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8 November 1982



10 DOWNING STREET

From the Private Secretary

NATIONALISED INDUSTRY PAY

The Prime Minister was grateful for the Chancellor of the Exchequer's minute of 27 October on the public sector pay scene.

The Prime Minister agrees that the nationalised industries should be pressed to exercise much greater restraint in their pay settlements in 1982-83 than was the case in 1981-82 and that specific action is now desirable by sponsor Ministers to this end. As envisaged in E(82)54 and approved by E Committee on 1 July, sponsor Ministers should as soon as possible arrange specific discussions with the chairmen of their nationalised industries to make clear the Government's desire for lower settlements in the public trading sector, drawing attention to all the relevant factors cited in the Chancellor's minute and stressing the implications of the miners' acceptance of an offer amounting to an increase of around 6.5 per cent on average earnings. Each chairman should be asked to make clear the strategy for pay in his industry in the coming round and to state the contribution which his industry will be making towards the general objective of lower settlements.

The Prime Minister suggests that sponsor Ministers should report to you on the outcome of their discussions by the end of November. In any case where the industry's response appears to be unsatisfactory, Ministers will need to discuss what further steps might usefully be taken.

The Prime Minister has suggested that, as a basis for the discussions the Chancellor of the Exchequer should arrange for a note to be prepared and circulated as quickly as possible to sponsor Ministers about the Government's views on pay and the economic and other considerations which ought to be particularly emphasised to chairmen. Sponsor Ministers will wish to supplement these general arguments with points relevant to the performance and prospects of the particular industry.

/ The Prime Minister

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- 2 -

The Prime Minister has also asked that, when meeting chairmen, sponsor Ministers should take the opportunity, as envisaged in E(82)54 and approved by E Committee on 1 July to establish clear understandings with each industry, based on getting at least seven days notice of offers, especially initial ones.

I am sending copies of this letter to the Private Secretaries of the members of E Committee and of the Secretaries of State for Scotland and Wales, and to Mr. Sparrow and Sir Robert Armstrong.

M. C. SCHOLAR

John Kerr, Esq.,  
HM Treasury

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cc J.V.

Prime Minister

(1)

P.0886

Agree I write as

MR SCHOLAR

proposed by Peter Gregson?

Mus 5/11

NATIONALISED INDUSTRY PAY

Pt. 8

We spoke yesterday about how the Prime Minister might be advised to respond to the Chancellor of the Exchequer's minute to her of 27 October about the public sector pay scene. We were particularly concerned about the vital need to try and ensure lower settlements in the public trading sector in this round.

Pt. 7 / (

2. There are two main problems about nationalised industry pay and both were recognised in the paper by the Chancellor of the Exchequer (E(82)54) which was discussed on 1 July (E(82)17th Meeting), ie:

i. Ministers are often told only at the last minute of the pay offer which a particular nationalised industry proposes to make, leaving insufficient time for consultations within Government or for sponsor Ministers to discuss with the industry the strategy from which the offer derives and the scope for a lower offer;

ii. still more important there is a lack of a proper dialogue between sponsoring Ministers and chairmen of their industries about pay at a formative stage, in time to influence management and union expectations and negotiating strategy.

3. E(82)54 therefore proposed, and E Committee agreed:

a. there should be clear understanding with the nationalised industry chairmen in the early autumn on objectives and broad strategy for pay in their industries in the year ahead;

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b. clear understandings should also be established with each enterprise on the flow of information to be provided, based on getting at least 7 days notice of offers, especially initial ones.

4. The most helpful way for the Prime Minister to respond to the Chancellor's minute would be to reinforce those conclusions and to do so in a way which makes it clear what sponsoring Ministers are expected to do, within what time-scale and providing for a control in the form of reporting back. I attach a draft letter which, if the Prime Minister is content, could be sent out on these lines. Both Mr Quinlan in the Treasury and Mr Smith in the Department of Employment agree that an initiative of this kind would be valuable.

...

I asked Mr Gregson what he thought about this

5. I have also given some thought to whether there is a case for extra official machinery. In my view the problem is not so much lack of inter-departmental coordination but an inability by sponsoring departments to influence the thinking of their industries. Proper discussions with the industries now, of the kind envisaged in the draft letter, should therefore be the first priority. I have however also arranged with Mr Quinlan in the Treasury that, if a letter is sent on the lines of the draft, the Treasury will reinforce this with a meeting at official level, possibly in the Official Committee on Nationalised Industry Policy. The aim would be to ensure that officials in sponsoring departments thoroughly understand the message which has to be put across to their industries and are better equipped to have an informed dialogue with them about pay.

