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E(81) 1st Meeting

COPY NO

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 14 JANUARY 1981 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food
(Items 1-5)

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Biffen MP
Secretary of State for Trade
(Items 1 and 2)

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham
Lord Chancellor
(Item 1)

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster
and Paymaster General
(Items 1 and 2)

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal
(Items 1 and 2)

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education
and Science

Viscount Trenchard
Minister of State, Ministry of Defence
(Item 1)

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Item 4)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

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1. LETTERS TO CHAIRMEN OF PAY REVIEW BODIES
Previous Reference: E(80) 44th Meeting, Item 1

The Committee considered a note by the Secretaries (E(81) 4) to which was attached draft letters to each of the chairmen of the pay review bodies, and also a minute of 12 January from the Lord Chancellor to the Prime Minister on the question whether the Top Salaries Review Body should look at the pay of the judiciary separately from those of the other main groups with which it was concerned.

THE CHANCELLOR OF THE EXCHEQUER said that the Committee had agreed that the chairmen of each of the pay review bodies should be seen by Ministers and that these meetings should be followed by letters which might be published. He agreed with the general approach in the draft letters attached to E(81) 4, subject to improvement of the drafting and to revision in the light of the Prime Minister's meetings with each of the chairmen.

In discussion the following points were made -

- a. A decision on whether to publish the letters should be deferred until the reaction of each of the chairmen was known. If the chairmen did not accept the line which the Government was taking, there could be disadvantage in publishing letters with which the review bodies would then publicly disagree. Even if the proposed line were acceptable to the chairmen, there was also a case for not publishing, in order to avoid possible criticism that the Government were seeking to influence the independent judgement of the review bodies, though it might well be that the review bodies themselves will want to see the letters published. Each chairman should be invited to give his views on this.

- b. The letters should be amended to bring out the effects on other pay groups if the Pay Review Body groups were to get relatively high settlements. In particular, it was important to bring out that it would be embarrassing if the Doctors and Dentists Review Body were to recommend increases higher than those offered to other National Health Service groups.

c. It was agreed that, for the reasons set out in the Lord Chancellor's minute on 12 January, there would be advantage in inviting the Top Salaries Pay Review Body to consider the pay of the judiciary separately from that of the other groups with which it was concerned.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that at her meetings with the chairmen of the pay review bodies she should show each of them a draft of the letter which she had in mind to send to them subsequently, and seek their views both on content and on the case for publication. She would inform the Chairman of the Top Salaries Review Body of the Committee's view that the judiciary should be exempt from the pay cash limit constraints which would apply to the other groups and invite him to structure his Report or Reports accordingly.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Instructed the Secretary of the Cabinet to revise the draft letters attached to E(81) 4 to take account of the points made in discussion.

2. NATIONAL HEALTH SERVICE AND CIVIL SERVICE CASH LIMITS

The Committee considered memoranda by the Secretary of State for Social Service (E(81) 3) and the Chancellor of the Exchequer (E(81) 5), and a letter of 9 January from the Lord President of the Council to the Chancellor of the Exchequer, on the pay factors in the 1981-82 cash limits for the National Health Service and the Civil Service.

Their discussion and conclusions reached are recorded separately.

The Committee -

1. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Energy, to ensure that the chairman of all the public sector bodies negotiating pay settlements were fully informed of the details of the miners' settlement.
2. Invited the Secretary of State for Energy to arrange for accurate briefing on the miners' pay settlement to be made available to the Press.

3. PRESENTATION OF MINeworkERS PAY SETTLEMENT

THE CHANCELLOR OF THE EXCHEQUER said that, as the Secretary of State for Energy had explained in his note of 16 December, the settlement reached between the National Coal Board and the National Union of Mineworkers (NUM) would increase the rates of pay for mineworkers by 9.7 per cent. This had, however, been publicly presented by the NUM as a settlement amounting to 13 per cent, and some commentators were now claiming that it was worth as much as 17 per cent. In order to influence current negotiations in other public sector groups it would be helpful if all negotiators were made aware of the figuring, and the press were given accurate briefing.

