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

Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Education & Science  
Department of Education & Science  
Elizabeth House  
York Road  
London SE1 7PH

14 May 1985

*Dear Secretary of State,*

**TEACHERS' PAY (ENGLAND AND WALES)**

You wrote to me on 13 <sup>att.</sup> May setting out the instructions you would like to give your representatives for the Burnham meeting tomorrow.

You propose that your representatives should vote against any offer over 4½ per cent and veto any offer above 5 per cent. You will recall that in his letter of 3 May, Peter Rees said that 4.5 per cent should be the highest offer at which the employers should go to arbitration. There must be a real risk, on the basis of your present proposals, that the employers end up at arbitration with an offer of 5 per cent. I would regret this. But I appreciate why you have concluded that it would not be credible for your representatives to be seen to be blocking an offer up to 5 per cent, particularly against the background of the offer of 4.9 per cent to civil servants.

I think we should make it absolutely clear, however, that 5 per cent is the final sticking point for the Government in all circumstances. This would be an entirely logical position, following the tough line which you took on 9 May with the employers on affordability. In the confusion of this year's pay negotiations, I think we must be quite firm on this point. Even at 5 per cent, many local authorities would have very real difficulties in funding teachers' pay this year. This would increase the pressures on us to relax targets and grant penalties this year which in turn would add to local authority spending next year.

I am copying this letter to the Prime Minister, to the other members of E(PSP), to the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

*Yours sincerely,  
Margaret O'Hare*

**NIGEL LAWSON**

*(Approved by the Chancellor  
and signed in his absence)*

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FILE

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10 DOWNING STREET

*From the Private Secretary*

14 May, 1985

E(PSP):  
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TEACHERS' PAY (ENGLAND AND WALES)

The Prime Minister has seen your Secretary of State's letter to the Chancellor of the Exchequer of 13 May. She has noted the report on the position reached in the negotiations over teachers' pay. She agrees with the instruction which he proposes to give his representatives.

I am copying this letter to the Private Secretaries to members of E(PSP), John Graham (Scottish Office), Colin Williams (Welsh Office), Neil Ward (Northern Ireland Office) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Miss E Hodkinson  
Department of Education and Science

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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

Prime Minister ①

To note latest position AT  
 Agree veto should remain, though  
 at 5.0 pm at rather than 4.9 pm as  
 agreed earlier? 9

AT

13.5

Yes mt

The Rt Hon Nigel Lawson MP  
 Chancellor of the Exchequer  
 Treasury  
 Parliament Street  
 SW1P 3AG

**CONFIDENTIAL**

13 May 1985

Jan Nigel .

TEACHERS' PAY (ENGLAND AND WALES)

The employers came to see me on 9 May, at their request, to ask about the possibilities of some adjustment to the RSG regime in the interests of a negotiated settlement with the teachers this year. They had proposed that representatives of the teacher unions should accompany them to that meeting (and I had agreed to that if the teachers so wished) but in the event none of the teacher unions decided to attend.

I made it plain that the Government is not willing to find more money for local authorities on account of a pay settlement with the teachers this year. To vary the target/penalty system would mean extra money in one form or another. My answer had therefore to be "no" to the question as put. However, there was one set of circumstances in which I would be willing to go to colleagues and ask for extra money. That would arise if teachers and employers were to reach an agreement which would be unambiguously good for children, and affordable. I made it clear that I could not guarantee the response of colleagues to any such approach, should the circumstances arise. I pointed out that as time went by, the practical difficulties of adjustment increased. It was now very much harder to contemplate adjustment for 1985-86 than when I wrote to local authority leaders last July to confirm my willingness to consider any reform package which they might agree with the teachers. (There is of course no sign that any such proposal will emerge, negotiations on the employer proposals having broken down nearly 6 months ago.) As regards RSG arrangements for 1986-87 I told the employers that they could not safely make any assumption that the base line for 1986-87 would be adjusted to accommodate any settlement they might reach with the teachers this year.

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All this has been said many times before and should be well understood by both employers and unions. However, it was clear that the employers wished to have it confirmed in plain terms ahead of next Wednesday's Burnham meeting. With their agreement, I arranged for the press to be informed.

I have now to consider what might happen next Wednesday. It is clear that the employers feel themselves closely constrained by "ability to pay" considerations. It is also clear that they do not think that they could or should find from their own resources enough to reach an agreement with the unions, seeing the minimum possible level of an agreed settlement as the April year-on-year RPI increase (6.1% in March) But the ACC is uncertain, following the 2 May county elections, and it may be that the employers will decide that they must be seen to try to reach a settlement on Wednesday, even though the result might merely be an increased base-line for subsequent arbitration. I have been considering what part my representatives should play in any such decision-process within the management panel. In strict logic, there is a case for my instructing them to say that the employers must themselves decide what they can afford to pay within their present resources. That would be entirely consistent with my refusal to consider increasing those. It would also clearly indicate to the public that the negotiations were essentially between employers and unions, and that a settlement had to be found within the resources available, as is indeed the case for the other public services. There would be no risk that my representatives would have to cast the veto, on instruction, at a level which the employers might be minded to offer, either because they hoped to settle at that level or simply because they wished to attract the veto and so effectively pass the responsibility for breakdown to Government. I think this course has attractions. The risk is that the employers might want to go too far in pursuing will-o-the-wisp prospects of a settlement with the teachers. I conclude therefore that I must give my representatives instructions to prevent that happening.

I consider that the veto level should be pitched to accord with likely public opinion in the event that it should have to be used on Wednesday. I think that the public would not understand a blocking measure at or below 5% if the employers should wish to offer that (and be sufficiently solid to prevail against my weighted vote in the 4.5-5% range). I believe that we should remain credible in the public eye if we were to block any offer in excess of 5% in present circumstances. (My representatives would of course vote against any offer above 4.5%, as previously agreed, except in the highly unlikely event that it was clear that a settlement would result.)

I do not imagine that any of this would result in a settlement next Wednesday. The small changes I propose to make in my representatives' instructions are designed to protect our public position and to try to prevent the employers from passing lead responsibility across to Government.

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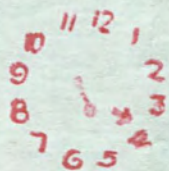
I should need to have any comments you or colleagues might wish to offer by close of play on Tuesday 14 May.

Copies of this letter go to the Prime Minister, members of E(PSP), the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

*Emerson,*

*Kevin*

13 MAY 1985



*Teener Ben*

