

# TREASURY

Part A

FILE NUMBER

PO - CH/NL/0793

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PO - CH/NL/0793

DHSS

Civil Service

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1984

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WORKING AGENDA

1. Background papers are

- "Green Book" : DHSS paper on policies for Health, Social Services and Social Security, circulated for September meeting and now updated.
- "September record" : Robin Butler's letter of 16 September to Sir Kenneth Stowe.
- "Progress Report" : Secretary of State's minute of 23 December to the Prime Minister.
- "Demand-Determined Programmes" : Chief Secretary's letter to the Secretary of State of 22 December and Secretary of State's (forthcoming) reply including background notes on forecasting Family Practitioner Service and Social Security expenditures.
- Note on Housing Benefit Scheme (forthcoming).

2. Health Services

2.1 Hospital and Community Health Services

Objective : Main emphasis on increasing efficiency and improving management. Aim to develop services and provide for medical advance by cost improvement in existing services.

Action : initiatives already taken to increase accountability and to control costs and manpower are reinforced by Griffiths report. Implementation of Griffiths now starting. New Management Board being set up to lead sustained programme of management action.

Outstanding Issues :

- a. Should the main priority for DHSS action remain the follow-up to Griffiths, including pursuit of cost

improvements and better use of staff?

- b. NHS Supervisory Board has identified care of the very elderly, prevention, and bottlenecks in acute treatment (eg hip replacements and renal dialysis) as priorities for policy review and action.

## 2.2 Family Practitioner Services

Objective : to improve control of expenditure and management of services.

Action :

- a. Steps taken, and continuing, to improve forecasting (Background note on FPS spending).
- b. Tighter controls on drug prices already announced; and on numbers of contractors, following Binder Hamlyn report to be published soon.
- c. Direct influence on FPS management through FPC independence provisions in Health and Social Security Bill. Arthur Anderson's study looking at FPC administration and use of computers.
- d. Reductions in subsidies to patients : end of NHS supply of glasses except to exempt groups already announced; proportionate dental charges agreed in PES but not yet announced.

Outstanding Issues :

- a. Action already agreed will be unpopular and opposed by the professions. Important to develop a primary care strategy which shows resources being better directed not just controlled.
- b. Scope for increasing income from charges is limited unless past public commitments (on hotel charges, GP visits and exemptions) are overturned or new charges introduced (eg for

✓ dental check-ups or sight tests) where action to reduce subsidies is already underway. Should any of these options or others eg cost-related prescription charges be reconsidered?

*Need to move away from item - 4 - drive numbers*

c. Remuneration systems for the contractor professions. The legal base of the system for pharmacists has now been found to be invalid and legislation will be required to restore the present position. The individual remuneration systems will also require review partly in the light of the comments in the Binder Hamlyn Report. The aim should be a simpler and more controllable system; but the basic nature and incentive effects of each system will need to be considered.

d. Completion of review of the pharmaceutical price regulation scheme covering promotion and research costs and the rate of return on capital. A further possibility is to consider direct and/or indirect incentives to GPs to reduce prescribing costs.

### 2.3 The Private Contribution

Objective : to enable the private sector to contribute more to health care and health services where it can do so effectively while retaining the basic commitment to a NHS financed mainly by taxation.

Action :

- a. Health authorities now being required to bring in competitive tendering for support services.
- b. Increased competition in provision of glasses and privatisation of dispensing for non-exempt groups being brought in under the Health and Social Security Bill.

Outstanding Issue : September meeting proposed further encouragement of private health care by tax relief on insurance premiums. What are the implications for NHS funding?

3. Social Security

Objective : to ensure that benefit levels are not excessive in the light of likely costs; and to identify options for reductions in expenditure.

Action :

- a. DHSS is taking steps to introduce more sophisticated forecasting methods (background note) but they will not eliminate uncertainties nor affect the underlying causes of the rise in expenditure - notably the effect of the recession on supplementary benefit expenditure.
- b. To restrain the rise in expenditure requires reductions in benefit levels. Action on housing benefit and benefits for young people have already been announced. Other measures - on heating additions and FIS - have still to be announced.
- c. A major public Inquiry into Provision for Retirement is underway and will look at the cost of the state pension scheme as well as related issues such as personal portable pensions.
- d. an Interdepartmental review of Family Income Supplement is in progress to ensure that the structure and administration of the scheme is operating in the most cost-effective and efficient way.

Outstanding Issues : The scope for increasing control and reducing the cost of other parts of the social security system needs to be examined. In consultation with the Treasury, reviews are now being set in train of

- a. Supplementary Benefit : to examine the scope for simplifying the system including its application to the unemployed, and significantly reducing its costs.

b. **Housing Benefits** : to simplify and reduce the scope of the scheme in order to achieve its proper objectives at less cost;

c. **Benefits for young people** : to consider whether young people in the 16-20 age group should have an independent right to supplementary benefit.

d. Is there **scope for containing expenditure by influencing take-up rates or the use of discretion in determining benefit entitlement?**

Mr Fowler  
wants his  
one out.