PLG

P L GREGSON

5 November 1982

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DRAFT LETTER FOR MR SCHOLAR TO SEND TO THE PRIVATE SECRETARY TO THE  
CHANCELLOR OF THE EXCHEQUER

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*Approved  
ms*

NATIONALISED INDUSTRY PAY

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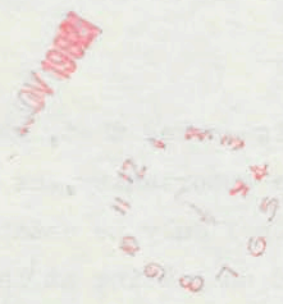
I am sending copies of this letter to the Private Secretaries of the members of E Committee and of the Secretaries of State for Scotland and Wales, and to Mr Sparrow and Sir Robert Armstrong.

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Econ Pol: Public Sector Pay Pt 9

NOV 1982





MR SCHOLAR

cc Mr Mount  
Mr Walters

THE PUBLIC SECTOR PAY SCENE

We spoke briefly last week about the Chancellor's note of 27 October to the Prime Minister, covering a paper by officials (myself included) on the Public Sector Pay Scene. I said then that we had uncovered little, if anything, surprising or new; and that the pay scene moved so fast at this time of year that these periodic snapshots of it soon became out of date. With the outcome of the miners' ballot now known, that is of course particularly true of this one.

But on reflection I think there is one point of which it would be useful to have the Prime Minister's endorsement. That is the Chancellor's suggestion that, as concerns nationalised industries, sponsor Ministers should now enter discussions with Chairmen on their pay intentions. In the course of the work of the official group it became apparent that nationalised industry pay assumptions were in general much higher than they ought to be for the forthcoming round - only the Civil Aviation Authority (5.0%), Post Office (6.0%) and British Shipbuilders (6.2%) plan to settle below 7%, and several plan significantly higher. Now that Cabinet has agreed the EFLs, and now that it is safe to explain to nationalised industry Chairmen that the miners' settlement is really worth only 6½%, it would be useful to launch a campaign on Nationalised Industry Pay.

If the Prime Minister agrees, therefore, I think it would be helpful for you to write to the Chancellor's office asking the Chancellor to arrange for sponsor Ministers to discuss pay with their Chairmen, making as much as possible of the continuing need for restraint and of the improved prospects for inflation, and to report back (perhaps to E) before the beginning of next month.

3 November 1982

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Prime Minister <sup>(2)</sup> of JV  
ms 29/11  
2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434



My ref: H/PSO/17662/82

Your ref:

26 November 1982

*See Copy*

*mt*

NATIONALISED INDUSTRY PAY

The Prime Minister has asked that sponsor Ministers should report to you on the outcome of discussions with our nationalised industry chairmen.

You are aware of the developments in the water industry pay negotiations, and Tom King has kept you fully informed of the discussions he has been having with various representative water authority and water company chairmen over the last few weeks. A major difficulty has recently been resolved by Sir Robert Marshall's decision to hand over the chairmanship of the Combined Employers Committee, which takes strategic decisions on pay, to Sir William Dugdale. The fact that he did not do so earlier has meant that there has been no single person to whom we were prepared to speak with the authority to represent the industry. But, in so far as we have been able to impress directly on a considerable number of regional chairmen the Government's pay objectives and the factors they should take into account, we have in the event probably been able to influence events more effectively than at any time in the recent past. We have, of course, used the outcome of the miners settlement to indicate the ineptitude of their original intention to open negotiations for the manuals at 6% but now, with 4% on the table, we are not encouraging them to relate to the miners at all.

All British Waterways Board settlements fall at the end of the round in July. The Chairman was left in no doubt of all aspects of the Government's position on pay in the discussions we had with him in talks leading up to the recently concluded negotiations for the last round. I do not think there is anything that we could carefully add at this stage, and it is too early to expect the Board to decide on a strategy for next July's negotiations.



I shall discuss this matter with the Chairman fully at an appropriate time next year in the light of developments during the round, and I will report back to you then.

