



for
Prime Minister (2)

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 February 1983

The Rt Hon Tom King MP
Secretary of State for the Environment

(I wonder if
the Chancellor
is rueful about
not being on the group)
MS 3/2

Dear Tom

[Handwritten mark]

WATER MANUALS' PAY

I have been reflecting on the position reached on Water Manuals' pay.

As I understand it, the employers have made an offer of 7.3 per cent over 16 months, equivalent to 5.8 per cent over 12 months, together with an increase in service supplement worth about $\frac{1}{2}$ per cent. This offer is, of course, based on the recommendations of the ACAS-appointed mediator, and to that extent represents firm ground for the employers. But it is a high offer. At about 6 $\frac{1}{2}$ per cent on a 12 months basis, it compares with the miners' settlement, for example, at 6 $\frac{1}{2}$ per cent. And it is already well ahead of the rate of inflation.

Even a modest increase on the present offer would be damaging. There is little doubt that the gas and electricity workers would insist on a similar increase (thus making a nonsense of the water workers' efforts to catch up), and the risk that the local authority manuals might decide to try for more than their present offer is something which you fully appreciate. The pay round is already running higher than we would have wished, and pay settlements have not fallen as much as inflation. If these key settlements were to come out at a similar level to last year, our chances of getting a significantly lower outcome in the economy generally would be prejudiced.

I am therefore concerned at reports that ACAS may be pressing the employers to offer a little more, and this not as a basis for a settlement, but to get the unions to go to arbitration. Arbitration on top of the present offer (perhaps with some further enhancement) carries greater risks than the original proposal of arbitration on a 4 per cent offer.

There would seem to be two conclusions for the employers' position:

- (a) they should be very resistant to any improvements on the mediator's not ungenerous recommendations;

/(b) if

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- (b) if it comes to arbitration, the mediator's recommendations should not be treated as a floor. Arbitration should be regarded as an alternative to mediation, and any offer based on mediation should be withdrawn.

Arbitration on any other basis than (b) could just raise the floor for further bargaining, and we should certainly not want to encourage that.

This would still leave room for bargaining on genuinely self-financing productivity improvements within the scope of the mediator's recommendations. That may be where the ultimate solution lies, but even in this context the employers would I believe be mistaken to offer too much too soon, while the unions appear to be in no mood to settle.

I am sure that you already have these points much in mind. Let's have a talk if any of them cause you difficulty.

I am copying this letter to the Prime Minister, the Home Secretary, the Secretary of State for Employment, and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'Geoffrey Howe', written over a horizontal line.

GEOFFREY HOWE

2 FEB 1983
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