CONQUEROR

11

FROM: MS D J SEAMMEN

DATE: 10 January 1984

- 1. MR WATSON *2/15/84*
- 2. MR BAILEY *AMS*
- 3. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Mr Rayner

SEMINAR

There is one point to add to the briefing. It concerns the housing benefit cuts which have already been announced. I understand that DHSS Ministers are getting cold feet about implementing these in full, given the political and public reaction. They are apparently considering concessions which would cost £10-20 million. At official level, we have left DHSS in no doubt about the kind of reception which such a proposal would get from Treasury Ministers. DHSS finance branch are trying to stiffen their Ministers' wavering resolve but may not in the event succeed. It would obviously be helpful if the Seminar could head off any such approach. You may want to remind Mr Fowler that he offered the social security package of savings - much less than the Treasury's original demand - on the basis that he could deliver it. It is a little early for him to admit defeat now.

*\* Can DHSS  
Min: we reshape  
no package to  
delivered to full savings  
but in a steady  
difficult to change for best  
way? Mr.*

*[Signature]*  
MS D J SEAMMEN



*Handwritten mark*

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Mr Middleton  
Mr Bailey  
Mr Watson  
Mr RaynerSEMINAR

You asked whether DHSS could reshape their social security package so as to deliver the full savings in a slightly different and less contentious way.

2. If DHSS were to put forward such a package, no doubt we would look at it as sympathetically as possible. It may perhaps be possible to isolate certain aspects of the changes which have caused more political difficulty than others, and to substitute something which appears more innocuous.

3. But in practice I would be sceptical whether this effect can be achieved. You will recall that Mr Fowler and his junior Ministers agonised for a very long time over the Autumn Statement package - it was changed and changed again, largely in order to achieve the optimum political balance. There can be no guarantee that they will do any better if given yet another change. Any rejigging of the package would worsen the burden on others now unaffected, whose reaction might be equally noisy and who might be encouraged by the evidence that the Government was prepared to make concessions if the outcry were loud enough.

4. It has been said that the most acute criticism from Conservative backbenchers has been the effect on pensioners. It has been said that savings should not be made on benefit paid to those with occupational pensions, since those pensions represent thrift over a working lifetime. It is true that as a result of the taper changes, 300,000 pensioners will lose all entitlement to benefit and that a further 1.2 million will be affected to some degree. But the scheme will still help well over 3½ million pensioners, whereas only 1½ million are entitled to supplementary benefit. Clearly pensioners as a group still have an emotive appeal. But it will increasingly become necessary to distinguish between rich and poor pensioners. As you know, <sup>with</sup> the maturing of SERPS and the growth of occupational schemes, <sup>it</sup> will no longer be possible to assume that pensioners are, by and large, poor. The present row is perhaps an early indication of the difficulty which may arise in a number of policy areas in adapting to this change.

*Handwritten in red: This must be done**Handwritten initials JS*

MS D J SEAMMEN

S.S. PACKAGE

MEASURES TO PREVENT FRAUD: EXCHANGES OF INFORMATION BETWEEN REVENUE DEPARTMENTS AND DHSS

There is potential for improving the efficiency and effectiveness of measures to combat fraud by exchanges of information between the revenue departments and DHSS. There have been a number of exchanges between Departments on this issue, and most recently the PAC in a report published in December specifically recommended that DHSS, Inland Revenue and Customs and Excise should continue to study the possibilities of joint exercises in exchanges of information.

2. Co-operation between Departments is developing; DHSS and Inland Revenue have agreed in principle that whenever an inspector from DHSS or an auditor from Inland Revenue make the first visit by either Department to an employer, the visitor would make basic checks on both National Insurance and PAYE matters; a pilot exercise on these lines <sup>is</sup> to be completed by the end of March 1984 encompassing 50 DHSS local offices. More broadly, officials of both departments are considering ways in which liaison between them can be improved and work practices which cause difficulties have been identified and are being reviewed.

3. Officials of DHSS, Inland Revenue and Customs and Excise are also considering how they can co-operate in detecting loss of revenue and enforcing payment.

4. DHSS officials have also had discussions with Inland Revenue colleagues seeking agreement to a change in legislation to enable Inland Revenue to pass information to DHSS about individuals paying Schedule D income tax. There is no parallel statutory bar to prevent DHSS passing information about self employed persons paying Class 2 National Insurance contributions to Inland Revenue, indeed, DHSS instructions explicitly provide for information potentially useful to Inland Revenue to be passed on. There are difficulties, however, in any early action on exchanges of information on individuals, whether self employed or employed. First, because it would require potentially controversial primary legislation touching on the privacy on the citizen and, second, because this legislation would fall broadly within the area covered by the Keith Report on the enforcement powers of the Revenue departments which is now the subject of public consultation. Treasury Ministers have, therefore, accepted a recommendation from the Inland Revenue that it would be unwise to seek new statutory powers in this area in advance of the Keith package as a whole.

