Mr Hodgson
Mr Lankester
Mr Vereker

Prime Minister

Prime Minister
This is the negotiation mentioned by Pennock. The employers apparently had no option but to agree to go to arbitration.

LOCAL AUTHORITY PAY NEGOTIATIONS

You are aware I think that in negotiations for the local government main non-manual group (APT and C) last week the National Joint Council, at the union's request, agreed to refer the union claim for increases in pay of 22% plus improvements in conditions to arbitration. The claim relates to the settlement due on 1 July 1980 and is regarded as being in the pay round that ended recently.

The background to this reference is that in advance of the negotiations the national employers most unusually consulted all local authorities to determine the level of the settlement they could afford. The consensus was that the offer should not exceed 13% and during negotiations the employers have steadfastly refused to go beyond that figure despite pressures by NALGO including threats of industrial action. It is consistent with the pay assumption in the cash limit and the same as the settlements for the local government manual groups earlier in the round.

A NALGO delegate conference last month decided to reject the offer and put their claim to arbitration. Under the terms of the national agreement a dispute must, at the request of either side, be reported by the NJC to the Secretary of State for Employment requesting a reference to arbitration. Jim Prior may wish to comment on his position in these circumstances but I understand that, as we have no locus in the negotiations and since the formal reference is, despite the employers' reluctance, a joint one, there are no grounds on which he could reasonably refuse to refer the dispute to arbitration or seek to influence it. Although the employers agonised before last Wednesday's negotiations to find a way out of going to arbitration, they reluctantly concluded that they had no option under the agreement, and they were not willing to make any concessions to buy their way out of the difficulty. The agreement requires that the arbitration award shall be accepted and be treated as though it were an agreement by both sides.

In past weeks publicity has been given to the possibility that some authorities might refuse to implement an arbitration award if it exceeded 13%. In theory it might be possible for them to do this since they subscribe to the national agreement only on a voluntary basis, but I understand that a model individual contract

of employment requiring adherence to the national agreement is used very widely. Apart from this, widespread dissaffection could undermine the national agreement which arguably could be to our longer term disadvantage especially now that the local government employers are increasingly showing signs of negotiating in a responsible manner and are likely to do so in the next round.

The dangers are, of course, that the arbitrator will split the offer and the claim, and even if the latter is put at 22%, this could give rise to an award of 16-17%. But the employers intend to press very hard indeed that the arbitrator must take account of their ability to pay, and there is some hope, in view of the level of settlements in the round for the other local government groups, that a lower award may emerge. The union side will of course argue on the need to maintain the value of the comparability settlement they received earlier in the year.

Throughout these negotiations the employers have behaved in a highly responsible way. Their 13% settlement with their manual workers was last November a relatively good settlement. Their approach has been consistent with our general stance on public sector pay during the last round. There has therefore up to now been no basis on which I could usefully influence events. However

But there were later Clegg stage payments from the previous round.

we are now beginning a new round and together with colleagues from other sponsor departments I am meeting the local government employers on 25 September to discuss the pay round. I shall take the opportunity to consider with them how best to deal with this situation in order to minimise its effects on the crucial manuals' negotiations which are due to begin in November or December.

I am copying this to members of E(EA) and to Sir Robert Armstrong.

MH

16 September 1980

RESTRICTED

vb

10 DOWNING STREET

c D/IND
D/M
SO
WO
TRADE
D/N
Chief Sec.
CO

From the Private Secretary

22 September 1980

Local Authority Pay Negotiations

The Prime Minister was grateful for the Secretary of State for the Environment's minute of 16 September on the local government main non-manual group's pay negotiations. She has noted that the employers apparently had no option but to agree to go to arbitration. Given that this dispute will be going to arbitration, she has suggested that Mr. Heseltine might consider the possibility of the Government giving evidence to the Arbitrator on this occasion. Such evidence could underline the evidence put in by the employers on ability to pay, and could in the process draw the attention of the Arbitrator to the pressures upon private sector employers, the likelihood that pay settlements in the private sector will run at a considerably lower level this year, and the importance of that not being undermined by excessive settlements in the public sector. It might in the process help to weaken the impact of the evidence which will be put in by the unions on the basis of past comparability. The Prime Minister is, however, aware that there are arguments against the Government putting in evidence, and Mr. Heseltine will doubtless weigh these up against the advantages of doing so.

I am sending a copy of this letter to Private Secretaries to members of E(EA) and to David Wright (Cabinet Office).

J. P. LANKESTER

David Edmonds, Esq.,
Department of the Environment.

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PM 24/9

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1

21 September 1980

Dear Michael

LOCAL AUTHORITY PAY NEGOTIATIONS

In your minute of 16 September to the Prime Minister, you referred to my role in relation to the arbitration agreement for local authority APT and C grades.

I am not of course a party to this agreement, which is entirely the responsibility of the employers and unions. It is a historical accident that I am nominated as agent in referring claims to arbitration: most similar agreements now provide for references to be made by ACAS.

