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Prime Minister

Econ Pul

*In my short time at No 10
I have seen that this is an
area which goes very badly at times.
There are numerous suggestions here
in Peter Grogan's brief about
how to improve performance.
MLG 30/6*

P.0796

PRIME MINISTER

Pay in the Public Trading Sector

(E(82)54)

BACKGROUND

This note by the Chancellor of the Exchequer is a companion piece to the more general paper on the 1982-83 pay round E(82)53). The Committee's discussion of that paper should have established the broad approach to the next pay round and perhaps any special action needed towards the private sector or the public services. E(82)54 is concerned solely with the public trading sector (essentially the nationalised industries and the water industry).

2. In general terms, the 1981-82 round has not gone too badly in the public trading sector. All the main industries, apart from the railways, have settled without serious industrial action and at lower levels than in the previous round. However, as E(82)54 brings out, some of the industries in weaker financial positions and exposed to competition, who could have been expected to settle fairly low, have in fact settled quite near the average. British Shipbuilders and the bus industry are cases in point; and it could certainly be argued that the Post Office might have driven a harder bargain with the unions. In the Chancellor's minute of 29 June covering the latest monitoring report he refers to several points of concern and particularly to the increase in earnings in the settlement for British Telecommunication's engineers (in the range 8.6 - 9.9 per cent compared with an earnings increase of 7.4 per cent for the miners).

3. In essence, E(82)54 argues for a continuation of the Government's existing policy and methods towards the public trading sector, with some tightening up of the procedures. It appears to propose no significant new initiative.

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MAIN ISSUES

4. It seems unlikely that any member of the Committee will wish to challenge the Chancellor of the Exchequer's main thesis (paragraph 5 of the note): that the Government should continue its 'arms length' relationship with the nationalised industries and should not become directly involved in negotiations. Such involvement would be unlikely to lead to better tactical management of disputes, and would give some elements in the trade union movement the opportunity they seek for political confrontation.

5. If this is right, it is a matter of seeing what can be done to improve existing methods or their application. The Chancellor of the Exchequer suggests the following:

- a. Be more explicit with boards about pay objectives, especially in the context of external financing limits (EFLs) and reach an understanding, at a formative stage, on the broad strategy for pay in each industry.
- b. Ensure that arrangements for securing information on pay negotiations from the industries are observed.
- c. Identify likely trouble spots and prepare, so far as possible, to deal with them.

Being more explicit

6. It is not altogether clear what "being more explicit" would mean in practice. Does it mean willingness to discuss quantified targets, at least in terms of a fairly narrow range, either for the pay round as a whole or for particular industries, despite the recommendation in E(82)53 that the Government should not set numerical targets?

7. The reference to EFLs might also be probed further. One of the disturbing features about the 1981-82 pay round has been that several industries have been able to finance significantly larger pay increases than expected within their EFLs without undue difficulty or any obvious exertions in the direction of greater efficiency and lower costs. Are preliminary discussions in September or October - when there is bound to be much uncertainty about the prospects - enough? Although the Government has never favoured splitting EFLs down (eg into pay and non-pay components) it may at least be worth asking whether there could be merit in being more explicit about pay assumptions and taking such



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measures as reducing EFLs if industries conclude settlements in excess of the stated assumption.

Procedure and Timing

8. E(82)54 suggests that there should be discussion with nationalised industry chairmen both collectively and between sponsor Ministers and individual chairmen. Judging by practice in previous years, that will probably mean the Chancellor seeing the Nationalised Industries Chairmen's Group for a general discussion of prospects for the next pay round, with subsequent discussions between individual chairmen and sponsoring Ministers. If an approach on these lines seems broadly acceptable, the Chancellor might be invited to concert detailed arrangements with the other Ministers concerned.

Better Observance of Information Arrangements


9. We understand from the Treasury and the Department of Employment that there have been a number of occasions on which information has not been provided with due notice (a minimum of seven days) or has been defective when it has been obtained. All that should be necessary is to ask sponsoring Ministers to impress on their chairmen the need to observe the agreed arrangements, unless there are very good reasons to the contrary, and to ensure that their departments are aware of the arrangements.

Likely Trouble Spots

10. There is unlikely to be any disagreement with the suggestion that officials, presumably under Treasury leadership, should assess likely trouble spots and what can be done about them. But you may wish to ask whether this goes far enough. During the 1981-82 pay round it has not, in general, been the big monopoly industries which have produced particularly disappointing results, but some of the smaller industries or industries which should have been able to drive a better bargain than they did. Officials might be invited to look at this aspect as well, with any others which the Committee may think appropriate.

HANDLING

11. You will wish to ask the Chancellor of the Exchequer to introduce his memorandum. Ministers with sponsoring responsibilities for the


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nationalised industries (Secretaries of State for Industry, Energy, Transport and Trade, plus Environment in respect of the water industry) will wish to comment either generally or with regard to their particular industries; the Secretary of State for Scotland* may also wish to comment, though he is not directly concerned with any major pay negotiations (the electricity supply industry negotiates on a GB basis). The Secretary of State for Employment and Mr Sparrow are likely to have general comments.

CONCLUSIONS

12. You will wish the Committee to reach conclusions on the following:

i. Does the Committee approve the proposals in paragraph 10 of E(82)54?

ii. If so, are there any points which require further clarification, for example:

- what kind of "clear understanding" with Chairmen collectively and individually is envisaged?
- what is meant by "being more explicit"?
- how precisely is the EFL to be used to enforce more discipline in pay settlements?

PLG
P L GREGSON

* to be represented by
Mr Allan Stewart

30 June 1982

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