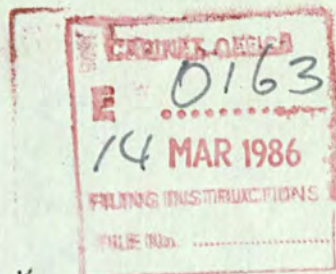


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MR UNWIN

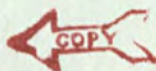
Prime Minister 4

This explains, among other things, the background to your answer about teacher's pay, yesterday.

cc Mr Langdon

Mr Roberts

Mr Norgrove (for information)



DLW
14/3.

SCOTTISH TEACHERS' PAY DISPUTE

Yesterday's Cabinet Minutes record the Scottish Secretary as saying, inter alia:

"The 5.5 per cent offer for 1986-87 was subject to the outcome of the inquiry and to an overall financial limit set by the Government. This was equivalent to the £1.25 million limit set for England and Wales. Local authorities had been informed that if they chose to award more than this, the Government would not make up the difference."

2. This account is different from that given in Mr Rifkind's letter of 12 March to the Chief Secretary (copy attached) and Mr Hillhouse (Scottish Education Department) tells me that it is not correct. The 5.5 per cent offered for 1986-87 is without qualification or condition, and will be paid whatever the outcome of the inquiry. (The Scottish teachers will no doubt be expecting that the inquiry will award them a substantial pay increase on top of that).

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Mr Rifkind has made clear to the Scottish local authorities that he will not release any additional money to finance the settlement either for 1985-86 or for 1986-87; the local authorities have in effect taken the risk of going ahead on the basis that they will have to find the money out of their own existing resources, and there will be no relaxation of the penalties on over spending.

3. There must now be a good deal of uncertainty about the status of the £1.25 billion (not million) over four years for England and Wales, and the £125 million said to be its Scottish counterpart. The offer to authorise an increase in the Education programme conditional on progress towards the achievement of the Government's educational objectives would, if implemented, permit an average pay increase for teachers of around 8 per cent in excess of 'normal' annual settlements constrained to the allowance for inflation in the public expenditure numbers. The England and Wales settlement - 6.9 per cent for 1985-86, end loaded to 8.5 per cent at the beginning of 1986-87 - thus already preempts 2-3 per cent of the implicit overall allowance, after allowing for a 'normal' pay increase of 3 per cent for 1986-87. The Scottish settlement effectively preempts all, or more than all the corresponding sum conditionally offered for Scotland. Moreover both settlements bring forward expenditure much earlier in the four year period than was contemplated last summer by the Chancellor of the Exchequer. If the Government were now to insist on maintaining the £1.25 million limit and the profile of expenditure over the four year period, there might well prove to be no room at all for any pay restructuring or other steps in response to the results of the Scottish inquiry and the ACAS negotiations.

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4. For the moment, there is nothing to be done about this; the Government remains entirely uncommitted to releasing any additional funds over any timescale in order to restructure teachers' pay. Rather the Government will have to await the outcome of the inquiry and the negotiations, and then consider what, if any, increases in the Education programmes would be warranted by the packages on pay and conditions which then emerged. Insisting in the meanwhile on predetermined financial limits would almost certainly be seen as an announcement that the teachers could expect no net benefit from the inquiry and the negotiations, whatever their outcomes, and this would certainly have implications for the climate in the schools.

5. Given all these developments, there is clearly going to be difficulty through the summer for the Government in keeping developments in England and Wales and in Scotland broadly in line with each other, and in reaching conclusions on the appropriate response to two processes whose results may differ in important respects. The Government will need to stick firmly to the ten/90ths formula for determining changes in Scottish expenditure in relation to corresponding changes in England and Wales. The implication of this is that we cannot let Scotland get ahead of England and Wales - a situation in which the Scottish inquiry had reported, while the negotiations in England and Wales were continuing interminably, could not be sustained. The moral, of course, is that the sooner the Scottish inquiry can be extended to cover England and Wales, the better.

6. It may finally be worth noting that the £125 million for Scotland presented last summer as the equivalent of the £1.25 billion for England and Wales is inconsistent with the formula - on the basis of the formula the Scottish figure should be £139 million. I understand that Mr Younger

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accepted this lower figure last summer in the course of some extremely tense discussions with the Chancellor of the Exchequer, on the basis that the phasing of the extra money for Scotland would be different from that for England and Wales, and without either side considering how this could be fitted in with the normal operation of the formula. It seems probable that we shall in practice need to apply the formula precisely when the time comes for the Government to consider what, if any, additional resources should be released in response to the inquiry and the ACAS negotiations.

