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ca Walter
Ingrid
Veeber

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400 GTN 213

Switchboard 01-213 3000

Tim Lankester Esq
Private Secretary
10 Downing Street
LONDON SW1

23 September 1981

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Dear Tim

... I attach a copy of the latest monthly pay brief. Copies also go to the Private Secretaries to members of E, members of E(PSP), E(EA) and to Sir Robert Armstrong.

Yours

Marie Fahey

MISS M C FAHEY
Private Secretary

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PAY BRIEF - POSITION AT MID-SEPTEMBER

SUMMARY OF THE 1980/81 PAY YEAR

1. In the pay year ending 31 July 1981, the Department was given information about 1,004 settlements covering 11,538,000 employees. The overall average level of these settlements was 8 $\frac{1}{2}$ %.
2. In the PUBLIC SECTOR, 109 settlements covering 6,448,000 employees, the average level was just under 8 $\frac{1}{2}$ %. The average in the trading sector was just under 9 $\frac{1}{2}$ % and in the services sector was 8%. A major factor contributing to the high level in the trading sector was the above average settlements in British Rail, gas, electricity, water services and telecommunications. The lower level in the services sector was largely attributable to the 6% pay factor limit set by the Government; apart from special cases (Police, Firemen, Armed Forces) virtually all of the major groups settled for 7 $\frac{1}{2}$ % or less.
3. The average level in the PRIVATE SECTOR, 895 settlements covering 5,090,000 employees, was just under 9% for both manufacturing and for non-manufacturing. The average in non-manufacturing, however, was depressed by the 6.7% settlement for Building and Civil Engineering and implementation of an offer worth 3%-6% in Motor Vehicle Retail and Repair. Exclusion of these settlements would increase the average for this sector to about 10%.
4. Though not strictly comparable the information provided to the CBI in their Databank survey of manufacturing industries broadly supports the information given to the Department. According to the survey there was little change in the general pattern of settlements from October 1980 onwards with pay settlements averaging around 8%.
5. Evidence is tentative at present but it is estimated that the outturn on average earnings for the year measured by the underlying average in the September official earnings index published in November will be just over 10% for the economy as a whole, about 11% for the private sector and about 9% for the public sector. This points to wage drift of about 1 $\frac{1}{2}$ % for the whole economy. There is no evidence of drift in the public services but drift was at least 2% in the public trading sector and about 2% in the private sector. The September index is a more accurate reflection of movements in the pay round than the July or August figures because it is not usually distorted by the timing of back pay or of staged awards. The July index

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(11.5% underlying average, 12.1% actual) published earlier this month is still affected by back pay and staged awards from settlements in the 1979/80 round and this will not fully work through the index until September by which time any delayed payments from the 1980/81 round will also have found their way into the index. There are few settlements which are both reached and paid during August or September so that the September index most accurately reflects changes in earnings over the pay round. The underlying average is used rather than the actual increase in earnings to iron out any distortion such as back pay which artificially affect the earnings of individuals in a particular month or week. Wage drift - the gap between what sponsoring departments and the private sector estimate will be the extent to which earnings will be increased by settlements, and the outturn as measured by the official earnings statistics - is partly a result of inaccurate estimates and partly the result of many other factors affecting actual earnings. A reduction in hours worked, for example, took place over the year and this had the effect of depressing earnings (negative drift); but for this reduction in hours the whole economy drift would have been 2%.

6. The round started with retail prices at 16%-17% above the level of a year earlier and settlements averaging about 19%. By October, however, the position was reversed with prices at about 15½% and monthly settlement levels falling rapidly to about 11%. As the round progressed both prices and settlement levels fell steadily and by July the increase in the RPI had fallen to about 11% with settlements being negotiated at about 8%. Even allowing for drift, average earnings (just over 10%) for the round as a whole are likely to be about 1% below the level of the RPI.

CHARACTERISTICS

7. The trend in settlement levels was similar both in the private and in the public sectors. As expected, early settlements in the private sector tended to reflect the general level of the previous round and, together with the special case increase for Police (21.3%), the effect was to give an average at the start of the round of about 19%. By December with new settlements averaging about 9-10% the overall average had fallen to about 12%. For the remainder of the round the monthly averages stabilised at between 7% and 10%, with a tendency towards the lower end of the range when the round closed.

8. There was a wide range of settlements both within and between industries. Industries in the private sector with below average increases include engineering, road haulage and textiles. Those above average include petroleum and chemicals, food and drink, insurance, banking and finance and distribution. In the public trading sector settlements fell into two camps: the monopoly industries including British Rail but not the Post Office had settlements in the 9½%-12% range; the other industries settled

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at levels much lower. A major factor influencing the level in the public services was the settlement for Local Authority manuals agreed early in the round.

