



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

PRIME MINISTER

NATIONALISED INDUSTRY PAY

Michael Scholar's letter of 8 November asked sponsor Ministers to arrange discussions with the chairmen of their nationalised industries to emphasise the need for lower pay settlements and to enquire what strategy the chairmen would be pursuing for pay in the coming round. You asked sponsor Ministers to report the outcome to me.

2. I have now had letters from the Secretaries of State for the Environment, Transport, Industry, Energy, and Trade. I am grateful for the efforts which have been made to clarify the intentions of the industries. The results help to fill the gap which there has been in the past between the assumptions made by the industries for the Investment and Financing Review, and notification of actual offers 7 days before they are made.

3. The picture which emerges is a depressing one and does not suggest that the industries intend to play any very active part in getting pay settlements down. With a couple of exceptions, they are aiming for settlements in the 4½ to 6½ per cent range, which seems to reflect their perception of inflation prospects and their view of likely settlements in the economy generally. On this basis, I think we are heading for an outcome similar to the last pay round: settlements lower than in the previous year, but a little higher in the nationalised industries than elsewhere. This is clearly unsatisfactory and I think we need to consider urgently whether there is anything more that could be done to achieve a better result.



4. In examining what we might do to improve the climate for low settlements, we need to take account of the different circumstances of the individual industries. The water industry negotiations are already taking place. Here we have at least averted an offer of 6 per cent with arbitration, which could have led to a settlement well above even the 6.5 per cent settlement for the miners. It is most important that the employers should not revert to their initial approach. No doubt Tom King will continue to keep us informed of developments, and in particular will give us the maximum possible notice of any intention to increase the 4 per cent offer.

5. Negotiations are under way at British Steel and BSC's aim is a nil pay settlement nationally. This must be right; and it is also important that not too much should be given away in plant level productivity negotiations.

6. A pay offer is shortly to be made in the gas industry. Nigel Lawson has urged the Corporation to consider offering less than the 5 per cent figure which they seem to have in mind. The situation in the electricity industry is much the same, except that the Electricity Council seem to have been franker about their likely offer and more forthcoming about making a lower offer if that made tactical sense at the time. I share Nigel's view about the importance of getting below 5 per cent: opening offers in line with forecast inflation mean settlements above inflation and a substantial increase in real earnings after allowance is made for drift. The industries can hardly maintain that this would be a defensible outcome.

7. British Shipbuilders, the Post Office, and British Rail all have April settlement dates. British Shipbuilders, like British Steel, are aiming for a zero settlement. British Rail, on the other hand, are thinking of 4½ per cent, subject to developments in the pay round. I do not think we should accept, in the face



of British Rail's financial problems, the implication that a settlement in line with the general average would be acceptable. An approach more in line with that of British Steel and British Shipbuilders would be much more appropriate.

8. Neither the Post Office nor British Telecom, who follow in July, seem to have adopted very challenging aims on pay. Their thinking appears to be based on the rate of inflation, even though settlements in line with inflation are likely to mean an increase in real earnings because of drift. The Post Office make something of having settled at less than the rate of inflation in recent years; but that is true of settlements generally. Surely our aim for these industries should be settlements which are more in line with what we would expect to achieve in the public services.

9. I think it would be useful if we could discuss how we might proceed from here at next week's meeting of E(NI).

10. I am copying this minute to members of E Committee, the Secretaries of State for Scotland and Wales, and to Sir Robert Armstrong and John Sparrow.

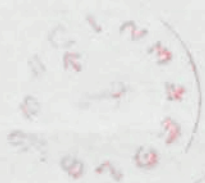
G.H.

16 December 1982

Even Pd : Public Sector Pay



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10 DOWNING STREET

From the Private Secretary

20 December 1982

Nationalised Industry pay

The Prime Minister was grateful for the Chancellor's minute of 16 December.

She shares his view that it would be useful for there to be a discussion on this issue at this week's meeting of E(NI). She would be grateful if he would let her know the outcome.

The Prime Minister has commented that she does not see why it is necessary to make any increase at all in the 4% offer to water workers, given the arbitration agreement; and that British Rail should be planning on a nil or very small pay increase indeed, given the continuing difficulties of securing delivery of the agreed productivity improvements, and British Rail's financial weakness. She also agrees with the Chancellor's inclination to lean particularly hard on the Post Office and British Telecom.

I am sending copies of this letter to the Private Secretaries to the members of E Committee and to Muir Russell (Scottish Office), Adam Peat (Welsh Office), Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

Miss Margaret O'Mara,  
H.M. Treasury,

*MS*

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Prime Minister

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MR SCHOLAR

Yes

minute (attached).

Agree I write as at X?

NATIONALISED INDUSTRY PAY

MCS 17/12

The Chancellor, in his note of 16 December, describes the outcome of discussions that have taken place with Nationalised Industry Chairmen as "clearly unsatisfactory". Although I think that is a little strong - as I indicated in my note last week, the position is certainly no worse than we expected - I do agree that steps should be taken to bring about lower settlements where possible. We have to recognise that in general settlements may turn out to be a little higher than forecast by the industries at this stage, and of course average earnings will be higher still.

If the Prime Minister agrees, therefore, you could suggest to the Chancellor's Office that she would like to have this discussed in E(NI) as the Chancellor suggests - he is Chairing a meeting next Wednesday - and that the outcome should be reported to her, together with recommendations for action.

It might also be useful to pass on one or two comments on particular industries before E(NI) meets. The Prime Minister may feel, for instance, that you should say that she does not see why it is necessary to make any increase at all in the 4% offer to the water workers, given the Arbitration Agreement; that BR should be planning on a <sup>nil or</sup> very small pay increase indeed, given the continuing difficulties of getting ASLEF to deliver the agreed productivity improvements (these difficulties are still holding up payment of this year's 6% increase) and the virtual certainty that the Serpell Report, due early next week, will highlight BR's financial weakness; and that she agrees with the Chancellor's inclination to lean particularly hard on the Post Office and British Telecom.

17 December 1982

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