5. In the very short term there is probably little to be added to the exercise that are now under way in inter-departmental co-operation. But before the

ANNEX  
A

end of 1984 the lessons of the Inland Revenue/DHSS pilot study in joint initial approaches to employers should be available and the lines of the substantive response to the Keith Report should by then be clearer. }

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2.5 SOCIAL SECURITY ISSUES

1. Costs of the programme. The agenda sets out the objective "to identify options for reductions in expenditure". You will want to emphasise the need for these to be realistic and substantial. It may be argued that the figures for the share of GDP shown in "key data" look reassuring. And our own LTPE figures (of which Mr Fowler is not aware) do not give rise to great alarm. But

(i) social security has shown in the past few years an unrivalled capacity for unplanned growth;

(ii) the key data figures make no allowance for improvements in the level or coverage of benefits for which there is constant pressure; and

(iii) while substantial reduction in the level of unemployment would be effective in reducing this programme, such a reduction cannot be counted on - this would be to repeat the mistakes of earlier years in relation to public expenditure.

2. Mr Fowler may cite the reaction to the housing benefit reductions as evidence that further substantial reductions are not practical at least for the next few years. He must not be allowed to get away with this. Arguably, these reductions should establish a climate in which further cuts are not regarded as inconceivable. In particular, we want to keep open the option of further cuts in housing benefit next year, and the PM's reaction suggests that she too regards housing benefit as a prime candidate for further cuts.

3. Improving forecasting and monitoring. You will want to emphasise once again the importance we attach to improved methods of forecasting and monitoring social security expenditure. Do not be deflected by any counter-criticisms from Mr Fowler of the inaccuracy, lateness or crudeness of the economic assumptions supplied to DHSS by the Treasury. We recognise that these have had deficiencies in the past and we are looking at ways in which we could help. The aim now is not to recriminate or attach blame. Considerable deficiencies not least in DHSS have been identified and we must ensure that these are put right as soon as possible. This will involve giving this work the highest priority and the right kinds of expertise and you will want to get Mr Fowler's personal commitment to improvements.

4. Methods of reducing expenditure

(i) Pensions

Mr Fowler's enquiry is already in hand. You may like to emphasise

the importance which we attach to its identifying means of reducing the overall pension "burden".

(ii) Supplementary benefit

DHSS are now putting a review in train. They are trying to keep the Treasury out of it and also to confine its scope to savings on administrative costs. In particular, they propose to examine a much simplified scheme, making payments on the basis of easily identifiable factors like age and number of children. But a discretionary fall back facility would probably also need to be provided. This does not really sound very promising. We would not want to stand in the way of a review of this sort if the department think it justified, but it is essential that options for reductions in public expenditure should be placed at the head of the agenda and that the Treasury should be fully involved throughout.

(iii) Housing benefit

Although the agenda item is properly phrased from our point of view, at official level DHSS have been obstructive to our contention that the review should be carried out with the presumption of achieving further large savings. Again, they want to keep the Treasury on the sidelines. You will want to emphasise the need to identify options for further substantial reductions in the cost of the scheme and the need to involve Treasury fully.

(iv) Benefits for young people

Again, DHSS do not envisage that this review would produce options for reducing public expenditure. This is unacceptable. Partly because of the wider implications, eg YTS, the review should be conducted in full association with the Treasury.

5. Controlling a demand-led programme. This has been removed from the formal agenda, at Mr Fowler's insistence, but is potentially an important area. The objective is that Mr Fowler should recognise that demand-led increases on social security are in terms of hard cash no different from policy increases - they both contribute to the planning total and the PSBR. So the need is to move from better forecasting to better control. There are various ways in which this might be approached.

(i) through restricting eligibility or cutting benefit levels. This is the only really sure way, but takes time, policy rows and legislation.

(ii) general administrative means, for instance a toughening up on all areas where discretion exists, and reducing any current efforts to increase take-up.

6. Mr Fowler will resist in principle, and very strongly, the suggestion that he should be responsible for finding savings within his programme for demand-determined overruns. Yet it is not immediately apparent why the normal rules of affordability should be suspended in his case. The Government's commitment to the planning total means that his overruns have to be financed either by him or by his colleagues, or from the Contingency Reserve. The normal rules are that savings should be sought in the first instance from the programme producing the excess. Unless this point is accepted in general terms by the Seminar we will have very little scope for further action.

7. We have therefore suggested that there should be a review of the extent of which expenditure can be contained by influencing take-up rates or the tougher use of discretion. We are not currently looking for a commitment to implement the results of such a study, if it showed that take-up could be significantly influenced by DHSS action. What we want are the facts. We recognise the difficulties there would be in implementation but DHSS themselves must need for their management purposes solid information on whether take-up campaigns are effective or whether there is differential use of discretion, say from one local office to another, or over time. Possible examples are the increase in the number of FIS recipients, which may reflect the annual take-up campaign, although take-up rates - recipients as a proportion of those eligible - have not increased. Expenditure on supplementary benefit single payments is thought to be very much influenced by local take-up campaigns (not necessarily by the department) and expenditure on them rose from £45million in 1981 to £87million in 1982-83. What are the reasons, and what can be done about it (short of restructuring supplementary benefit, which is a long shot and will take time)? Why are young people refusing YTS places and is the discretion to reduce their benefit - and that of the unemployed who refuse jobs - sufficiently stringently applied?

#### 8. Other issues

The agenda notes the inter-departmental review of family income supplement. This will probably not produce any great surprises. FIS is a fairly small benefit (about £130 million next year) and given its importance in alleviating the unemployment trap we have not been looking for great savings. Some savings agreed in the PESC round, will be announced in the June uprating.

