

Ref. A022

PRIME MINISTER

The Next Pay Round

(E(79) 27)

BACKGROUND

At your first "strategy" meeting you asked the Home Secretary to arrange for a paper to be prepared setting out the timing of major pay claims over the next year, the problems which these could involve and the Government's options for dealing with them. At the Home Secretary's request a few senior Whitehall officials, led by the Cabinet Office, produced the report attached to E(79) 27. The gist of their findings, together with a few glosses added by the Home Secretary, are set out in Mr. Whitelaw's covering paper and you need not read further than that unless you wish to do so.

HANDLING

2. You will want to ask the Home Secretary to introduce his paper and then call on the Secretary of State for Employment (who was consulted about it) to add any comments. There is no need for extended discussion but you may care to note five points:-

- (a) That the Contingencies Unit is updating its basic plans and the Home Secretary will bring a report to colleagues in September.
- (b) That the Home Secretary has asked the Unit to consider the rather special situations which could arise in areas of high unemployment hit by new redundancies. You might ask him to report to you on this in the first instance.
- (c) The suggestion that consideration should be given to excluding the cost of redundancies from cash limits (which is not only sensible in itself if it enables larger savings to be made but bears directly on what the report identifies as the largest area of uncertainty in the outlook - the reaction of public sector employees to substantial cuts in their numbers).

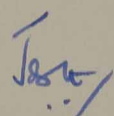
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- (d) The view that the highest risk of damaging strikes next winter lies in the related areas of coal and rail transport - where both industries will in any case be pushed to provide enough coal for the power stations given our need to keep oil use to the minimum. You will recall the figures and the difficulties from the report on winter energy supplies which you had from us on 15th June. You might ask the Ministers concerned, - Energy, Scotland and Transport - to give you an early progress report on how matters are developing.
- (e) The weight which present policies place on macro-economic measures, and the Government's determination, if wage inflation is to be kept under control.

CONCLUSIONS

3. These might be:-

- (i) To note the Home Secretary's report and his intention to bring forward further papers on contingency planning in September.
- (ii) To invite the Chancellor of the Exchequer to consider and report on the suggestion that redundancy costs might usefully be excluded from cash limits.
- (iii) To invite the Secretary of State for Energy, the Secretary of State for Scotland and the Minister of Transport to let you have a progress report on the steps being taken to improve the supply and transport of coal to power stations this winter.


JOHN HUNT

23rd July, 1979