9. About $\frac{1}{5}$ of employees in private sector groups but few employees in the public sector secured holiday improvements.

10. Few settlements included reductions in hours; nevertheless, a substantial number of employees benefited during the round from forward looking agreements to reduce hours made in the previous round and further reductions will result from these agreements in the 1981/82 round.

11. A number of major groups in both the public and private sectors negotiated agreements to last for other than 12 months, but the majority of settlements were for 12 months.

12. A confidential CBI survey of members in manufacturing industries about factors influencing settlements showed that comparability was an important influence on less than $\frac{1}{2}$ of settlements. It had been an important influence on more than $\frac{2}{3}$ of settlements in the previous round. There was a marked strengthening of downward pressures-principally low profits, price competition and fear of redundancy. The principal upwards pressure was the cost of living but this was less important than it had been in the previous round.

CURRENT PAY YEAR

SETTLEMENTS

13. Since the July pay brief 29 settlements covering 197,000 employees with operative dates after 31 July 1981 have been recorded. In the private sector (28 settlements covering 59,000 employees) the weighted average level of settlements was just under $8\frac{1}{2}\%$. The only settlement in the public sector was for Police (138,000) at 13.2%.

14. Because of the small number of settlements notified the average for settlements effective after 31 July 1981 must be treated with caution. Perhaps a better indication of the level of recent settlements can be obtained from an analysis of the 329 settlements covering 4,189,000 recorded in the last 3 months (since mid-June). This shows the level in the public sector (50 settlements covering 2,803,000 employees) to be $7\frac{1}{2}\%$ - about $7\frac{1}{2}\%$ for services and just under $8\frac{1}{2}\%$ for trading. In the private sector (279 settlements covering 1,386,000 employees)

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the average was just under 8% - just over 8% in manufacturing and about 7½% in non-manufacturing.

NEGOTIATIONS

15. In the PUBLIC SECTOR, British Telecom executive grades (1 July - 7,000) have rejected an offer estimated to be worth 10% on earnings, which has been accepted by all other Telecom negotiating groups. The union (SCPS) is continuing to negotiate for pay parity with telephone engineers. UKAEA manuals (1 October - 4,760) have rejected an offer of 4½% on rates. The claim is for a substantial increase. Talks are due to begin soon for Coalmining, manuals (1 November - 198,000), Local Authority, manuals (4 November - 1,077,000), Fire Service (7 November - 39,000) and Water Service, manuals (7 December - 30,600).

16. In the PRIVATE SECTOR, a claim for a substantial increase in line with the cost of living and improvements in conditions has been submitted for employees covered by the National Engineering Agreement (1 November - 1,900,000). The Employers Federation are to reply at a meeting on 24 September. Oil Tanker Drivers (17 November - 8,600) have submitted a claim for substantial increases. Talks at BP begin on 24 September. In Electrical Contracting E & W (1 January - 45,000) discussions are taking place on an undisclosed offer. Next meeting 18 September. An offer of 4% and other benefits, with an additional 1% available in exchange for concessions, to Vauxhall Motors Ltd, manuals (20 September - 23,800) has been rejected by union negotiators but is to be put to members. The claim is for a substantial increase, phased reduction to a 35 hour week and other improvements. An offer of 8.5% to Flour Milling employees (18 August - 7,100) has been rejected after a ballot. The claim is for 9%. At Rolls Royce Motors Ltd, Crewe (1 August - 6,000) an offer of 4.5% and a revised bonus scheme has been rejected. Talks continue. A claim for £20 increase has been submitted for BL (Cars) manuals (1 November - 33,000). The Company is expected to reply by 25 September. Merchant Navy Seamen (2 January - 26,000) have submitted a claim for a substantial increase in pay and other benefits estimated to be worth well over 20%. Employers are to reply at a meeting on 3 November.

PRICES AND EARNINGS INDICES

PRICES

17. In August the year on year increase in retail prices was 11.5% compared with 10.9% in July.

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EARNINGS

18. Average earnings increased by 12.1% in the year to July but this was inflated by about $\frac{1}{2}$ percentage point on account of back-pay and a further $\frac{1}{2}$ per cent owing to comparability increases stemming from 1978-9 round settlements. On the other hand it was depressed by up to $\frac{1}{2}$ percentage point by the fall in hours worked during the year. Also the index does not yet fully reflect the impact of the 1980-1 round.