9. Heating additions, which were referred to in the previous Seminar, are to be restructured, notably by abolishing the central heating addition and achieving overall savings. These changes are due to be announced in the uprating statement.

10. The last Seminar also referred to the scope for exchanging information between DHSS and the Inland Revenue. This is not on the current agenda, but I attach a note <sup>(Annex B)</sup> on the state of play in case the subject should be raised.

FROM: G W WATSON  
 DATE: 10 JANUARY 1984

1. MR ~~BAILEY~~
2. CHANCELLOR

cc CST  
 Sir P Middleton  
 Ms Seammen  
 Mr Rayner

STEERING  
 BRIST

WATSON  
 10/1

#### DHSS SEMINAR

I attach some briefing material prepared by Mr Rayner on the health service and Ms Seammen on Social Security. So far as possible it is related to the agenda items on the assumption that the agenda which Mr Fowler eventually puts forward to No 10 is similar to that attached to my minute of 6 January. Together with the agenda DHSS have also promised to provide a revised version of the Green Book which was used for the previous seminar and a note on the housing benefit scheme. We have agreed the revisions to the Green Book (which largely reflect action since last September) but have not seen a draft of the note on the housing benefit scheme. Mr Fowler also intends before the seminar to reply to the Chief Secretary's letter of 22 December about forecasting and that will also form part of the background papers.

*— he has — 3rd blue flag below.*

2. With the Griffiths report in the process of being implemented, there is little point in spending a large amount of time on the hospital and community health services. There are two main points to press here :

- a) although the Griffiths reorganisation and the recruitment and appointment of the general managers should be pursued as rapidly and as energetically as possible it should not be allowed to divert attention from continuing to make progress while this is going on with other priority tasks like improving efficiency.
- b) A specific need is to review urgently the use of nursing staff and you should press this to start straight away. The number of nurses has doubled since 1960 while the number of beds has reduced by a quarter. There are thus now about ~~1~~ nurses per bed compared with 1 between 2 beds in 1960.



SECRET AND PERSONAL

The FPS is worth a lot of attention; not only is it a growing drain on resources but the action to put things right is still in the future. You need to press for:

- a) the urgent determined implementation of Binder Hamlyn (which has been lying about since last July.  
— See Mr Fowler's H papers of 10 Dec.
- b) A fundamental review (with which the Treasury needs to last be closely associated) of the contracts with the 4 contractor professions (GPs, dentists, opticians and pharmacists). Not only is there doubt about their legality but they work in a way which makes financial control virtually impossible and in some cases (particularly dentists) are an open invitation to the provision of excessive care. Blue flag
- c) Completion urgently of the fundamental review of the pharmaceutical price regulation scheme again in close association with the Treasury. The important points here are to get rid of the open cheque on promotion and research costs and reduce the rate of return on capital to a more reasonable percentage. A way also needs to be found to avoid the present situation where any savings resulting from overdue efforts to persuade GPs to prescribe economically can be whittled away by the drug companies changing their pricing policies over which the Government has no control. PPRS
- d) A serious review of charging policy in close association with the Treasury the object of which should be to increase charge income dramatically. It is currently little more than half what it was in the early 50s and early 60s as a percentage of NHS costs. Any real impact requires action on exemptions as well as on charging proportions; it should concentrate on longer term options for the next Parliament as well as shorter term measures. Some agreement that some if not all of the present commitments will not be renewed would clearly be helpful. (The commitments are listed in Annex A (page 38) of the Green Book). Charging

On social security there are three main points to press for:

*SB, HB etc*

a) the reviews of supplementary benefit, housing benefit and benefits for young people should be seriously aimed at reducing expenditure as well as simplifying systems. The Treasury must be closely associated with all three (currently being strongly resisted by DHSS).

*take-up*

b) DHSS must take seriously the need to avoid making strenuous efforts to dole <sup>out</sup> the maximum possible amount of money. Clearly this is a sensitive area and the scope for savings may not be large but at present there is not only a lack of information about the effects of take-up campaigns but also an unwillingness in DHSS even to discuss the topic.

*arms of hundreds of families*

c) Mr Fowler must be personally involved in putting adequate resources and drive behind improving his department's forecasting. Pressure over the last few months is beginning to produce action at official level but the attitude that DHSS exists to pay out money on demand and that the Treasury will meet the bills whatever they turn out to be is too prevalent at all levels in the department. There is also an inclination to argue that the provision of accurate data of benefit payments would be too expensive a process to undertake and in the absence of this there is little point in using more sophisticated forecasting techniques.

*GW*  
G W WATSON

In my view (b) and (c) above, on social security forecasting/control, are the most important points - as you know, Mr Fowler was not even prepared to have (b) on the agenda, but Treasury Ministers should raise it (as in the Chief Secretary's letter of 22/12) drawing on the detailed briefing (paras 5-7 under 2.5)

*AD 10/1*

FROM: G W WATSON  
DATE: 11 JANUARY 1984

COMMENTS  
ON THE  
AGENDA

CHANCELLOR ✓

cc CST  
Sir P Middleton  
Mr Bailey  
Ms Seammen  
Mr Rayner

DHSS SEMINAR

The Agenda for the Seminar which accompanied Mr Godber's letter to Mr Turnbull of 10 January differs in a few important respects from the draft which accompanied my minute of 6 January and deals less explicitly than we would have liked with your points recorded in Miss O'Mara's note of 9 January. Miss O'Mara has I believed explained to you the negotiations on the latter.

