

cc. J.V.

PA.



Prime Minister

(live and I mentioned this to you this afternoon.)

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

We are setting up a meeting on

PRIME MINISTER \* not until after Easter unless we rearrange the diary.

Mps pay (Francis Pym, Michael Jopling, Willie Whitelaw, Geoffrey Howe and Cecil Parkinson). Would you like a separate

IMPENDING PAY DECISIONS

meeting on these general pay matters? I don't see the point, since there seems to be nothing concrete.

As I have mentioned in a shorter and more widely-circulated minute, we shall face a large number of complicated and inter-related public service pay questions in about a month's time. This minute sets out some preliminary thoughts about them.

Told the Treasury M.S.

to decide, and since the full diary means

Non-industrial Civil Service

the meeting will have to be after 19 April anyway. Agree no separate meeting! M.S. 31/3

2. We expect to have the arbitration award around 23 April; and we shall probably need to decide within a week to a fortnight whether or not to ask the House of Commons to approve its setting aside. If the award is below about 6 per cent, we should be able to accept it. At least the bulk of the cost will be containable within cash limits (there might have to be some recourse to the Contingency Reserve); and a settlement at this sort of level would be compatible with an acceptable, if not necessarily an ideal, outcome of the pay round in other public services. Anything above 7½ or 8 per cent we should have to reject; and I would expect little difficulty in securing a majority in the House for this, though we could still face an awkward decision regarding the details of what we should put in place of the arbitration award.

3. The most difficult judgement will arise if the award is somewhere between these figures. Such an award would be a clear reverse for our general policy; and the cost could not be contained within existing cash limits. But it would not be far out of line with settlements in the economy generally; we would have to decide whether we could and should ask the House to override the award, on the basis of sticking to our cash provision and seeking to provide a downward lead in the public sector. What we decide for the Civil Service will





have a direct bearing on the teachers and the NHS, which are likely to come later, either in the normal course or because the unions prefer to see what happens to the Civil Service before they settle.

#### Teachers

4. Both the Scottish and the English and Welsh school teachers have gone to arbitration. Presumably the awards should be available in late April or early May. In either or both cases, the question of override may arise. The legal position regarding override differs both as between England and Wales and Scotland, and as between the teachers and the Civil Service; but our decisions on the three cases will have to be publicly defensible as consistent. I would take broadly the same view in the teachers' cases as that set out in paragraphs 2 and 3 above. The only important extra factor is that we should need to carry a majority in the House of Lords as well as the House of Commons on override. We may have to take decisions on the Civil Service award before we know what the arbitrators have decided in the teachers' cases; but we shall need to take our thinking on the teachers as far as possible, and clear up any legal doubts, such as those to which the Secretary of State for Education and Science has recently drawn attention, so that we are clear about what we can properly do when the time comes.

#### National Health Service

5. There appears to be no significant sign of a move to arbitration in the NHS; but we must expect that at least some groups will await the outcome of the Civil Service arbitration before being willing to reach settlements. Others, however, may continue to negotiate; and we shall need to keep an eye on all the possible interactions. If we can bring off a settlement with the nurses on the lines of our current offer to them, that would of course be a very useful step forward.

#### Pay Review Bodies

6. We should receive the reports of the three pay review bodies around Easter. So far as I know, departments have little or no firm





information about the likely recommendations; but on general grounds I would assess the likely prospects as follows.

Top Salaries Review Body. On average, the TSRB groups are getting about 5 per cent less in cash terms than the recommendations for April 1980. The TSRB have given us notice that they intend to do a thorough job this year, and their recommendations may present us with a difficult problem. We ought to have in mind also that our TSRB decisions will affect the climate in which we shall have to take decisions about nationalised industry board members, which will be difficult this year.

Doctors and Dentists Review Body. The DDRB could well add the 3 per cent by which we reduced their recommendations last year to whatever they would otherwise recommend. We must, I think, assume that the likely minimum recommendation is 6 per cent or 7 per cent (including the 3 per cent). This might be reconcilable with our offer to the nurses; but anything higher would create obvious difficulties.

