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PRIME MINISTER

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The Press know (Treasury briefing last weekend) that Cabinet will be considering this. It will be important, therefore, to decide at Cabinet what is to be said. At flags A and B are

Public Service Pay and Public Expenditure draft Press guidance  
in 1983-84 notes which the Chancellor  
(C(82) 35) will have in his folder.

The Ministerial Committee on Economic Strategy agreed in July that there was a need for a further substantial reduction in pay settlements in the 1982-83 pay round compared with the round immediately past. There was to be no public numerical target; but the Government should privately aim at settlements of about 4 per cent on average to give overall earnings growth (after 'drift') of no more than 6 per cent. The question of the pay factor for public expenditure planning was left for later consideration (E(82) 17th Meeting, Item 1).

2. This memorandum by the Chief Secretary, Treasury, (C(82) 35) discusses that question. It proposes that there should be a pay factor for 1983-84 of 4 per cent (for public service groups apart from the National Health Service); and that this should not be formally announced until late November or early December as part of the announcement of the Government's public expenditure plans, although (paragraph 7) "if it leaked before then, as must be expected, this may be no bad thing". Ministers would, however, continue to take every opportunity to stress in general terms the need for pay settlements in the coming year to be much lower than in the past year.

MAIN ISSUES

- 3. The main issues before the Cabinet are:-
  - (i) Should there be an explicit pay factor for the purpose of planning public expenditure in 1983-84?
  - (ii) If so, what should it be?
  - (iii) If so, where and how should it be announced?

Should there be an explicit pay factor?

4. Present public expenditure plans for 1983-84 are based on an inflation factor of 6 per cent, not differentiated between pay and prices.

5. The disadvantages of an explicit pay factor are familiar: it may be seen as setting a floor from which public service unions seek to negotiate up, or a ceiling above which public service employers cannot go, or as effectively ruling out genuine pay negotiations.





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6. Those disadvantages could be avoided by a zero pay factor, leaving the whole amount of pay increases to come out of the contingency reserve; but that would weaken the discipline of cash planning.

7. Since inflation may well be running at around 6 per cent in 1983-84, not to declare a pay factor and leave the present figures as they stand would imply provision for the pay bill to rise by about 6 per cent. If that is to be avoided, and the aim of 4 per cent settlements is to be realised, an explicit pay factor, or at least a downward revision of the overall inflation factor, seems inevitable. It is preferable to have a separate pay factor, because the pay content of individual programmes varies very greatly. A figure will in any case need to be set for the preparation of the Estimates; there would probably also be advantage in having a figure which could be conveyed to the local authority employers on 25th October.

What should the pay factor be?

8. The pay factor for 1982-83 was 4 per cent. In that sense a pay factor of 4 per cent for 1983-84 would look like a "no change" signal, and inconsistent with the aim of a reduction in public service pay settlements. Hence the CBI's preference for no "signal" unless it is for less than 4 per cent.

9. But settlements this year were at around 6 per cent or more; so a pay factor of 4 per cent would still be consistent with a reduction in settlements if a major effort was made in public relations and in negotiations to ensure that the outcome, in terms of settlement rates, was nearer 4 per cent in 1983-84.

10. Cash planning demands a pay factor which can be seen as not too unrealistic. The risks of a 3 per cent pay factor are that it would appear to be unrealistic: that it would come in practice to be seen as neither a cash constraint nor as a prediction of the likely outcome but as an opening position in pay negotiations. This could undermine the cash planning approach.

11. There is thus a conflict between considerations of "signal" and considerations of "realism". Realism inclines the Chief Secretary to 4 per cent; the Cabinet will have to decide whether they agree.





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12. There are three other points which are relevant to the size of the factors:-

(a) The NHS Negotiations

The Press have inferred from the most recent offers to NHS workers that the Government is assuming a 4 per cent pay factor for 1983-84. To announce a 3 per cent factor would make those offers seem more generous and increase their chance of being accepted. On the other hand, it could be regarded by other public service groups, notably the Civil Service, as evidence that the Government intended to discriminate against them.