2. The most significant omission is mention of any outstanding action on the pharmaceutical price regulation scheme (2.2d of the draft accompanying my minute of 6 January). Its inclusion had been agreed with DHSS officials. Mention of the PPRS still occurs at 2.2b and so there remains an opportunity to raise the important outstanding issues (at 3c of my minute of 10 January).

3. The objective of the discussion on social security has been watered down. I had already agreed to the omission of "significant" before reductions in the interests of reaching agreement but the words "if possible" have now been inserted. The significance of this is more than a drafting point; an unwillingness seriously to contemplate reductions of expenditure is an important facet of DHSS's approach to all the benefit reviews for which we are pressing.

4. A specific example of this is the change in the description of the review of housing benefit towards the bottom of page 4 of the agenda. All reference to reduction in cost has disappeared and the text now points to a nil net cost package to redistribute the money. This is not acceptable to the Treasury and probably not to the Prime Minister. It is also note-worthy that the note on housing benefit which DHSS have produced hints in paragraph 10 at concessions in the present package of housing benefit cuts

SECRET AND PERSONAL

(see Ms Seammen's minute of 10 January).

5. You may also like to have a copy of the attached note by the No 10 Policy Unit entitled "Beyond the Griffiths Inquiry". The Prime Minister has this and so has Mr Fowler. At an earlier stage it was included among the background documents but Mr Fowler has decided to drop it. It is generally helpful if somewhat generalised. DHSS share this view and there is no need to raise any points on it. It backs up my point in the note of 10 January that merely implementing Griffiths should not be a substitute for continuing pressure or practical action to improve efficiency.



G W WATSON

BEYOND THE GRIFFITHS INQUIRY (Note by No 10 Policy Unit)

1. The Griffiths Inquiry Report advocates the establishment of clear lines of responsibility and accountability at all levels in the NHS by the introduction of a general management function. Its focus is upon the immediate, practical steps which can be taken in this direction. It is also implicit in the report that its recommendations are only the first steps in a long-term programme of management action. In this note, we attempt to look beyond these first steps.
2. The Inquiry recommendations regarding the establishment of Supervisory and Management Boards will clarify responsibility for the direction of the NHS. If these Boards are to be effective, they will need to establish ways of setting and monitoring NHS policy and performance objectives. This will require:
  - Restructuring of DHSS departments, to clarify responsibility for advising on and monitoring NHS policy and to improve communications between the DHSS and the NHS.
  - Improving the planning of NHS resources. The current planning of NHS resources is fragmented in two senses. First, the overall cash limit for hospital and community services is based upon national policy and general trends in demography and medical developments. It is not reconciled with the long-term strategic plans prepared by Regions or the more detailed operational plans prepared by Districts. Secondly, there is a lack of co-ordination between the planning and control of financial allocations and the planning and control of staff numbers. This is particularly vital since manpower costs represent over 70 per cent of the NHS budget.
  - Development of an NHS Financial Management Initiative, to establish a basic framework which will enable the Boards to identify those responsible for achieving policy objectives, and to establish information systems to monitor performance indicators and costs.
  - Strengthening the audit role. A well-developed audit function could provide a very significant measure of support to the Boards, particularly in the field of value-for-money review.

3 The Inquiry Report calls for the strengthening of Regional Health Authorities by the introduction of general managers and by clarifying the Region's role in respect of strategic planning, resource allocation and accountability review. In our view, this will require:

- Reduction in day-to-day control of District functions by Regions, in order to establish an arm's-length relationship appropriate to the proposed strategic role of the Regions, and to reduce bureaucratic delays.
- Greater flexibility in relating funding to District performance, to ensure that accountability review becomes the central focus of the relationship between Districts and Regions.
- Review of the planning and financing of data processing developments, to avoid the current "lowest common denominator" approach and to facilitate quicker introduction of systems to meet needs which are common but not universal.
- Improvements in the control of capital assets, by introducing financial controls and holding Districts to account for their management of capital assets and relevant financing costs. It is encouraging that measures have already been taken in relation to property, particularly the recent announcement that notional rents will be introduced from next April.

4.

At the District and Unit level the main recommendations of the Inquiry include the introduction of general management functions and the involvement of clinicians in preparing and controlling management budgets. The Inquiry Team has taken a series of initiatives to press ahead with the immediate development of management budgets from their current experimental stage to practical implementation; this will encompass 6 of the 192 Districts. We believe that this is a desirable short-term step to initiate management change. In the medium and longer term, further measures are required to achieve the desired change in the style of management:

- Executive Development Training, to prepare the new general managers and clinicians to undertake the required management functions within the new framework and management systems proposed by the Griffiths Report.