Armed Forces Pay Review Body. General earnings movements since April 1981 would point to recommendations of around 9 or 10 per cent. The AFPRB may reduce this to take account of the current great ease of recruitment and retention. Even so, a recommendation of, say, 7 or 8 per cent would not be easy to handle. It would certainly make it more difficult to cut a Civil Service arbitration award below that level, since it would be difficult to defend the difference of treatment by reference to recruitment and retention factors.

7. In taking our decisions, we shall have to recognise that rejection of the main recommendations of any of these bodies could lead to the resignation of its members. Although Megaw may help us





to devise a system to replace the TSRB, it is not easy to see what could replace the DDRB and AFPRB. But I am not suggesting that this factor should in any way be decisive.

8. We shall have a little leeway on the timing of the announcement of our decisions on the review body reports. (It will, of course, be important to do everything possible to prevent leaks, particularly before the Civil Service arbitration hearing and while we are considering the award.) But we shall need to ensure that our decisions are defensible by reference to our decisions on the other matters discussed in this minute.

9. We shall also need to address the question of the longer-term future of the AFPRB, on which the Secretary of State for Defence has recently circulated a paper to E(PSP). The inconsistency between our policy on the pay of the armed forces and our policy for the public services generally - at least as those policies are widely perceived - is becoming increasingly hard to defend. Our decisions here will have implications for the future system of determining police pay. I understand that this has been under study by a working party of the official side of the police pay negotiating body. No doubt the Home Secretary will be keeping us in touch, and putting forward proposals in good time for consideration before the negotiations for the next police pay settlement begin.

#### Other groups

10. The negotiations with further education teachers in England and Wales and in Scotland are less far advanced than those for school teachers; negotiations with the university teachers have not yet begun. The Government is involved in all the negotiations, though the details of the involvement differ. The Civil Service and school teachers' arbitrations are, of course, likely to be relevant. The other main public service groups (local authority white collar workers and the industrial Civil Service) do not settle until 1 July, but will be keeping an eye, in particular, on the Civil Service arbitration, and will be anxious to exploit any opening. The question





of the firemen does not arise until the "next round"; but they raise the same points of difficulty as the police.

Next pay round

11. It is too soon to begin laying plans for the next pay round; but our decisions on the impending questions in this pay round will need to pay some regard to the prospects for it. We must, of course, secure a reasonable measure of success in the current pay round; but we cannot prudently overlook the risk of provoking an uncontrollable rebound in the next.

Timetable and handling

.... 12. I attach as an Annex an outline timetable of relevant events. The dates in it should not be taken as more than indicative. But it shows the size of the task before us. I see no purpose in trying to draw up elaborate "game plans" before we know, in particular, the full details of the Civil Service arbitration award and the review body recommendations. Nevertheless, I think that it would be useful if we could have some preliminary discussion in the next week or so, which I suggest might take place in a restricted group of Ministers under your chairmanship, so that we can familiarise ourselves with the issues and commission any preparatory work by officials that we think useful.

13. The matters discussed in this minute are, of course, extremely sensitive. I should therefore be grateful if all who receive it could ensure that it is seen only by those with a clear need to know of its contents.

14. I am sending copies of this minute to the Lord Chancellor, the Home Secretary, the Secretaries of State for Defence, Education, Employment, Scotland and Social Services, the Chancellor of the Duchy of Lancaster, the Lord President, the Chief Whip and the Secretary of the Cabinet.

(G.H.)

30 March 1982

ILLUSTRATIVE TIMETABLE

1 April: E(PSP) considers paper by Secretary of State for Defence on future of AFPRB system (E(PSP)(82)7).

Easter: Reports of 3 pay review bodies presented to Prime Minister.

19 April: Civil Service Arbitration Tribunal hearing.

23 April: Civil Service Arbitration Tribunal award received.

Late April/  
early May: Arbitration hearings and awards for school teachers (separate in England and Wales and in Scotland)

first week  
in May: Government decision on Civil Service arbitration award announced;  
Government decision on pay review body recommendations announced;  
[Depending on decision on E(PSP)(82)7] Government decision on future of AFPRB announced

Mid-May: Government decision on teachers arbitration awards announced.

During this period other negotiations, particularly in NHS and education sectors, will be in progress.