

cc. Mr. Goshals
Mr. Venka.

Prime Minister.

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PRIME MINISTER

IMPENDING PAY DECISIONS

The Chancellor's recent minute to you called attention to the need for our decisions on the three pay claims which have gone to arbitration to be publicly defensible as consistent. That is clearly right as a statement of principle but we have to recognise that the override powers are different and that the timetables of the three arbitration processes probably mean that we will have to take our decision on the Civil Service arbitration award before the teachers' (E&W) arbitration recommendations are known - indeed, probably before the hearing itself has taken place.

The Chancellor suggests that a figure "below about 6%" would be acceptable and largely containable within cash limits in the case of the Civil Service, and "7½ or 8%" as the threshold for override action, with an area of difficult judgement between. I accept the principle of that analysis, but do not think that we should fix on particular figures at this stage.

On consistency, the Attorney General reminds us (in the papers which accompanied my letter of 31 March to the Chancellor, copied to your office) that the conditions attaching to override are sufficiently different to allow a teachers' (E&W) arbitration recommendation to stand while allowing override of a similar award for the Civil Service, though it would be difficult in public presentation terms. For these teachers at least, the "national economic circumstances" clause may mean that we shall have to have regard to settlements or offers elsewhere with which we are publicly associated. If we conclude that differential action on equivalent awards is not acceptable, we may risk having to apply the "national economic circumstances" test to the other two arbitrations to ensure consistency. We shall also have to form a view on the figure to be substituted through override action in each case.

I agree with the Chancellor that we cannot set our "game plan" until we have details of the Civil Service arbitration and the review body recommendations, and I support his suggestion of a restricted group under your chairmanship. There we might discuss the legal limitations, how far "consistency" requires us to set a common figure for override and what the threshold(s) should be, in readiness for a quick decision when the Civil Service arbitration result is known.

SECRET AND PERSONAL

I am sending copies of this minute to the Lord Chancellor, the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Employment, Scotland and Social Services, the Lord President, the Chancellor of the Duchy of Lancaster, the Chief Whip and the Secretary of the Cabinet.

KJ

7 APRIL 1982

Department of Education and Science

SECRET AND PERSONAL