/ I am copying this to the Prime Minister, to members of the E Committee, Nicholas Edwards and George Younger, and to Mr Sparrow and Sir Robert Armstrong.

yes m  
M H

MICHAEL HESELTINE



2000/10/10

10/10/2000





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*Ecan Pol*  
*Prime Minister* ②  
*JV*

*hus 4/12*

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB



The Rt Hon Sir Geoffrey Howe, QC, MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
SW1P 3AG

6 December 1982

*Dea Sidney*

*MS*

NATIONALISED INDUSTRIES PAY

The letter of 8 November from the Prime Minister's Private Secretary suggested that sponsor Ministers should report to you the outcome of their discussions with the Chairmen of their nationalised industries about the prospects for the coming pay round. I have since seen the Treasury guidance notes attached to your letter of 19 November to Nigel Lawson.

I have spoken to Sir Peter Parker and made clear the Government's position. British Rail have already based their plans on an aim to hold the rise next year down to 4½ per cent, but they will of course be looking at this again in the light of the eventual outcome of this year's pay round. I have also raised with Sir Peter the idea of getting away from the annual pay round ritual altogether and thinking in terms of longer term pay contracts, and he has agreed to consider this.

Lord Shepherd has been out of the country, but I will meet him shortly and will take that opportunity to establish the objectives with him so far as the National Bus Company

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is concerned, though their room for manoeuvre is very much affected by the prior settlements for the municipal bus men. But here, too, I intend to put into his mind the thought that it is now time to think about ways of moving away from the old annual pay round provisions if possible.

So far as the British Transport Docks is concerned, the impending privatisation makes the general line of policy for the public trading sector less relevant. The Board for their part will be aiming for settlements in their various ports which will be viewed well by potential investors, while avoiding disruptions that might be damaging to flotation.

I am copying this letter to the Prime Minister, other members of E, and to Sir Robert Armstrong and John Sparrow.

*Gan*

*David*

DAVID HOWELL

*Econ Pol:*

*Public Sector Pay*



- 6 DEC 1982

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JH 464

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ECON POT  
Prime Minister (2) CE SV  
MS 8/12  
DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

8 December 1982

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

Dear Geoffrey,

NATIONALISED INDUSTRIES: PAY

The letter of 8 November from No 10 to your Private Secretary recorded the Prime Minister's wish that Ministers who sponsor nationalised industries should hold discussions with their Chairmen on pay and report the outcome to you.

2 Of the nationalised industries which I sponsor only one, the British Steel Corporation, has an early settlement date (1 January). For the rest it is too early to be precise about likely settlement levels as much as will depend on the course of the pay round.

The position with regard to my industries is as follows:

BRITISH STEEL CORPORATION

I have discussed pay restraint with Ian MacGregor as part of our consideration of the grave financial and commercial position facing BSC. He said that, because many BSC workers were on short-time working, average earnings had dropped in recent months. He proposes in the next pay round to adopt the same strategy as last year: a nil national pay increase, but with plant level negotiations linking pay increases to reduced costs and still greater drives for efficiency. Negotiations will continue through December.

BRITISH SHIPBUILDERS

Norman Lamont wrote to the Chairman in October making clear our view that there is a strong case for those nationalised industries which are dependent on continuing subsidies to settle for a nil wage increase, leaving any earnings increase to be





financed from improvements in productivity. He also asked for adequate advance notice of any pay offers. He followed this up when he met the Chairman on 29 October. Mr Atkinson said that BS were aiming for a zero pay increase. The EFL for the industry has not yet been set, but it will be such that, if BS is to carry out all its capital expenditure, it will be able to afford only a very small increase in pay.

The BS pay settlement date is April 1983. Negotiations normally begin in January. However, in October the Chairman took the initiative by writing to the General Secretary of the Confederation of Shipbuilding and Engineering Unions about the difficulties facing the shipbuilding industry. He emphasised that he could not justify to Government the need for increased financial support if this were to be consumed in increased wages, sought union co-operation to avoid unrealistic wage claims and suggested that any claims should reflect the present decline in this and other industries. He asked for a meeting with the CSEU to discuss these issues and this has now been arranged for 13 December. It is not BS' intention that this meeting should be used to start pay negotiations. Rather it is seen as an opportunity to acquaint the unions with the state of the industry. Norman will be meeting the Chairman again on 10 December to discuss pay before this approach to the unions and will again be making the Government's position clear.