- Formalise clinicians' management responsibilities. At present clinicians' participation in budget management can only be achieved to the extent that individuals are interested in or can be motivated to take part in the process. Formal recognition of the clinicians' management role in respect of planning, budgeting and control, and appropriate training for this role, is urgently required.
- Review of accounting and management information systems. At present a great deal of information is produced within hospitals, but this is frequently of limited value, since it is not reconciled with accounts and is often not presented to appropriate decision-makers in a meaningful form. The Körner review has clarified the basic information requirements of Districts, but there has been little progress in developing systems which can provide the information in a form appropriate to the needs of management and clinicians.
- Development of patient costing systems. The most apparent weakness of current systems is that they do not identify costs to individual patients. It is argued that development of patient costing, which has been applied for many years in US hospitals, should be regarded as a longer-term phase of development; yet without patient costing, the basis for management budgeting will remain weak. In our view, there is a strong argument for making an immediate start on the development of patient costing systems.
- Establishment of improved performance indicators. While a start has been made towards the development of performance indicators, the data on which these are based are out of date and often of doubtful validity. There is an urgent need to make use of information produced within hospitals to produce better indicators of performance and needs; without such information, debate on the quality and quantity of services focuses on information such as the length of waiting lists, which can be misleading if looked at in isolation.

5. We believe that it is vital to take further steps to support the initiative launched by the Griffiths Inquiry to clarify responsibility for resource allocation and control. Given the complexity of health care administration in the UK, there is a danger that the initiative may run out of momentum unless longer-term measures are initiated to assist in clearing its path.



FROM: A M BAILEY

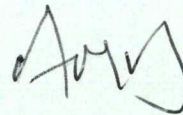
DATE: 16 January 1984

*Not*  
MR KERRcc Mr Gieve  
Mr J Williams  
Mr Watson

## HEALTH AND SOCIAL SECURITY POLICY

I have had from Mr Turnbull a copy of a letter to Sir K Stowe recording the No 10 discussion on 12 January. It has not been copied elsewhere (other than to Sir R Armstrong) and we are asked not to make any copies, but only to show it as necessary to Ministers and officials who attended the meeting, and their Principal Private Secretaries.

2. Follow-up action is to be initiated by specific and separate instructions, not referring to this meeting, and I will consider what needs to be done. Meanwhile you should be aware that I have this record and would be ready to arrange to show it to those qualified if they wish.



A M BAILEY



SECRET

FROM: E P KEMP  
6 April 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Minister of State  
Sir Peter Middleton  
Mr Anson  
Mr Scholar  
Mr Pearce  
Mr P Davis  
Miss Sinclair  
Mr Carter  
Mr Sharratt

BRIEF.

1984 PAY NEGOTIATIONS FOR CIVIL SERVANTS - MISC 66 ON MONDAY

MISC 66 are meeting on Monday to discuss the way forward on the 1984 pay negotiations for non-industrial civil servants. The paper is your letter to Mr Heseltine of 5 April, and the note from the Official Group which was attached to it.

2. We are having a briefing meeting with you at 9 45 on Monday morning. This note is intended by way of further background.

General

3. Generally speaking we do not see this negotiation as likely to be particularly easy. The public service - and indeed public sector - pay scene is in a state of great uncertainty. Local authority manuals have settled at 4½ per cent. Scottish Teachers are balloting at the same figure. 3 per cent is on the table for English Teachers and NHS non-medical staff. Review Body Reports are awaited (some may have arrived but no doubt are being kept extremely secret) on the nurses, doctors and dentists, Armed Forces and top public servants. In the public trading sector the coal troubles rumble on and while this may not be primarily aimed at pay pay is certainly part of the issue. Electricity and Gas are still very unsettled, and so are Railways. And so on. There is a danger of things running away. The Government's actions with its own direct employees - the civil servants - will no doubt be closely scrutinised.

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4. But at the same time the background to these Civil Service negotiations is particularly tangled. There is the question of the mood of the staff and, generally speaking, the employee/employer relationships following GCHQ. There is the feeling amongst staff that in pay terms they have been held back unfairly. There is the inevitable tension between the 3 per cent pay factor and what the OME Report says - neither of these constrain the negotiations but clearly they are both important factors difficult of reconciliation. And finally there is the Megaw position; including the possible contradictions (on both sides) between stated aspirations and real motives coupled with the very genuine problems that are still outstanding here anyway.

The MISC 66 paper in detail

5. The MISC 66 paper seeks to spell out, in relatively simple form, the various factors and options. There are a number of matters it deliberately does not address, because it is not necessary for Ministers to consider these at this stage. I discuss some of them in paragraph 13 below. Perhaps the best way to take the MISC 66 paper as it stands is to consider each of the points set out in the summary paragraph 18.

6. Paragraph 18(a) asks Ministers to note the assessments in the paper. No further comment is needed.

7. Paragraph 18(b) asks Ministers to choose whether they wish to authorise officials now to explore the possibility of a quick agreed settlement of 5 per cent, or, (more likely, aim for a lower outcome at, say, 4½ per cent. If it were not for the wider pay scene there would be an argument for going for 5 per cent, and that the additional cost (perhaps £25 million) might, in the complex and difficult atmosphere we have now, be worthwhile. But the rest of the pay scene makes a big difference, and you have decided to go for 4½ per cent at most. I doubt if others present will argue with this.

