

CONFIDENTIAL

MR. SCHOLAR

cc. Mr. Hoskyns

Mr. Ingham

Public Sector Pay

In his note of 18 December, the Chancellor addresses the question of how we increase the chances of acceptance of the latest pay offers to the miners, the local authority manuals and the water workers. There are two sets of issues requiring decisions.

(i) What do we do vis-a-vis the other public service groups?

I am sure the Chancellor is right to say that a key factor will be the extent to which the three groups now considering offers think they are doing well compared with the Government's line on public service pay generally. That does point to the need to re-assert the credibility of the 4 per cent pay factor in the period leading up to mid-January. It arises at present in three contexts:

(a) The nurses. The outcome of the Prime Minister's meeting on Friday was satisfactory from this point of view: there was wide publicity given to the fact that the Government was not going to exempt the nurses from the 4 per cent cash limit.

(b) The civil servants. The Chancellor will be minuting separately about our tactics: there is an important issue of how we respond to the 12-13 per cent pay claim. Whether Ministers decide to go for a quick settlement, or to draw out the negotiations, something needs to be done before mid-January to make it clear that the claim is miles out of court. Although we have said we would not set predetermined cash limits, I think we can still say that we shall be

CONFIDENTIAL / negotiating

CONFIDENTIAL

- 2 -

negotiating against the background of cash limits set on the basis of a 4 per cent pay factor.

- (c) Other local authority groups. Here there is a clear need to stop the pay offer to the manuals infecting the teachers and the white collar workers. The Chancellor suggests we make it clear that the Government would use its veto if necessary on teachers' pay, and that the local authority employers (who are in the case of the white collar workers chaired by a Conservative) should be invited to a meeting with Ministers. I am sure both those suggestions are right.

- (ii) What do we do vis-a-vis the public?

Here, events have moved on a little since the Chancellor minuted. The Chancellor agreed in his weekend box the text of a note to be circulated by the Lord President to all Ministers, to be drawn on in their end of year speeches and broadcasts, which emphasises the extent to which progress has been made in improving our underlying competitive position, and the need to keep down pay costs if that progress is to be maintained and unemployment to be brought down. The Prime Minister might like to see the attached copy of that note. And officials are now working on a note which might be sent from Mr. Tebbit to his colleagues most closely concerned about a publicity strategy in the build-up to the miners' ballot: I will be minuting separately about that. That leaves us with the question of how far the Government ought to say publicly that it will be approaching other public service pay settlements in the light of the 4 per cent pay factor. I rather doubt whether to do so attributably would have the drawbacks suggested by the Chancellor in paragraph 8.

/ Having announced

CONFIDENTIAL

CONFIDENTIAL

- 3 -

Having announced the pay factor publicly, it would be odd if we were not prepared to defend it publicly. My own feeling is that, at least until the meeting the Chancellor suggests in January, Ministers ought to be prepared to go on the record to say that the 4 per cent pay factor still stands.

If the Prime Minister agrees, therefore, I suggest that you could reply to the Chancellor's minute indicating that:

- (i) The Prime Minister wishes to consider separately the relationship between the handling of the Civil Service pay claim and these other pay issues, and understands the Chancellor will be minuting about it;
- (ii) The Prime Minister agrees with the Chancellor's suggestions as to the handling of teachers' pay and local authority white collar workers' pay;
- (iii) The Prime Minister agrees that there should be a meeting of Ministers early in January to consider our general publicity effort; but
- (iv) Until then, Ministers ought to continue to indicate that they will be approaching public service pay against the background of cash limits set on the basis of a 4 per cent pay factor.

X

J.S.

21 December 1981

CONFIDENTIAL