REAL DISPOSABLE INCOME

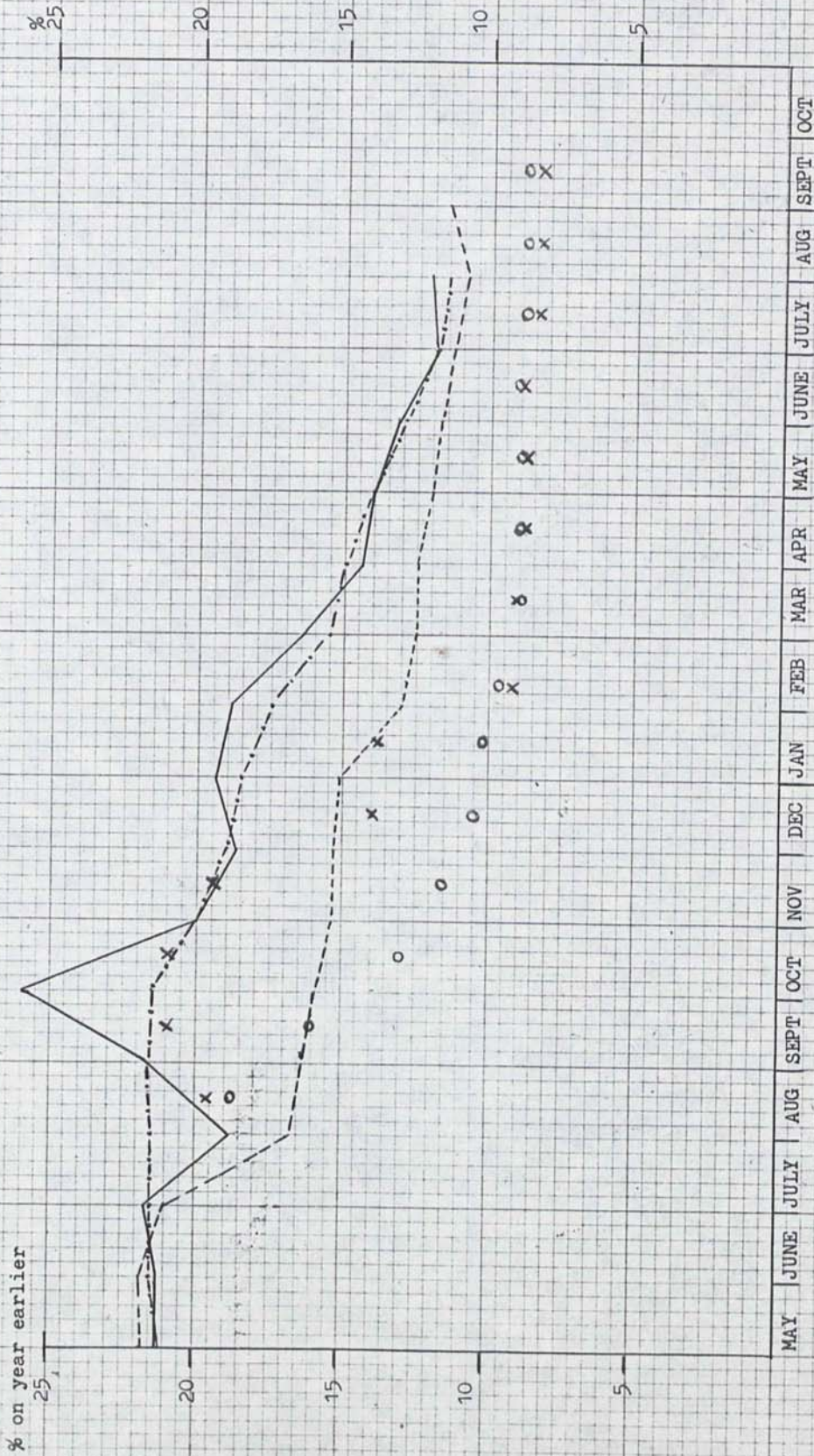
19. The real disposable income - taking account of the change in earnings, prices and taxes - of a married man on average adult male earnings with a non-working wife and two children under 11 (with no other tax liabilities or allowances and not contracted out of the State Pension Scheme) fell by about 1% in the year to June.