#### POST OFFICE AND GIROBANK

Kenneth Baker last month twice met the Chairman to impress on him the importance of keeping pay settlements as low as possible. Ron Dearing fully supports the Government's position. It is too early to predict the likely outcome of the negotiations since the postal workers are not due to settle until 1 April 1983, and those in Girobank not until 1 July. However, Mr Dearing believes that, with the new union leadership, the lowest settlement that could be achieved in the postal business without provoking damaging industrial action might be nearer to the prevailing rate of inflation than to 3½%; the Post Office has, of course, secured settlements below the rate of inflation in each of the last 3 years. For Girobank much will depend on settlements in the private banking sector. Clearly Kenneth Baker and I will need to review the situation in the New Year before negotiations start in February. Mr Dearing accepts the need for seven days' advance notice wherever this is possible.

#### BRITISH TELECOM

Although the BT settlement is late in the pay round (1 July 1983)





I have written to the Chairman stressing its importance, and have also discussed the matter with him. An encouraging point is that BT have now given the required 6 months' notice of termination of their unilateral arbitration agreement, so that arbitration will not be available to the unions after the beginning of May. The main negotiations usually start around then and the key POEU Conference is in June. In addition BT are hoping to replace their present practice of corporation-wide productivity bonuses by Divisional schemes. Sir George's objective is a deal on bonuses and general increase payments which overall will increase the pay bill (for the same volume of work) by less than the prevailing rate of inflation. Frankly, I do not regard this as a very challenging objective and I am taking it up with him. There will be further opportunities to press the point home between now and when negotiations start. Sir George has undertaken to keep me adequately informed of what is happening.

I am sending copies of this letter to the Prime Minister, to the other members of E Committee, to George Younger and Nicholas Edwards and to John Sparrow and Sir Robert Armstrong.

Your ever  
Patel



Econ Pol

Public Sector pay

- 8 DEC 1982





cc 52  
at B.I.SECRETARY OF STATE FOR ENERGY  
10, WHITE HALL, LONDON, E.C. 4

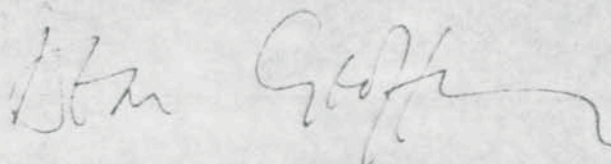
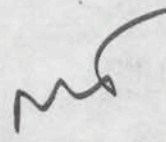
01 211 6402

Prime Minister (2)

Mus 8/12

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

9th December 1982

#### NATIONALISED INDUSTRY PAY

As requested in the letter from the Prime Minister's Private Secretary of 8 November, I am writing to report the position on this year's pay round in the nationalised industries for which I am responsible.

#### British Gas Corporation

I have discussed the prospects for the gas industry with Sir Denis Rooke and Charles Donovan (the personnel member on the BGC Board).

Our discussion concentrated on the negotiations with the manuals, whose settlement date is on 16 January. Negotiations with the staff come much later in the pay round.

The situation is complicated by the increasing pressure the unions have been exerting over the last two years for the consolidation of the bonus element in gas industry pay, which forms a relatively high proportion of total earnings. This was the issue which took last year's negotiations to ACAS, and the trials recommended by ACAS, which are designed to prove an alternative system, are still in progress. Consolidation as such is therefore not expected to be a main issue this year, but it will be prominent in the background.

The unions presented their claim on 25 November; it included a demand for a substantial increase on basic rates, with full flow-through to bonus and overtime payments (an increase unquantified in the claim, but the unions claim to be thinking in the region of 10-15%) and for a reduction in hours. The latter element seems to be associated with a more receptive approach than hitherto to a degree of flexibility in working hours, which could be of benefit to the industry in the longer term, though they do not expect to be able to afford a reduction in hours this year.



The unions are anxious that negotiations should not drag on too long after the settlement date and the Corporation have agreed to have a negotiating session, at which they would respond to the claim, before the settlement date.

