

CONFIDENTIAL

① Zoumba
② BI 2/V
③ Cove.

MR SCHOLAR

cc Mr Wolfson
Mr Mount
Mr Ingham ✓
Mr Shipley

THE WATER WORKERS' DISPUTE

It may be helpful if I offer, for the Prime Minister's return, this assessment of the courses of action open to us in the handling of the water workers' dispute. And, before the Prime Minister comes back, it is highly desirable that we ask Mr King's office for his proposals also. You will recall that Mr King did (in his previous capacity as Minister of State) indicate to the National Water Council before Christmas his willingness to see the 4% offer increased to around 5%, without consulting his colleagues.

Recent Developments

As you know, I have always regarded arbitration as the key to resolving this particular dispute. We are not sufficiently confident of our ability to withstand an all-out water strike, nor of the unions' reluctance to take such action, to justify our insisting on the tough action by the employers that we would otherwise like.

I understand that ACAS has remained in touch with both sides over the holiday period, but because the unions have been consulting their members and the employers have had no common position they have been unable to make progress. The Department of the Environment has made it clear to the NWC that, notwithstanding what Mr King said to them before Christmas, they must come back to Mr King before taking any further action - and Mr King will be seeing the employers tomorrow. The Department of Employment tell me that ACAS has warned the unions informally that their refusal to accept arbitration puts them in breach of their national agreements, but that this has cut no ice. The unions will not acquiesce in arbitration on the basis of the present offer, and ACAS are continuing to take the line

that they cannot intervene formally to arrange arbitration without the consent of both sides.

The NWC appears to have virtually collapsed as a serious negotiating body. As far as we can see, it has made no attempt whatsoever to influence the unions during the consultative period - compare, for instance, with the NCB's campaign during the miners' ballot - and their strategy appears not to go beyond saying that Ministers got them into this mess, so Ministers will have to get them out of it.

Possible Action

We could stand aside from the dispute, wait to see what the unions decide on 17 January, and let the NWC handle the consequences. But that is both risky and impracticable. It is risky because serious industrial action is now a real prospect, and because the NWC might either misjudge that, or collapse entirely and offer the 8% or so which would guarantee an end to the dispute; and it is impracticable because the NWC are looking for guidance from Ministers.

So the real alternatives are:

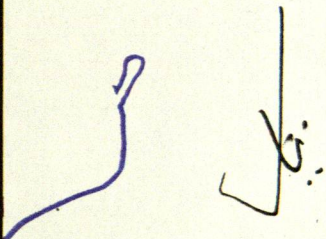
(i) The NWC and Ministers could reach a judgement on what minimum increase in the offer would get arbitration started; or

(ii) The NWC and Ministers could reach a judgement as to the minimum increase required to reach a settlement without arbitration, but after suitably hard bargaining and probably some unofficial industrial action.

My own judgement is that the lowest eventual settlement will be achieved by the employers making a very small increase in the offer, so as to indicate they are negotiating seriously, and then beating the drum very loudly about the arbitration agreement. If the employers and the Government then generated the maximum public awareness of the unions' obligations under the arbitration agreement, it would become difficult for the unions to embark upon serious industrial action; and with the present trend of public

sector pay settlements in this round, there must be a reasonable chance of an arbitration award around 6% or so.

There are however tricky judgements to be made about whether any increase should be made before the unions meet on 17 January, and whether a $\frac{1}{2}$ % increase would be enough; it is on these points that Mr King's views would be helpful.



10 January 1983