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Prime Minister (2)

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PRIME MINISTER

### THE PUBLIC SECTOR PAY SCENE

In my minute of ~~29~~ July reporting on potential 1982-83 trouble spots over pay in the public trading sector, I suggested an autumn review and further report, in the light of the dialogue with the nationalised industries over EFLs.

2. As work has continued it has become clear that it was desirable to set the scene slightly wider, taking in not only the trading sector but issues elsewhere in the public sector. I accordingly attach a note prepared by officials under Cabinet Office co-ordination.

3. I invite particular attention to conclusion (iii) in paragraph 12, about the nationalised industries. As is plain both from the note itself and from the recent New Earnings Survey (which yielded a figure of 11.1 per cent) the public trading sector in 1981-82 did very well for its employees - much better than can easily be justified on an overall national view. We must use all the levers prudently available to us to secure much greater restraint in 1982-83. For reasons special to the coal industry I cannot quarrel with the 8 per cent offer made to the NUM; but we ought to recognise that it is uncomfortably high, matching as it does inflation rates now months out of date. We need to do all we can to focus the attention of negotiators not on this unwelcome precedent but on the 5 per cent inflation forecast, the 3.5 per cent provision in public expenditure plans for public service pay next year, and the even lower provision our major competitors, eg. the FRG and Japan, are making for their public services. It is important that, as soon as EFLs are settled, sponsor Ministers should move quickly and firmly to underline to Chairmen the Government's general views on pay in the light of the new situation on inflation.

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4. Copies of this minute go to our E Committee colleagues and the Scottish and Welsh Secretaries; and also to Mr Sparrow and Sir Robert Armstrong.

(G.H.)

27 October 1982

CONQUEROR





THE PUBLIC SECTOR PAY SCENE

1. This note offers a brief survey of major trouble spots in the public sector (both the public trading sector and the public services) during the early part of the 1982-83 period.

Public Trading Sector

2. In the public trading sector the crucial event is the miners' ballot on 28-29 October. Mr Scargill has been mounting a vigorous campaign to secure a majority for strike action by diverting attention away from the pay offer to closures and union loyalty. If there is a strike it will probably be long. The main consequences for the pay round are likely to be as follows:

- (i) The major public sector groups, particularly those in other public utilities, will be reluctant to contemplate any settlement until the outcome of the miners' dispute is clear.
- (ii) In the more highly-charged atmosphere, the risks of industrial action elsewhere in the public sector - though probably of a more limited nature - are likely to be increased.
- (iii) If legal action is brought against the NUM under the industrial relations legislation, this might provide the occasion for an attempt to mount more widespread industrial action. It is however not clear that such an attempt would be successful; much would depend on the precise issue and the prevailing mood.

If the ballot went against a strike, the two main consequences for the pay round would be:

- (i) The general industrial relations temperature might be expected to be lower.
- (ii) A settlement on the basis of the NCB's offer (8.2 per cent on base rates, around 6½ per cent on earnings) would tend to define the upper limit for other pay negotiations in the public trading sector, particularly the public utilities. In the previous pay round the miners' settlement, which was presented publicly as 9.3 per cent <sup>but</sup> was in practice worth 7.4 per cent on earnings, was followed by settlements of 8.8 per cent in the water industry,



8.6 per cent for British Telecommunications, 7.9 per cent in the gas industry (after arbitration) and 7.4 per cent in the electricity supply industry.

3. Whatever the outcome of the miners' ballot, there could be a difficult situation this year in the water industry. During last year's pay negotiations the employers' side undertook to give consideration, without commitment, to the position of the water manuals in relation to the earnings of manuals in the economy generally on the clear understanding that they would want corresponding benefits in return. There were inconclusive informal joint discussions, in which the unions' case for equivalence with the upper quartile of national earnings (estimated to involve an increase roughly equivalent to 15 per cent on current pay levels) was not accepted by the employers, and the unions have now made this the core of their formal annual pay claim. The refusal of the employers to respond immediately when the claim was submitted at the first negotiating meeting on 21 September led to the first-ever official one-day national strike on 18 October; a continuing refusal to agree to the proposed link at the next meeting on 11 November could well provoke further industrial action. Apart from this, an untypically aggressive attitude by the GMWU for inter-union reasons, the decision to abolish the National Water Council (which the unions may see as portending a move away from national bargaining) and developments in other concurrent public-sector pay disputes might generate a very militant approach by the unions. The expectations of the workforce, upon whose ultimate decision a settlement depends, may be pushed upwards by their perception of the offer to the miners as well as by the upper-quartile issue.

4. The steel industry may also provide a focus for industrial discontent, not about pay but over further job losses and, should this arise, major plant closures by BSC. This is however unlikely to lead to prolonged industrial action on a national scale. This might also provide the occasion for some concerted action by the other unions in the Triple Alliance (the rail unions and the NUM) and perhaps also other unions, but this is more likely to take the form of public demonstrations and marches than continuing sympathetic industrial action. The railways may eventually become a problem in their own right, though following this year's experience any union action would more probably take the form of disruption than of national strike. This however does not stand to arise for some time yet.



