years.



9. I think it would be possible to devise a scheme, formal or informal, which allowed similar negotiating tactics in other cases. For example, we could tell the negotiators that there is a notional Contingency Reserve in future years in the Public Expenditure Survey, which could be used to finance additional capital projects. It would probably be necessary to specify such projects in some detail to make such an offer convincing and attractive. If and when a settlement was reached at an acceptable figure (which would also have to be specified in advance) an appropriate amount of cash could formally be transferred from the Contingency Reserve to the relevant spending programme.

10. Alternatively, and less formally, we could simply reach an agreement that a suitable addition to the relevant programmes would be made in the following year's Public Expenditure Survey. It would then form part of the annual re-examination of the level of expenditure in that programme. There would be an implied commitment to make funds available for the particular projects which had been offered as part of the pay negotiation, and not to offset this by reductions in other parts of the relevant programmes.

11. Any scheme of this kind would, I am afraid, present a number of problems. It would reduce our room for manoeuvre and prejudice decisions on priorities in future Public Expenditure Surveys. It would involve commitments in future years in return for good behaviour on pay in the first year only. It would be usually difficult to reverse the process once the promise had been given. It would often be wasteful to cancel the new projects; and to cut other parts of the programme (which had originally been regarded as of higher priority) could produce serious distortions.



12. The concession to be offered would have to be tailored fairly closely to the interests of the unions concerned. The NUR had a genuine interest in securing approval of electrification, because it preserved jobs. The offer of improved office accommodation in Cardiff might be less persuasive to civil service unions representing people who work elsewhere, and who may in any event not regard even their own office accommodation as a high priority. Much would depend on the skill of the negotiators in deploying these arguments.

13. Such a scheme would have to be confined to areas where Government can deliver. The Government has no power to direct where local authorities should spend any additional funds made available. In practice, I think this confines any such scheme to those areas where we have more direct control, or there is a natural trade-off between pay and other forms of expenditure: the central Government, the National Health Service, nationalised industries (including the Water authorities) and perhaps the universities. These groups together constitute a large part of the total public sector; but the local authority area, which is particularly sensitive, would not be covered.

14. If you wish to pursue any of these options we could ask officials to draw up detailed lists of the cases where this approach might be relevant, and of the size of concessions it would be necessary to offer. Treasury officials will set this in hand, in consultation with other departments, if you wish. But I confess to some doubts whether it is a fruitful line.

A handwritten signature in black ink, appearing to be 'G.H.'.

(G.H.)

3 February 1982



- 3 FEB 1977



COMPTON

151