They were unwilling at this stage to be precise about their initial offer. Much will depend on the circumstances at the time, including the results of soundings on intentions in other industries and the latest prospects for inflation. However they indicated that they might open in the region of 5%. I urged them strongly, in view of the certainty that there would be some upward movement in negotiations, to consider opening at a lower figure, and drew attention to the 4% opening offer to the waterworkers. (It is fair to add that, as they reminded me, the gap between initial offer and final settlement has generally been narrower in this industry than in some others).

The Corporation readily agreed to let us have a week's notice of the offer they have in mind to make.

#### Electricity Supply Industry

I have discussed the position in the electricity supply industry with Austin Bunch and Roger Farrance (the Council Member for industrial relations).

Bunch told me that he aimed to settle at as low a figure as possible, which should be below the miners settlement of 6.5% on average earnings, while avoiding strike action. Strategy would be considered at the January meeting of the Council's Industrial Relations Committee. They will aim to present settlements in money rather than percentage terms.

The first negotiation will be with the manual workers whose settlement date is 17 March; negotiations usually run into April. The result will influence negotiations with the other three groups:- engineers; clerical; and managers. Bunch and Farrance thought that they would have to offer 5 percent initially if they were not to risk a strong and counter-productive reaction. Again, the industrial settlement in the esi is usually close to the initial offer, and they judged that a lower initial offer could result in a longer negotiation with a higher final settlement. However, I was assured that if a lower offer than 5% was sustainable in the then prevailing circumstances, such an offer would be made. I made it clear that I attached importance to this point. As with BGC, they agreed to give me at least a week's notice of their proposed offer.



Their general assessment of the mood of the workforce suggested that there was little desire to take industrial action over pay.

UK Atomic Energy Authority

I have already written to you about AEA manuals' pay. As you know the Authority has offered just under 3.7%.

British Nuclear Fuels Limited

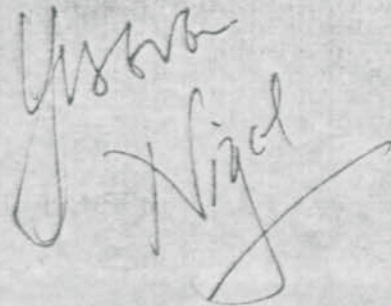
Settlements for BNFL are not due until 1 April (staff) and 1 July (manuals) but my officials are making early contact with them to get our view across before negotiations open, and John Moore will be reinforcing it on appropriate occasions.

British National Oil Corporation

BNOC employs only about 100 staff and their salaries must be competitive with those in the international oil industry. They have not yet decided on their strategy, which is to be considered by a committee of some of the non-executive directors before further discussion at Board level, but they seem to be thinking of increases of around 6%. However, the Civil Servant Board Member did make clear the Government's view at the Board meeting on 29 November. He will keep in close touch with the Corporation on this question.

I am copying this to the Prime Minister, members of E Committee, Nicholas Edwards and George Younger, and to John Sparrow and Sir Robert Armstrong.

NIGEL LAWSON

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', written in a cursive style. The signature is positioned to the right of the typed name 'NIGEL LAWSON'.









From the Secretary of State

*Prime Minister* <sup>2</sup>

*MCS 10/12*

CONFIDENTIAL

John Kerr Esq  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

*WJ*  
7 December 1982

*Dear John*

NATIONALISED INDUSTRY PAY

My Secretary of State has seen Michael Scholar's letter of 8 November to you and also the Chancellor's of 19 November to the Secretary of State for Energy.

Lord Cockfield has now written to the Chairman of both British Airways and the British Airports Authority, stressing the main points made in the attachment to the Chancellor's letter. (He thinks this will be more effective than meetings.)

As you know, British Airways negotiated a pay settlement a few months back for the whole of the two years 1982 and 1983, and no new settlement is due until early 1984. They should not therefore give any further trouble for the next year or so. However, Lord Cockfield has once again stressed to Sir John King the need to keep in close touch and to consult him in advance about pay settlements.

The Secretary of State has made the same point to Mr Payne. The British Airports Authority pay negotiations have just started and Mr Payne has assured Lord Cockfield that the Authority has the Government's message about the need for low pay settlements firmly on board and will now seek a lower settlement than was assumed a few months ago. Lord Cockfield has nevertheless stressed again the importance of not allowing a low offer to drift upwards.

I am copying this letter to the Private Secretaries to the recipients of the Chancellor's letter of 19 November.

*Yours sincerely  
John Whitlock*

JOHN WHITLOCK  
Private Secretary

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