



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

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Secretary of State for Industry

13 August 1979

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall
London SW1

Dear Chancellor,

NATIONALISED INDUSTRY PAY QUESTIONS

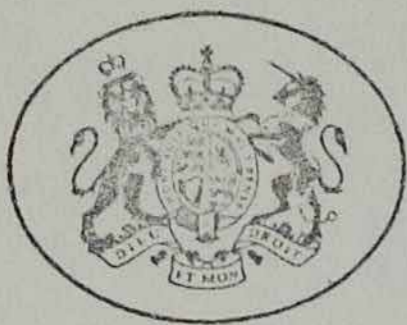
We discussed on 17 July (E(70)5th, item 2) our general approach to questions of pay, prices and efficiency in the nationalised industries on the basis of the proposals of the interdepartmental Committee on Nationalised Industry Policy (E(79)16). You outlined this approach when we met the nationalised industry Chairmen on 23 July but we have not so far explained to them how we wish to deal with individual pay negotiations.

Although the industries Chairmen undertook to develop their ideas on pay in a paper in September, I do not think that should preclude our taking an early opportunity to explain our position to them, particularly since 1 August represents the start of the new 'pay round'. Although different circumstances exist in different industries, it is important in my view that early steps are taken to ensure at least that the approach by Ministers to industries for which they are responsible is not inconsistent.

But before we can approach the Chairmen, we need to clarify our own thinking since it seems to me that there is a danger that we may be facing in two contradictory directions. On the one hand our main objective is clear; nationalised industry managements are to be free to run their own businesses and to decide on pay and pricing questions within the constraints laid down by their financial targets, cash limits and, where appropriate performance targets (and subject to the controls on anti-competitive practices being introduced under the Competition Bill). This means that pay and prices will be decided by the Boards concerned without reference to, or prior approval by, Government.

On the other hand, we have a legitimate interest in knowing how pay negotiations are progressing; we need to be warned of major disputes which can inflict harm on the economy as a whole so that we can prepare contingency plans; we need to have advance warning if nationalised industries are not going to remain within their targets and cash limits; and in loss-making industries we need to be particularly careful that public money is not used

/to increase.....



to increase pay without offsetting improvements in efficiency. These considerations led us to decide on 1 June (E(79)2nd, item 1) that those of us who are responsible for nationalised industries should keep each other informed of pay developments in their industries which might have repercussive effects in other areas.

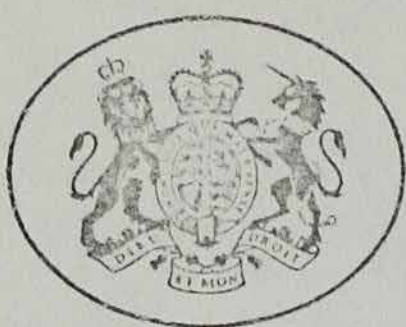
In deciding whether to monitor pay and how intensively, we need to reconcile the desire to obtain information with our general policy of leaving nationalised industries to manage their own affairs. Whatever system we adopt will need to be consistent with economy in manpower: we should avoid resurrecting the apparatus of pay control within Government established by our predecessors.

In my view it would be wrong to ask the nationalised industries to clear pay offers with us or to give us details of pay offers before they are made except if they would - but for remedial action which we would expect any industry with such a prospect to take and explain to us - take them over their cash limits; this would be incompatible with our wish that they should manage their own affairs, would complicate and delay pay negotiations (which are already complex enough) and would introduce the risk of the unions thinking that we were operating some form of pay policy. Besides which the Chairmen would be rightly resentful of the interference and delays which prior notification would involve. On the other hand I think we have every reason to ask the nationalised industries to furnish us with details of pay settlements, productivity deals and productivity trends after agreements have been reached. We shall need this information to monitor each industry's success in adhering to its targets and cash limits and to enable us to seek explanations and assurances if it appears that pay settlements may lead to cash limits being breached or to performance targets not being met. This last consideration is particularly important in monopoly industries to prevent the customer being milked. I also think we need to ask the industries to let us have good warning if a pay dispute looks like escalating into major industrial action.

Special considerations apply to loss-making industries where the taxpayers' money is being used to meet the pay bill of workers who would be redundant in comparable private sector employments. Our cash limits and targets impose constraints but I think we shall need to take additional steps to ensure that money earmarked for investment is not diverted into pay packets or into bogus productivity deals. I am not in favour of our seeking to vet productivity deals proposed in these industries prior to their implementation but I think we should require the loss making industries to justify productivity deals immediately after they are made and at proper intervals thereafter.

More generally, it would be necessary to make it clear that the primary purpose of requiring information was not to absolve the industries from their management responsibilities but to bring before the industries themselves the stark facts about the implications of cash limits on any actions they proposed taking,

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as well as enabling the Government to be aware of the need for any contingent action. Subject to that point, nationalised industries would be entirely free to discuss with Departments any pay questions before negotiations got under way or whilst they were taking place - particularly in cases where difficulties arose. It would also, in my view, be necessary to recognise that the situation in each industry varies, as indeed does the effectiveness of each industry's internal monitoring, and the precise form ^{and extent} in which information is ~~extent~~ and sought and provided will need to be determined in the light of these general principles.

With those provisos I would like to propose that, subject to any comments from the other recipients of this letter, you should take an early opportunity to write to each of the nationalised industry chairmen:

- outlining our intention to apply financial targets and cash limits to each industry (plus performance targets for monopoly industries) details of which (including assumptions about total pay costs) will be discussed with them early in autumn;
- inviting them to keep us informed of pay settlements after they are reached and to provide officials with sufficient information to ensure that the industries are taking fully into account the implications of the settlements for financial targets, cash limits and performance targets;
- inviting them to consult us in advance of pay negotiations which were likely to lead to a settlement causing financial targets or cash limits to be breached together with details of the action planned to recover the position;
- inviting them to give us clear early warning of possible industrial disputes; and
- inviting loss-making nationalised industries to provide details of productivity deals after they have been negotiated and at intervals thereafter for monitoring purposes (making it clear that, if they so wish, there is no objection to their discussing proposed productivity deals with Departments before negotiations get under way). The intensity of monitoring would be for each Department to agree with its industry and for some it may be sufficient to monitor only the general trends of productivity.

Such a letter might provide a good opportunity to draw the Chairmen's attention to Peter Rees's remarks in the House on 9

/July... ..



July about executive perks. The Prime Minister's private secretary wrote to Departments about this on 16 July, making the point that the public sector should not get out of line with the private sector in this area.

I am copying this letter to the Prime Minister, members of E Committee, to the Secretaries of State for Scotland, Northern Ireland and Wales, to the Minister of Transport and to Sir John Hunt.

*Yours sincerely,
Peter Soredden*

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(Approved by the Secretary of State and signed in his absence)

14 AUG 1979