5. More generally in the public trading sector there will be an opportunity for the Government to exert some influence on the attitudes of the industries following the Investment and Financing Review. The pay assumptions submitted by the industries in the early summer were considerably above the level of around 4 per cent which would be a desirable outcome for the 1982-83 pay round. As soon as decisions have been finally taken about the EFLs for 1983-84 the industries will have to be asked to look again at their pay objectives, taking account of the reductions in their original bids for finance, the improved forecasts for inflation, and their latest assessment of prospects for their finances.

#### Public Services

6. In the public services the main trouble-spot is the continuing dispute in the National Health Service. Although formally part of the last pay round, any settlement will influence the tone of the present round, particularly if there were to be a 2-year settlement on the lines of the Government's recent proposals to the unions. Exploratory discussion of these proposals with the Royal College of Nursing and other professional nursing bodies is still continuing; but the other unions involved - those affiliated to the TUC - have so far refused to treat them as a basis for negotiation, partly on the grounds that they do not wish to concede a low pay increase for 1983-84 which would set the pattern in the current round. If the dispute continues for some time, the main effect will be that other unions in the public services will not be ready to settle quickly. When the dispute is settled, the effect on the pay round will turn very much on whether the settlement covers 1983-84 and the level of settlement implied for that year.

7. Two public-service negotiations which come early are those for the firemen and the local authority manuals. In the case of the firemen, their pay formula, which provides for a link with the upper quartile of male manual earnings, is likely to indicate a settlement of around 7½ per cent. The possibility of off-setting the adverse presentational impact of such an increase by an increase in pension contributions is being urgently explored. In the case of the local authority manuals Ministers are stressing to the employers (LACSAB) on 25 October the need for a lower pay settlement this year. Press reports suggest that the union claim, which will be formally



tabled on 29 October, will follow closely the common-core claim for the public services drawn up by the TUC (paragraph 10 below); low pay may be a strong theme. The unions may be disinclined to settle until the NHS dispute has been resolved.

8. The Civil Service pay negotiations in the coming round may present difficulty. They will be complicated by discussions about future pay arrangements following the Megaw Report, though even if agreement is reached on new arrangements these could not come into operation in time for this year's negotiations. The Society of Civil and Public Servants, the Civil and Public Servants Association and the Inland Revenue Staff Federation are holding special conferences in the first half of December to discuss the 1983 pay claim and the Megaw Report. The details of the 1983 pay claim and the unions' strategy will not, however, be settled by the Council of Civil Service Unions until early in the New Year.

9. One general factor which may affect the degree of difficulty in the public services in 1982-83 is that in each of the last two rounds average earnings and settlements in the public services have been about 2 percentage points below the average level of settlements and the earnings outturn in both the private sector and the public trading sector. This may well fuel pressures for catching up.

#### Attempts at Co-ordination of Trade Union Activity

10. In 1981-82 the public service unions, under the auspices of the TUC following a Congress resolution, attempted to co-ordinate their pay claims and tactics. They were unsuccessful both in achieving their target of maintenance of real earnings and, following an early settlement for the local authority manuals, in establishing a common timetable. They were however successful in developing a co-ordinated position among the NHS unions which has so far been maintained and they succeeded in securing support for the NHS unions from other unions in the form of limited and patchy industrial action. Following the TUC Congress in September, the public service unions are now seeking to build on this experience. The TUC's Public Services Committee has set as a target pay increases of at least 8 per cent for the current round (the then year-to-year movement of the RPI), with the rider that



some unions would need to aim to achieve more to make good a perceived erosion in earnings. This is seen as a core claim, to which will be attached claims which they see as less significant, e.g. for a shorter working week. Underpinning this claim will be the search for special treatment for the lowest paid, and the unions have agreed to develop jointly the evidence which in their view would justify this. It is possible that this aspiration might come to be quantified, e.g. as a minimum basic wage target (as developed annually by TUC resolutions in the early 1970s), or as a minimum cash or percentage uplift.

11. The TUC Public Services and Nationalised Industries Committees are to hold a joint meeting in November with the objective of exploring how public service claims might be supported by the considerably greater strength of unions in the public trading sector. The present judgement is that this is not likely to result in anything more than declarations of support.

#### Summary

12. The position can be summarised as follows:

(i) In the public trading sector the outcome of the miners' ballot will be critical both for the level of settlements and for the general climate for industrial action.

(ii) The main other possible trouble spots are in the water industry over pay and in the steel industry over job losses and possible closures.

(iii) Following the Investment and Financing Review the nationalised industries will need to be asked to reconsider their pay objectives.

(iv) The outcome of the NHS dispute will be important for the public services both in its effect on the timing of settlements and, if there is a two-year settlement, on the level of settlements in the 1982-83 round; the pay negotiations with the firemen, local authority manuals and the Civil Service will require special attention.

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(v) There may be a general difficulty in the public services because their lower settlements, as compared with the private sector and public trading sector, in the last two rounds may lead to demands for catching-up.

(vi) The public service unions are likely to seek a common approach to pay negotiations but it is not clear whether they will be more successful than in the last round; there will also be an attempt to secure co-ordination between public service unions and those in the public trading sector; present judgement is that this is unlikely to result in more than declarations of support.



27 OCT 1982

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