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(1980) 37th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 16 OCTOBER 1980 at 9.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

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The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

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The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture
Fisheries and Food

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The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

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The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education
and Science

The Rt Hon Angus Maude MP
Paymaster General

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Mr J R Ibbs
Central Policy Review Staff

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SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

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1. PUBLIC SERVICE PAY IN THE 1980-81 PAY ROUND

The Committee considered a memorandum by the Chancellor of the Exchequer (E(80) 118) and a memorandum by the Central Policy Review Staff (E(80) 119) on Public Service Pay in the 1980-81 Pay Round.

Their discussion and conclusions reached are recorded separately.

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2. ARBITRATION ARRANGEMENTS IN THE PUBLIC SERVICES

The Committee considered a memorandum (E(80) 113) by the Secretary of State for Employment on the Arbitration Arrangements in the Public Services.

Their discussion and conclusions reached are recorded separately.

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- 3. CIVIL SERVICE PAY
Previous Reference: E(80) 27th Meeting, Item 1

The Committee considered a memorandum by the Lord President of the Council (E(80) 114) on Civil Service Pay.

THE LORD PRESIDENT OF THE COUNCIL said that he had informed the Council of Civil Service Unions of the Government's decision that in 1981 cash limits would be overriding in the determination of public sector pay. He had also put to them proposals for improvements in the pay research system. Discussions were continuing on these proposals and it was too early for him to judge whether it would be possible to reach agreement on an improved system of comparability or whether new arrangements would have to be introduced. Since the Government had already declared that in 1981 cash limits would be overriding there would be no advantage in trying to conclude these discussions in time for the negotiations on that settlement.

The Committee -

Invited the Lord President of the Council -

- i. to continue his discussions with the Civil Service unions on changes in the Pay Agreement for the longer term, and to report further in due course;
- ii. to report on the scope for introducing regional differentials in Civil Service pay.

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4. COMPARABILITY AND CASH LIMITS
Previous Reference: E(80) 27th Meeting, Item 1

The Committee considered a memorandum by the Chancellor of the Exchequer (E(80) 115) covering a note by officials on the options for determining Civil Service Pay in the longer term. They also had before them a note by the Central Policy Review Staff (E(80) 119) commenting on those options.

THE CHANCELLOR OF THE EXCHEQUER said that officials had prepared an interim report on a number of options for determining Civil Service pay in the longer term. He was not satisfied that the report dealt sufficiently with the fundamental issues. He would now like the options to be examined further with a view, particularly, to distinguishing between the arrangements which might be applied during the transitional period when inflation was being reduced and those which might operate in the longer term when inflation had been brought down and the economy had been stabilised. It might be that in the longer term it would be possible to combine improved systems of comparability with no strike agreements in suitable cases.

The Committee -

Invited the Chancellor of the Exchequer to arrange for the inter-departmental group of officials, which had produced the present report, together with the Central Policy Review Staff and the No 10 Policy Unit, to consider further, on the lines he had indicated, the options for determining Civil Service pay and to report.

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5. CONTINGENCY PLANNING

THE SECRETARY OF STATE FOR THE HOME DEPARTMENT said that he would arrange for the Civil Contingencies Unit to ensure that contingency planning for dealing with emergencies which might arise in the coming winter was fully up-to-date.

The Committee

Took note.

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20 October 1980

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 37TH MEETING MINUTES, ITEMS 1 AND 2
THURSDAY 16 OCTOBER 1980 at 9.15 AM

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1. PUBLIC SERVICE PAY IN THE 1980-81 PAY ROUND

The Committee considered a memorandum by the Chancellor of the Exchequer (E(80) 118) on public service pay in the 1980-81 pay round. They also had before them a memorandum (E(80) 119) on public services pay by the Central Policy Review Staff.

THE CHANCELLOR OF THE EXCHEQUER said that the level of pay settlements in the public services would be crucial to the Government's success in reducing public sector borrowing; each percentage point off the pay of the public services as a whole would save nearly £500 million in 1981-82. Low public sector settlements would also reinforce efforts to bring down settlements in the private sector, where many were now being reached in single figures. He was not convinced that sufficient weight had been given so far to job security in the public services. One measure of the value of that security was that over the last three years there had been 1.4 million redundancy payments in the private sector, compared with only about 20,000 in the public services. Against this background he recommended that the factor for pay increases to be incorporated in the cash limits should be well down into single figures. Provision for pay increases in cash limits should be calculated in terms of an addition to the average pay rates over the 12 months preceding the settlement date, and not (in the case of staged settlements) to the final pay rates. Staging should in future be ^{AVOIDED} invited. In his view this approach should also be applied to those groups - the university teachers, the teachers, and the non-industrial civil servants - whose settlements in the 1979-80 pay rounds had been staged. Otherwise the overhang of the

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staging would mean that for these groups the 1981-82 cash limits would have to finance increases in earnings higher than announced pay factors. It would also be necessary to deal with the difficulty that in some cases individual pay years and financial years did not coincide. As a result some settlements early in the coming round would be financed in part from the 1980-81 cash limits, based on factors of 13-14 per cent, and in part from the 1981-82 cash limits which would incorporate the new and substantially lower pay factors. He recommended that it should be announced that the cash limits for 1981-82 would finance such awards only to the extent of the new general pay assumption even if the actual awards were higher. In this way all settlements in the new round would be subject to the same degree of constraint. To prevent the problem recurring in future it would be necessary to adopt provisional assumptions of pay in the 1981-82 pay round lower than those for 1980-81.