8. Paragraph 18(c) discusses the speed at which one might go for the lower figure. Paragraphs 13 to 15 of the paper set out the considerations. Moving quickly has the advantages of buttressing a 4½ per cent line, and

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could help justify a possible scaling down on Review Body recommendations and a general standing firm in other areas; and an early settlement would help Departments in their cash planning. On the other hand  $4\frac{1}{2}$  per cent quickly imposed would cause maximum aggravation, if only on the point that the unions could claim that we had fallen down on the undertaking that there would be "genuine negotiations". If we move more slowly, it would not necessarily make the eventual outcome any cheaper but it would still be possible to achieve  $4\frac{1}{2}$  per cent eventually (while leaving open the scope for Ministers to increase the figure if they so felt) and it would let possible helpful developments in the coming months (eg the RPI coming down and pressures building up for the back pay) have weight. A quick and imposed settlement at say  $4\frac{1}{2}$  per cent would, also, sit awkwardly with the Teachers and the NHS non-medicals if they moved very slowly and an opening 3 per cent remains on the table. All in all my feeling is for moving slowly, but MISC 66 will have its views; and also on when 3 per cent should be tabled.

9. Paragraph 18(d) is the question of whether we should be authorised to accept a concession to the low paid (within the overall cost ceiling agreed) as part of securing an agreed settlement. I think this would be worthwhile, and I hope at least we have the flexibility. It certainly is not worth giving this away in the context of a quickly imposed settlement, because it would do very little if anything to minimise the row. But it could be useful in the context of a possibly agreed, or even quasi agreed, outcome; the low paid are a big element in the Civil Service Unions thinking, and one can get useful Brownie points from recognising this.

10. Paragraph 18(e) asks Ministers to confirm that they would not wish to offer a concession on hours. We assume this must be so; such a concession would be expensive and would have awkward repercussions elsewhere, and in the private as well as public sector.

11. Paragraph 18(f) asks Ministers to note proposed financing arrangements which are set out in paragraph 17 of the paper. What we propose is that you should make clear that the presumption is that the settlement should be absorbed in existing provisions; and that as soon as the settlement is known Departments would be free to say what problems if any they thought

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this was going to present them with; the Treasury would scrutinise these and if it were accepted that it would be impossible to absorb the whole of the excess within existing cash limits a charge to the Reserve would be allowed (without our seeking offsetting savings elsewhere); thereafter no further claims from Departments about difficulties on the score of the pay settlement would be accepted. But you will want to leave your colleagues in no doubt but that the Treasury are not going to be a soft touch in the face of claims of potential hardship.

12. Paragraph 18(g) asks Ministers to note that further reports will be made. We envisage that having been given our instructions we will consider how we should play our hand, probably waiting awhile (especially if the slow route is adopted) and letting the unions make the first move. What we would like is instructions to make reports when we think necessary, but not anything too rigid.

Other issues

13. As I say, the MISC 66 paper is deliberately simplified to the issues Ministers will wish to consider at this stage. There are one or two other points which you should be aware of; they are almost certain to come up sooner or later, and they might come up on Monday.

14. Arbitration. The position is at the moment that under the present arbitration agreement the unions have theoretical access to unilateral arbitration on pay for the great bulk of their members. In practice, however, the Government has denied access to arbitration in recent years, on grounds that the national interest requires it. Megaw, of course, recommended that unilateral access should be discontinued and there should be joint access; and this is what we have told the unions. Indeed unilateral versus joint access to arbitration represents currently the biggest single stumbling block to an agreement on Megaw. In the 1984 negotiations if Ministers want us to go for something of the order of 4½ per cent, (and indeed quite possibly if they wanted to go for something bigger) the unions will almost certainly ask for arbitration, and we assume that Ministers will want to refuse this. We have told the unions

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specifically some time ago we could give no undertaking whether or not arbitration would be allowed in the context of the 1984 settlement. We assume that for the time being anyway this must remain the position; that is, that the position would be left open, and we shall say that while we cannot say that we will allow arbitration this year, equally at this stage we do not want to say that we will not; we would say we were just starting the negotiations with a view to an agreed settlement and it was too early to start thinking about breakdown. It may be, of course, that we shall have to return to Ministers quickly for instructions on this point one way or another especially if the fast route is chosen. But for immediate purposes the position one way or another is not required.

15. We should note, however that when we do come back for firmer instructions Ministers may want to look at the position against the wider question of strikes in essential services, a new pay regime for the NHS, and so on, in all of which arbitration in one form or another is bound to figure; so that the public attitude taken by Ministers on the Civil Service Unions' request for arbitration would have to be consistent with their position or possible position in these other areas. (A separate note on the NHS position is coming forward simultaneously and may be relevant to Monday morning's meeting).

16. Review Bodies. The timing and content of the Review Body Reports is of course of great importance in the context of the timing of our negotiations. Given the way Review Bodies tend to go, almost certainly the best thing for us would be for the Reports, when delivered, to be put under lock and key in No 10 until they have all been received and decisions taken; and even then the timing of the announcement of decisions, and publication of the Reports, would still remain for consideration.