THE PRIME MINISTER, summing up a short discussion, said that the Committee agreed that steps should be taken to ensure that all those negotiating pay settlements in other nationalised industries were aware of the figures underlying the miners' settlement and that press commentators understood the position. Ministers should ~~not~~^{not} however comment publicly on the details of the miners' settlement.

The Committee -

1. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Energy, to ensure that the chairmen of all the public sector bodies negotiating pay settlements were fully informed of the details of the miners' settlement.

2. Invited the Secretary of State for Energy to arrange for accurate briefing on the miners' pay settlement to be made available to the press.

4. ARBITRATION ON PUBLIC SERVICES PAY

Previous Reference: E(80) 43rd Meeting, Item 1

THE COMMITTEE considered a memorandum by the Secretary of State for Education and Science (E(81) 6) on arbitration on public services pay.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE, said that at their meeting on 4 December the Committee had agreed in principle that unilateral access to arbitration in the public sector was undesirable and should be brought to an end where it at present existed. He had now consulted with the local authority employers of teachers, with a view to removing the unilateral right of access to arbitration for the 1981 pay negotiations. Their views were sharply divided. The Association of County Councils wanted to make the change, because they believed that the present arrangements encouraged employees to go to arbitration in the hope of a favourable settlement rather than to negotiate realistically. They claimed to want the same change to be made for other local authority groups, though they had not so far taken any initiative to bring this about. The Association of Metropolitan Authorities on the other hand were strongly opposed to withdrawing unilateral access. They did not believe that it led to high settlements, since arbitrators now took a more realistic view of employers' ability to pay, and they were worried that a change could forfeit their ability to take teachers to arbitration against their will on key conditions of service after 1981. The decision had to be taken immediately. The unions were likely to submit their pay claim as early as 21 January, and any change in the arrangements made after the pay negotiations had opened could be challenged in the courts. If the changes were to be made in time, and in accordance with his statutory obligations, he would need formally to consult the unions this week; the employers had already been consulted. He would, however, see great difficulty in taking this initiative if the arrangements were not to be changed for the Scottish teachers and in advance of the Secretary of State for the Environment taking steps to encourage the water industry employers and the local authority employers to remove the right of unilateral access in time for their next pay negotiations.

In discussion the following points were made -

a. The Secretary of State for the Environment could inform the water authorities and the local authorities of the Government's views but, without taking statutory powers, he could not impose those views on them. He did not wish to consult the water authorities while the current dispute over pay in the industry was still going on. The negotiations on the pay of the local authorities white collar workers were not yet ready to start.

b. It was too late to change the arrangements in Scotland for the 1981 pay negotiations, since the teachers' unions had already tabled their claim. In any event the Scottish local authority employers were unanimously of the view that the present arrangements should stand. In 1980 they had exercised their right of unilateral access to arbitration and secured a very satisfactory outcome. For that reason the Scottish teachers would welcome withdrawal of unilateral access. If it were now decided that the right to unilateral access should be withdrawn in due course, that might need further legislation, or regulations under the Bill which was now going through the House.

c. The Civil Service Department had informed the Civil Service unions informally that arbitration would not be available to them in 1981. The position would be put to them formally when they were told what was the pay factor in the Civil Service cash limit.

THE PRIME MINISTER, summing up the discussion, said that the Committee had previously agreed in principle that unilateral access to arbitration was undesirable. Progress should be made in implementing that decision. The Secretary of State for Education and Science should formally consult the teachers' unions with a view to withdrawing the unilateral right of access to arbitration for the 1981 pay negotiations which would begin shortly. The Committee recognised that the Secretary of State for Education and Science would be exposed to criticism if it were thought that he was acting on the teachers alone while the Government were not apparently taking any initiative on other groups with similar rights.

The Secretary of State for Employment should therefore announce as soon as possible that the Government would be consulting with employers' and employees' representatives in the public service with a view to the withdrawal of the right of unilateral access in all appropriate cases as soon as possible. The Committee noted that the implementation in due course of this decision for Scottish teachers might necessitate the taking of further legislative powers, which the Committee recognised could not be introduced in the present session of Parliament.