(b) Other current Negotiations

The offer to the mineworkers has been reported in the Press as being worth 8.2 per cent. This may make a figure of 3 per cent look implausible. On the other hand, it is no more out of line with a factor of 3 per cent than last year's settlement of 9.3 per cent on basic rates was with the public service pay factor of 4 per cent.

(c) Effect on Public Expenditure Programmes

The general inflation of 6 per cent for 1983-84 was widely regarded in Departments as providing for about an 8 per cent increase in prices and a 4 per cent increase in pay. The Chief Secretary says (paragraph 14) that he will take account of the "new assumption about public service pay" programme by programme, in his eventual proposals to Cabinet on public expenditure. Spending Ministers may question the implication that a pay factor of 4 per cent (which was implicit in the provision for existing programmes) provides some grounds for revising their figures. The Chief Secretary is likely to reply that 8 per cent is almost certain to be too high for movements in prices, but that he is not proposing a reduction in the public expenditure figures on that account. He therefore feels justified in proposing some adjustments in particular programmes in respect of pay. Some Ministers have reached agreement bilaterally with the Chief Secretary on their programmes and will be anxious for an assurance that the agreement is





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not now to be re-opened. We understand from Treasury officials that the Chief Secretary has struck his bargains in the expectation of a pay factor of 4 per cent and is unlikely to want to re-open them if that expectation is confirmed. If the Cabinet decides on a factor of 3 per cent, he will probably want to look again at the figures. It will not be possible to settle detailed points of this nature around the Cabinet table. If they are raised, no doubt you will wish to invite the Chief Secretary to discuss them bilaterally with the spending Ministers concerned.

#### Timing and Presentation of Announcement

13. The discussion about the timing and presentation of the announcement will be closely influenced by the decision on what the factor should be. If the decision is in favour of a 3 per cent factor, the Cabinet will have decided to give weight to the "signal" effect, and that would strengthen the case for an early announcement. If the decision is in favour of 4 per cent, there will be a good deal to be said in favour of the Chief Secretary's "low key" approach of deferring a formal announcement until late November/early December, while acknowledging that the decision might leak before then and that this might be no bad thing. That would be consistent with the offer to NHS workers, which has given the impression that the public service pay factor for next year may be 4 per cent. Against this it could be argued that deferring the announcement and allowing the Cabinet's decision to leak could lead to confusion about the status of the pay factor and that it would be preferable to get the Government's position across in a clear and controlled way by an announcement which could nevertheless be "low key".

14. The point is particularly relevant to discussions with the local authorities, whose negotiations have had a formative influence on the last two pay rounds. Ministers are due to meet the local authority employers on 25th October to discuss the coming pay round. The local authorities may be assuming that the Rate Support Grant settlement will allow pay increases of 6 per cent. Even if there has been no formal announcement of the pay factor, the local authorities

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will need and expect to be given clear quantitative guidance. It will be important to have a clear line, agreed between Ministers, before the meeting of 25th October. This can be left to be settled in detail, in the light of the conclusions at this meeting, between the Chancellor of the Exchequer, the Secretary of State for the Environment and the other Ministers with local authority responsibilities.

#### HANDLING

15. You will wish to ask the Chief Secretary, Treasury to introduce his memorandum. The Chancellor of the Exchequer might then be asked to speak about the economic outlook in general and the pay scene in particular. The Home Secretary and the Secretaries of State for Education and Science, Defence, Environment, Scotland and Social Services will have views on the likely implications for public service pay negotiations in the current pay round; and the Secretary of State for Employment is also likely to have general comments on this aspect. The Lord Privy Seal may wish to comment on the implications for Civil Service management. The Secretary of State for Industry should be able to offer advice about the likely attitude of the private sector. Finally, the Lord President of the Council and the Chancellor of the Duchy of Lancaster may have views on presentation.

#### CONCLUSIONS

16. The Cabinet will need to reach conclusions on the following:-

- (i) Should there be an explicit public service pay factor for 1983-84?
- (ii) If so, what should it be? and how should it be taken into account in the remainder of the Public Expenditure Survey?
- (iii) When and how should it be made known?
- (iv) What guidance should be given to the Ministers concerned in deciding the line to be taken when the Government sees the local authorities on 25th October to discuss the current pay round?

Robert Armstrong

28th September 1982