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TRENDS IN EARNINGS AND PRICES

APPENDIX 3



X Public Sector Settlements) Cumulative Average Increase in Earnings (effective between 1 August 1980
 O Private Sector Settlements) and 31 July 1981)
 --- Retail Price Index
 — Average Earnings Index (whole economy)
 -.-.- Underlying rate of increase in earnings

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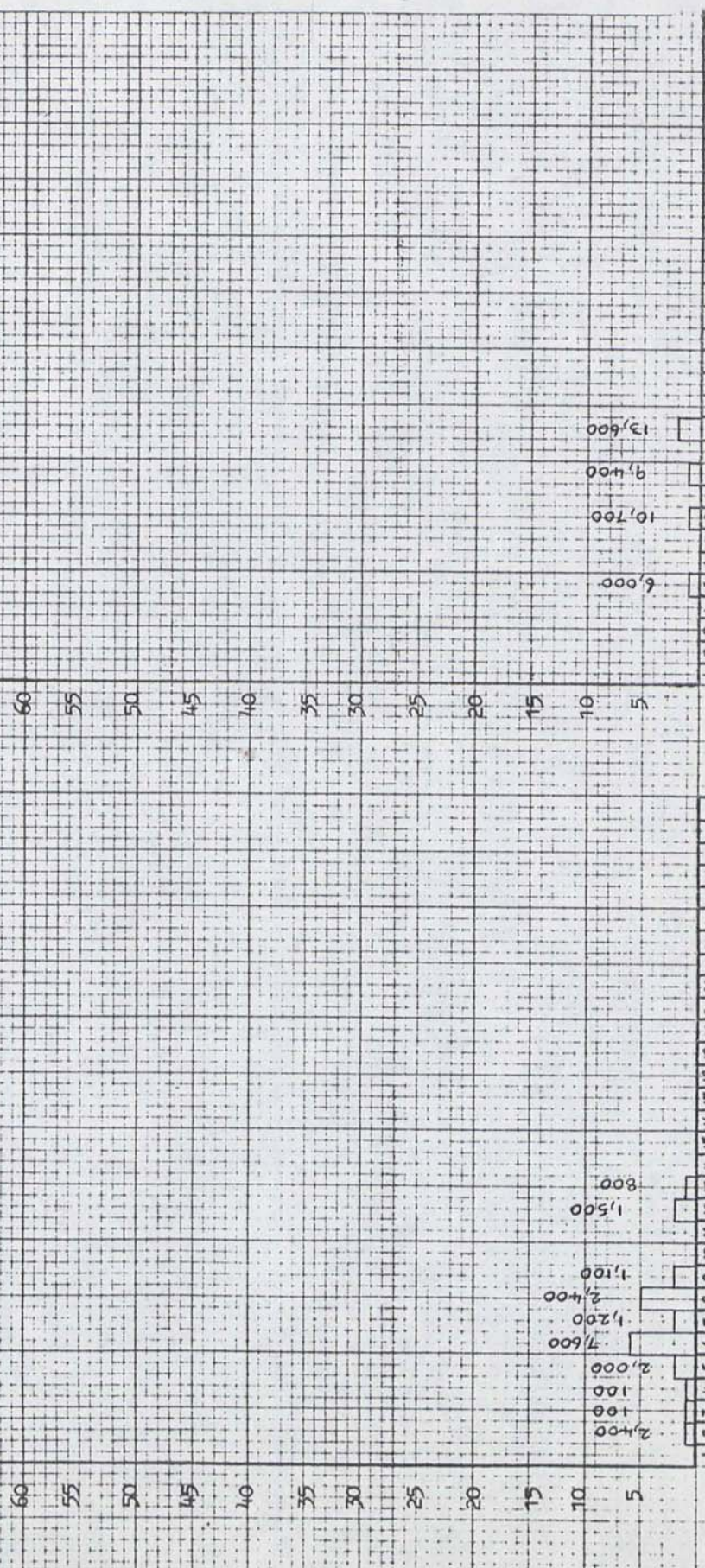
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APPENDIX 4

DISTRIBUTION OF SETTLEMENTS IN THE PRIVATE SECTOR BY LEVEL OF SETTLEMENT FROM 1 AUGUST 1981

KEY SETTLEMENTS UP TO THE LAST PAY BRIEF
 SETTLEMENTS SINCE THE LAST PAY BRIEF

Number of Settlements MANUFACTURING NON-MANUFACTURING



LEVEL OF SETTLEMENT (ROUNDED TO THE NEAREST WHOLE NUMBER)

NOTE: THE NUMBER OF WORKERS (ROUNDED TO THE NEAREST HUNDRED) AFFECTED BY THE SETTLEMENT IS GIVEN ABOVE THE APPROPRIATE INDICATOR.

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