The Committee -

1. Invited the Secretary of State for Education and Science to consult formally with the teachers' unions with a view to removing the unilateral right of access to arbitration for their 1981 pay negotiations.

2. Invited the Secretary of State for Employment to announce as soon as possible, in answer to a Parliamentary Question, the Government's view that it was desirable as a matter of principle for rights of unilateral access to arbitration on pay in the public services to be withdrawn, and that they would be instituting consultations with representatives of employers and employees in the public services with a view to giving effect to this principle in all appropriate cases as soon as possible.

Cabinet Office

15 January 1981

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(81) 1st MEETING MINUTES, ITEM 2
WEDNESDAY 14 JANUARY 1981 at 10.30 am

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2. NATIONAL HEALTH SERVICE AND CIVIL SERVICE CASH LIMITS

The Committee considered memoranda by the Secretary of State for Social Services (E(81) 5) and the Chancellor of the Exchequer (E(81) 5), and a letter of 9 January from the Lord President of the Council to the Chancellor of the Exchequer, on the pay factors in the 1981-82 cash limits for the National Health Service (NHS) and the Civil Service.

THE SECRETARY OF STATE FOR SOCIAL SERVICES recalled that, when Ministers had decided in November that the pay factors in the 1981-82 cash limits for the Rate Support Grant and grants to universities should be 6 per cent, they had agreed to defer decisions on the factors for the NHS and other cash limits. It was now necessary to decide the pay factor for the NHS cash limit so that negotiations could proceed for a number of groups whose settlement dates were from December 1980. The pay of NHS ancillary staff had traditionally kept in step with that of local authority manuals, who were expected to endorse on 27 January a pay offer of $7\frac{1}{2}$ per cent. This pointed to a $7\frac{1}{2}$ per cent offer to NHS ancillary staff; and other NHS groups, including the nurses, would expect no less. It would not be practicable to accommodate $7\frac{1}{2}$ per cent pay settlements within a cash limit allowing for a 6 per cent pay factor. Unlike the local authorities, the NHS had no alternative source of financing like the rates; and there was no scope for further savings beyond those already agreed and announced for 1981-82. Any additional cuts in services would be contrary to the public undertakings which the Government had given. In his judgement the NHS groups would settle for pay increases of $7\frac{1}{2}$ per cent with relatively little dispute, and such settlements would represent a considerable achievement for the Government. If on the other hand they were pressed to

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take settlements of 6 per cent there would undoubtedly be damaging and costly industrial action; and the unions' co-operation in implementing longer term changes within the NHS could be lost. He accordingly strongly recommended that the pay factor within the NHS should be $7\frac{1}{2}$ per cent and that he should authorise an offer at this level at the next meeting of the pay negotiating committee on 28 January.

THE LORD PRESIDENT OF THE COUNCIL said that in his view the pay factor should be $7\frac{1}{2}$ per cent in both the NHS and the Civil Service cash limits. The realisation was that the NHS groups would not settle for less and that the Civil Service groups would not take less than the NHS groups. There was likely in any event to be some industrial action in the Civil Service in protest against the suspension of pay research; it would certainly be more widespread and severe if the Government tried to insist on a pay settlement of 6 per cent when local authority and NHS staff were getting $7\frac{1}{2}$ per cent. There was no scope for further offsetting savings, since full credit had been taken already for reductions in Civil Service numbers during the year.

THE CHANCELLOR OF THE EXCHEQUER said that he recommended that the pay factor in both the NHS and the Civil Service cash limits should be 6 per cent. The same figure should be used in the Defence estimates, on the understanding that, as had already been agreed, this cash limit would be revised if necessary to accommodate the Government's decision on the recommendations of the Armed Forces Pay Review Body when these were available. Public opinion expected the pay factors to be 6 per cent and anything more would be seen as evidence of a weakening in the Government's resolve, and would lead to higher settlements elsewhere. $7\frac{1}{2}$ per cent rather than 6 per cent would lead to additional costs in the order of £175 million in the NHS and the Civil Service combined and this would add to the current difficulties of curbing increases in departmental expenditure and the central Government borrowing requirement.