In discussion the following points were made -

a. There was general agreement that the pay factor needed to be well down in single figures. It was suggested that it should not be so low as to provoke the public sector unions to concerted industrial action or to build up strong pressures for large increases in two or three years time to catch up with the private sector. In explaining the figure it should be made clear that it was not chosen arbitrarily but represented a considered judgement of what the Government, and the tax payer, could afford in the present economic climate. So far as possible the aim should be to preserve present arrangements for settling pay and to seek low increases within the framework of those arrangements.

b. For the Government's approach to be accepted as fair, the same pay factor would have to be used widely in cash limits across the public services. Public services employers should however be discouraged from offering the same flat rate of increase to all groups and grades within their sector. In negotiations on the distribution of the money available to them flexibility would be needed to allow for management factors eg difficulties in recruiting and keeping particular grades of staff.

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c. There was a risk that a single, widely used, pay factor would be taken as a pay norm. It was nevertheless necessary to identify the pay factor within a cash limit: otherwise the public could be misled. For example, when allowance was made for the factor for prices the overall cash limit for local authorities on which the Rate Support Grant would be based was likely to be significantly higher than the pay factor within it.

d. It was agreed that there was a strong case for avoiding staging in future settlements and for basing the calculations on the average pay rates in the preceding year. In some cases, however averaging retrospectively could lead to a negative award in 1980-81. One possibility would be to deal with such anomalies outside the general cash limit.

e. The argument that weight should be given to job security in the public services would need to be used with care at a time when the Government was pressing for cuts in manpower. Local authorities were already declaring compulsory redundancies, albeit mainly among part-time staff, in substantial numbers.

f. In areas where they were not directly responsible for pay, Ministers should take every opportunity to seek to influence the negotiation of low settlements. It would be helpful if the Chancellor of the Exchequer could arrange for a statement on the current economic background to be available for incorporation in Government submissions to such bodies.

g. In the case of the police services the Home Secretary could use his powers to scale down the level of settlements. He had no powers in relation to the fire services and, unless local authorities were willing to break their present agreement with fire service staffs, it was likely that there would be a settlement in the order of 21 per cent in November.

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h. The public trading sector - mainly the nationalised industries - presented a different problem. Some of their settlements might be higher than those in the public services, particularly those which might be influenced by high settlements in the more profitable parts of the private sector, such as the oil industry. Sponsoring Ministers were however discussing the general question with the Chairmen of the nationalised industries with a view to encouraging them to negotiate lower settlements and, in particular, to avoid financing high settlements by price increases.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the cash limits should be based on factors for pay increases in the public services well down into single figures. The precise figure would be decided by the Cabinet on the basis of proposals by the Chancellor of the Exchequer. Provided that it was not unrealistically low, and was seen to apply fairly through the public services, the Committee's judgement was that there was a reasonable chance of securing satisfactory settlements without industrial action in the coming winter. The Chancellor of the Exchequer should arrange for officials to consider further, in the light of the Committee's discussion, the implications for each of the different groups involved of dealing with the technical problems of reconciling pay and cash limits discussed in his paper.

The Committee -

Invited the Chancellor of the Exchequer -

- i. to arrange for officials of the Departments concerned to consider further in light of the Committee's discussion, the proposals in paragraph 11 b. c. d. and e. of E(80) 118 and their implications for each group involved, and to report urgently;
- ii. to arrange for the co-ordination of evidence on the economic background for inclusion in submissions by Departments to Pay Review and similar bodies.

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2. ARBITRATION ARRANGEMENTS IN THE PUBLIC SERVICES

Previous Reference: E(80) 31st Meeting, Item 2

The Committee considered a memorandum (E(80)113) by the Secretary of State for Employment on the arbitration arrangements in the public services.

THE SECRETARY OF STATE FOR EMPLOYMENT said that, although it might be justified in some special cases such as the police, unilateral access to arbitration was objectionable in principle. Such arrangements were rarely found in the private sector and in his view agreements should provide for arbitration only when both sides wanted it. A particular problem arose where the Government exercised the right, which it had in some cases, to refuse arbitration on grounds of policy. It was difficult for the Government to convince the two sides of industry to honour industrial agreements when it could be accused of not honouring its own agreements. He had not reached final conclusions on what action should be taken to deal with the present arrangements, and he recommended that, as the next step, each sponsoring Minister should now examine the arrangements for the groups listed in parts 1 and 2 of the Annex to E(80)113 for which they were responsible, and report their conclusions to the Committee.

THE PRIME MINISTER, summing up a short discussion, said that the Committee saw considerable disadvantage in perpetuating arbitration arrangements in the public services which provided for unilateral access to the arbitration process; and were particularly conscious of the disadvantages inherent in arrangements, such as those enjoyed by the teaching professions, where the Government could only override an award by securing the approval of Parliament to its action by Affirmative Resolution. The Committee agreed that an urgent review should be put in hand by the Departments concerned to determine the scope for, and implications of changing existing arbitration arrangements to conform to the Committee's views. It was important that any changes in the arbitration arrangements in the public services should be co-ordinated to avoid a piecemeal series of announcements.

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The Committee -

Invited the Secretary of State for Employment to arrange for officials of his Department to co-ordinate urgently an inter-departmental report on the scope for, and implications of, changing the arbitration arrangements listed in the Annex to E(80)113, and to report as soon as possible.

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