

CONFIDENTIAL

cc Mr. Wolfson
Mr. Lankester
Mr. Duguid

J. H. [unclear]

PRIME MINISTER

ms Top Copy returned to J.V. train Pd

Public Sector Pay

Events are moving quite briskly on a number of public sector pay issues, and I think you ought to have this brief run down in advance of the reports you will receive in the normal way.

Civil Servants

As I mentioned to you last night, there are no indications of any weakening in the Civil Service Unions' position on the two elements of their claim: this year's pay, and the formula for following years. Nor is there yet any readiness on our side to concede either on the cash limit, or on the most controversial of the elements in the new formula, which will be the unions' insistence on unilateral access to arbitration. The scene is therefore set for a prolonged period of selective industrial action, and the only way out we can at present see is that such action will prove to be ineffective, and will eventually peter out. I have suggested that the Lord President should report to you his assessment before the weekend, and I understand that he may make a verbal report in Cabinet tomorrow.

If the industrial action turns out to be unbearably damaging to the economy, or very disruptive to individuals (i.e. closing Heathrow over the Easter holiday) we shall of course have to look for a way out. The Official Group which is working on the elements for the new formula realises that it may suddenly be asked to accelerate its work so that it produces a report in a matter of days rather than at the end of April as at present planned. But in order to produce something acceptable to the unions we would have to plant a time bomb for next year's settlement which would be very expensive; I would argue that, if it becomes necessary, it would be preferable to raise this year's cash limit and make sure we get the future formula right. *No, No No.*

[I have an [unclear] meeting for Friday [unclear] the above.]

NHS Ancillaries

As you know, negotiations with the NHS ancillaries are moving towards a possible 15½ month settlement which could be accommodated

CONFIDENTIAL

/ within

CONFIDENTIAL

- 2 -

within the 6% cash limit. The Lord President has already raised with Mr. Jenkin the possibility of accelerating this helpful outcome, which would leave the Civil Servants completely isolated in their opposition to a public service cash limit, but I understand Mr. Jenkin has convinced him that any such pressure would be counter-productive in the NHS negotiations.

NHS Electricians

These are a very awkward group with a well-established link to the pay of the electrical contracting industry, which implies a 21% increase. They are threatening industrial action, which would cripple the hospital service, and some unofficial action has already taken place. The Official Group has therefore asked the DHSS to advise Mr. Jenkin to write to his colleagues explaining how he proposes to handle these negotiations.

Nurses

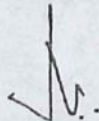
Mr. Jenkin has agreed to put a paper to the Ministerial Group about how he proposes to deal with nurses pay, given that they represent 42% of the NHS pay bill, and have claimed over 25%.

Gas and Electricity

The unions in both these industries have rejected offers of around 11%, and are clearly aiming for the 12-13% range achieved by the miners and the water workers. But there is no immediate threat of industrial action, and negotiations will probably not come to a head until next month.

Water Workers

Mr. Heseltine will not be in a position to make a judgement on the way voting has gone on the employers' 12.3% offer until early next week. Preliminary indications are discouraging, but publicly at least the unions are saying that it will come out all right in the end. They have also pointed out that even if the vote is unfavourable, there would have to be yet another round of consultation before industrial action was authorised. So apart from spasmodic unofficial action, things should be quiet on this front for another fortnight or so.



11 March 1981

CONFIDENTIAL J.M.M. Vereker