In case there is any doubt, I am happy to endorse your understanding that I have no alternative but to refer claims which are reported to me under the terms of the agreement. My role is clearly intended to be a formal and mechanical one. The agreement affords no basis for my seeking to exercise discretion and I am aware of no grounds on which I might purport to do so. Any attempt of this kind would in any case be liable to prove ineffectual since there would be nothing to prevent the parties agreeing between themselves upon alternative arbitration arrangements.

I am copying this letter to the Prime Minister, E(EA) members and to Sir Robert Armstrong.

Yours

CONFIDENTIAL

18 September 1980

Policy Unit

PRIME MINISTER

Prime Minister

Do you wish the proposals in para 7 to be pursued? If so, I will get Cabinet Office advice on how we should handle (b) and (c).

PUBLIC SERVICE PAY

1. Michael Heseltine's minute of 16 September explains that the Administrative, Professional, Technical and Clerical (APTC) grades of local government employees, who were due to settle on 1 July, have gone to arbitration. We understand that there are nearly 600,000 in the APTC grades. He confirms that the national agreement provides both sides with unilateral access to binding arbitration.

2. These arrangements for arbitration seem almost guaranteed to produce intransigence. They invite unreasonable demands and negate the principle that public service pay must in the end depend upon what can be afforded. It appears that few individual local authorities will be free to renounce the arbitration award.

3. On the face of it, there seems to be a strong case for local authorities refusing to implement it if - as seems likely - it is more than 13%. But if this cannot be done, they could at least make the price of acceptance the renegotiation of the present national agreement - especially its arbitration provisions. So long as agreements like this persist, it will simply not be possible for our economic policies to impact upon large parts of the public service. There may be other agreements which require revision, including of course the Civil Service Pay Agreement about which CSD are deliberating. University teachers and Magistrates Courts staff pay raised similar issues in early August. A systematic review is urgently needed.

4. This case belongs to the last round, but will no doubt attract publicity during the early stages of the new round. It highlights the extreme difficulty of imposing the "ability to pay" principle in the public services when settlement dates bear no relation to the Government financial year. It would be difficult to get this principle firmly established even under more rational conditions. But with the myriad bargaining dates and unreal bargaining arrangements, the job is probably impossible.

CONFIDENTIAL

5. We suggest that a fundamental reform which could help to establish firmly the "ability to pay" principle would be to synchronise all public service pay settlements, so that they coincide with the Government financial year. That way, it would be very much easier to demonstrate the close link between public service pay and what the country can afford. We talk about "getting the message across", but without synchronisation, it is hard for any message (other than of incomprehensible confusion) to emerge.

6. Opinion research shows that the principle of synchronising pay bargaining throughout the economy has wide all-party support. It may be impracticable - and possibly even undesirable - to attempt to impose this on the private sector (although the CBI favour it). Since EFLs are only one of several influences on the ability of nationalised industries to pay, there is a less strong case for synchronising their dates - though there is a case. But in the public services, where central Government allocations are the prime determinant of pay, there is an overwhelming case for aligning pay with the Government financial year.

7. In summary, we suggest that the following approach should be examined:

(a) The Local Authority Conditions of Service Advisory Board (LACSAB) should insist on renegotiating the national agreement.

(b) All public service pay agreements should be reviewed, in order that the primacy of the ability to pay principle can be asserted. (Of course, it would still be difficult to assert it, and judgments would be required about threats of industrial action. But at least it would be possible to try in every case.)

(c) A proposal should be formulated for aligning all public service pay with the Government financial year.

8. I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Industry, Employment and the Environment, Robin Ibbs and Sir Robert Armstrong.

JOHN HOSKYNS

cc Mr Duguid

Ref: A03013

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MR. LANKESTER

I have received a copy of the minute which the Secretary of State for the Environment sent to the Prime Minister on 16th September about the decision that the pay claim for local government APT & C grades should go to arbitration.

2. I think that the Prime Minister should agree that the claim should go to arbitration, with the employers making the most of their case on the basis of ability to pay. She may like to consider suggesting to the Secretary of State that the Government should also, on this occasion, give evidence to the arbitrator. Such evidence could underline the evidence put in by the employers on ability to pay, and could in the process draw the attention of the arbitrator to the pressures upon private sector employers, the likelihood that pay settlements in the private sector will run at a considerably lower level this year, and the importance of that not being undermined by excessive settlements in the public sector. It might in the process help to weaken the impact of the evidence which will be put in by the unions on the basis of past comparability.

3. There are several arguments against the Government putting in evidence. The Government itself is not a party to the dispute, and has no formal locus (though of course the central Government finds over half the money required). The union might say that such evidence was not only constitutionally improper but was also likely to undermine the impartiality of the arbitrator, and this could lead them to refuse to accept the result of arbitration. But, as you will have seen from the piece in this morning's Times about Health Service non-manual workers, NALGO members are a good deal less militant than their union, and I am not sure that we need be too frightened of what the union might say or do.

4. In any case the difficulties will speak for themselves; even if the answer in the end is that it would be better for the Government not to put in evidence, it may well be worthwhile making the suggestion.

(Robert Armstrong)

17th September 1980

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