In discussion the following points were made -

a. If pay factors of $7\frac{1}{2}$ per cent were set now, and it was made clear that settlements higher than $7\frac{1}{2}$ per cent would not be accepted, it could well be that all the NHS groups and the Civil Service would settle at that level. On the other hand there was a serious risk

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that, if the Government announced factors of $7\frac{1}{2}$ per cent now, that would encourage the groups to negotiate for several percentage points higher. It would also lead the teachers and the local authority white collar workers to bid for more. If the local authorities had to settle at $7\frac{1}{2}$ per cent, or more, for these groups they would probably have to make further volume cuts, notably in education services. The universities had already been told to expect a pay factor of 6 per cent in their cash limit, but they would be unwilling to accept this if other groups were getting more.

b. If pay factors of 6 per cent were set now and settlements sought at that level, that would provoke costly strike action in both the NHS and the Civil Service. If the unions were forced into strike action, they could well look for more than $7\frac{1}{2}$ per cent with the repercussive effects on other groups which the Government were seeking to avoid. It would put at risk the effectiveness of the cash limit system if Ministers set cash limits, including 6 per cent for pay, which then had to be increased.

c. There would be advantage in providing for factors of 7 per cent for both groups. This would avoid any impression that the Government were imposing a 6 per cent pay norm or that they were simply reflecting settlements negotiated for local authority manuals. If, as was likely, the pay settlements were at $7\frac{1}{2}$ per cent it should then be practicable to find offsetting savings to enable the cash limit, inclusive of the 7 per cent pay factor, to be held.

THE CHANCELLOR OF THE EXCHEQUER said that adjustments in the forecast levels of inflation made the price factor of 11 per cent agreed in the autumn seem likely to be less of a constraint than it had appeared to be. If the Committee decided to set a higher pay factor than 6 per cent, he would be bound to invite the Cabinet to consider whether the price factor should be reduced to 10 per cent.

THE PRIME MINISTER, summing up the discussion, said that, while the balance of opinion in the Committee was against pay factors of $7\frac{1}{2}$ per cent in the cash limits for the NHS and Civil Service, the difficulties of using factors of 6 per cent for these groups were recognised. The Committee accordingly agreed

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that pay factors of 7 per cent should be incorporated in each of the cash limits. This decision should not be announced publicly until after the local authority manual workers had responded on 27 January to the offer made to them. The precise timing of announcements thereafter should be settled in consultation between the Chancellor of the Exchequer, the Lord President of the Council and the Secretary of State for Social Services. The Committee recognised that the likely outcome was pay settlements of $7\frac{1}{2}$ per cent. The Secretary of State for Social Services should not however authorise a settlement for any of the NHS groups higher than 7 per cent without the prior approval of the Committee, unless he was able to find offsetting savings to ensure that the NHS cash limit was not breached. The Chancellor of the Exchequer would consider further whether to ask the Cabinet to reconsider the price factor of 11 per cent agreed in the autumn.

The Committee -

1. Agreed that there should be pay factors of 7 per cent in the 1981-82 cash limits for the National Health Service and for the Civil Service, and that the same figure should be used in the Defence estimate on the understanding that the Defence cash limit would be revised if necessary to accommodate the Government's decision on the recommendation of the Armed Forces Pay Review Body.
2. Agreed that for the time being there should be no public announcement of these decisions, the precise timing of which would be left to be settled with her by the Ministers principally concerned.
3. Agreed that the Secretary of State for Social Services should not authorise pay settlements higher than 7 per cent for groups within the National Health Service without further reference to the Committee, unless he was able to secure offsetting savings.
4. Took note that the Chancellor of the Exchequer would consider whether to ask the Cabinet to reconsider the price factor to be applied to those cash limits yet to be announced.

Cabinet Office

15 January 1981