JW

A J WIGGINS
Economic Secretariat.

14 March 1986.

Attachment:



cc Mr Wiggins
Mr Roberts
Dr Walker

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CABINET OFFICE

A 2732...

12 MAR 1986

FILING INSTRUCTIONS

FILE No.

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

12 March 1986

Dear John,

TEACHERS

You will want to know how the situation in Scotland has developed since my announcement last Thursday of an independent inquiry.

The announcement was well received by the media and by parents, and welcomed by the employers. The unions, taken by surprise, were initially defensive. I met representatives of both sides, separately, on Friday. It was necessary to explain to the Teachers' Side, as I had done to the House, that the inquiry team will be free to make any recommendations that they think appropriate after hearing the evidence put to them by all parties, including the Government; but I emphasised that the Committee would have to take into particular account what ratepayers and taxpayers could afford. I left them in no doubt that we should want to study the inquiry recommendations as a whole (and the reactions of unions and management to them) before reaching our decision on them. I put these same points to the employers' leaders when I met them on Friday afternoon and particularly stressed that they should be seeking a settlement for 1985/86 within what they knew they could afford. The general result of my discussions seems to be that the unions, while hostile to some of the terms of reference of the inquiry, will collaborate fully with it; the employers certainly will.

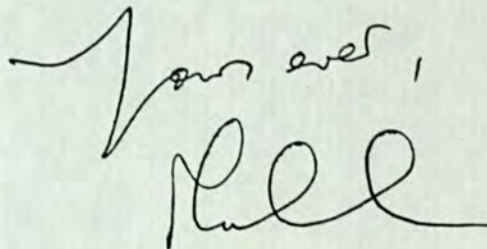
The Scottish Joint Negotiating Committee met yesterday. There was some pressure in the preliminary meeting of the Management Side to seek additional resources from the Government, but my representatives said categorically that the employers could not look to Government for any assistance or relief from penalties for overspending. The Teachers' Side argued that the settlement must cover both 1985/86 and 1986/87, since

otherwise they would have to wait until late in the year, after the inquiry had reported before they could get a 1986/87 settlement. They also insisted that the 1985/86 element should be worth at least 0.5% more than the Burnham settlement, on the grounds that they had lost that amount of ground relative to Burnham in 1984/85 (when Scottish teachers were refused but English teachers allowed access to arbitration). The employers were convinced that they would have to meet these demands if disruption were to be ended, and accordingly offered 7% from 1 April 1985 plus 2% (on the 1984/85 base) from 1 January 1986, and a further 5.5% (on the new 1985/86 base) from 1 April 1986. This last figure (5.5%) was apparently agreed within COSLA in consultation with the leaders of the Employers' Side for negotiations on other local authority pay groups and is seen by them as unlikely to prejudice the rest of the present pay round. The settlement will lead to a total increase of 14.9% in 1986/87 over present (1984) rates. The Teachers' Side agreed to recommend this offer to their executives. Subsequently the executives of the 2 largest unions agreed to recommend their members to accept the deal by ballot and to suspend strike action till the ballot results are known. The SSTA have also suspended the exam boycott and the EIS have set in hand procedures to end theirs.

It goes without saying that I should have preferred a more modest settlement. By offering a settlement well above what they have budgeted for the employers have undoubtedly taken great risks. I expect they will shortly come back to me with a formal request for a relaxation of the penalty regime, although they know in advance that I shall refuse it.

We now have the prospect of a rapid return to a reasonable degree of normality in the schools and a considerable improvement in the atmosphere: strike action will cease and the threat to the examinations will be lifted. It is unlikely that curricular development work will fully resume until after the inquiry has reported - but after the delay to the Standard Grade programme it would in any case have taken some time for progress to be resumed, and meantime I expect that a good deal of work will start up whatever the formal position of the unions.

Copies of this letter go to the Prime Minister, members of E(PSP), the Secretaries of State for Wales and Northern Ireland and Sir Robert Armstrong.

Yours ever,


MALCOLM RIFKIND