17. Recruitment, retention, quality of staff etc. It is possible that Lord Gowrie may raise the question of the need for caution on the pay front (that is, caution in the sense of not squeezing it too much) in terms of recruitment, retention, of staff of adequate quality for the long-term. Immediately recruitment and retention is not generally speaking a problem; there may be some difficulties in London but we can try to tackle this through operating on the London Weighting, and there may be some problems

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in special areas which can also be tackled separately. Longer-term, problems may arise but this is something best tackled on a wider front and does not call for a bigger increase in pay this year than would otherwise be the case.

18. Merit pay. As you know an outline way forward on merit pay has been agreed by the Prime Minister, and a paper will be going to Cabinet shortly. We would like to keep merit pay quite separate from the 1984 pay negotiations (though it is likely to figure in the 1985 negotiations). Any amounts spent on merit pay in the 1984-85 financial year would be financed in the same way as described in paragraph 17 of the MISC 66 paper.

19. Communication with staff. It is desirable for the Government as employer to keep in touch directly with the staff as appropriate over the passage of the pay negotiations; otherwise all the staff learn comes either from the Press or from the Union Journals. We shall want to consider this at the right time.

20. As I say you have a meeting with us on Monday morning to discuss all this.

EPK

E P KEMP

SECRET

Pp

Ref: E 045

STEERING  
Brief.CHANCELLOR OF THE EXCHEQUERSecond Report from the Chairman of the  
Official Group on Civil Service  
Pay Negotiations  
(MISC 66(84)1)

## BACKGROUND

The second report by the Chairman of the Official Group sets the scene for the opening of the 1984 negotiations for the non-industrial Civil Service.

2. There is provision in Departments' programmes for 1984/85 for an increase of 3 per cent in expenditure on pay. The influential negotiation for local authority manual workers has been concluded at an effective 4.5 per cent. There are currently a number of important negotiations in the public sector where offers stand around 3-4.5 per cent: these are discussed at paragraph 3 d of the report.

3. By agreement of the Government and Civil Service unions, data on pay increases in the private sector since last April have been collected by OME "to inform, but in no way constrain" the 1984 negotiations for the non-industrial Civil Service. The report shows, for both the current and last rounds, the upper quartile of non-manual pay settlements in the private sector at 7 per cent, the lower quartile at 5 per cent and both the mean and median about 6 per cent.

## MAIN ISSUES

4. Main issues are:

- i. should the possibility of an early agreement at 5 per cent be explored? Or

- ii. should the Government seek a lower settlement?
- iii. If a lower settlement is to be sought,
  - a. what should the Government's opening stance be; and
  - b. how and when should they be prepared to modify it?
- iv. Are the Government's interests likely to be better served by a faster or a slower pace in negotiations?
- v. How should the negotiators respond to claims affecting
  - a. hours; and
  - b. the low paid?

OME Report and Megaw

5. The OME report is awkward. Its prompt leaking by the unions shows that they consider that it strengthens their hand. The Government is likely to face a difficult presentational problem. It is not so much that offers below 5 per cent are 'contrary to Megaw': the unions have not accepted the constraints of the Megaw system, so that they cannot reasonably expect its benefits. It is rather that the Government will be insisting that civil servants should receive smaller pay increases than the great majority of private sector settlements (let alone settlements plus drift), even though private sector employers are apparently experiencing no greater difficulty than the civil service in recruiting and retaining staff. It will not be enough to say that the OME data do not constrain the negotiations: if they have no relevance at all, why was money spent on collecting them in the first place? The Group may wish to ask officials to give further thought to how the Government's case can best be presented.

*Megaw  
intentions*





#### A 5 per cent settlement

6. The Chairman of the Official Group suggests that a quick settlement could not be achieved at less than 5 per cent, and concludes that the arguments against this are overwhelming (paragraph 10 of the report). MISC 66 seem likely to agree. Apart from the arguments set out in the report, 5 per cent would have to be defended publicly as the minimum consistent with Megaw. The implication would be that the Government had voluntarily accepted this feature of Megaw (which would give the unions little incentive to accept the features which they find less attractive). Even so, the unions might press for more on the grounds that they could not defend to their members accepting only the absolute minimum allowed by the system.

#### Imposition

7. The report mentions at various places the possibility of 'imposition'. The Group will want to consider the implications of this carefully. Imposition is usually thought of as a way of finishing protracted negotiations in which the employer is unwilling to advance and the unions unwilling to accept, but not to press their unwillingness to industrial action; alternatively, it may be used when there has been industrial action but it is petering out. Early imposition differs from determining pay by fiat only in as much as there would presumably be some sort of previous consultation with the trade unions before the decision was taken. In the climate after the GCHQ affair, the staff might not appreciate the difference. The Group may therefore judge that such a course would be too risky to be followed.

#### Conventional negotiations

8. If so, it will be necessary to follow a more conventional approach to negotiation. It would clearly be unrealistic to try to lay down a detailed 'game plan' at this stage; but the Group will wish to give the negotiators preliminary guidance on:



- a. The general level of settlement that the Government would be willing to accept; and
- b. the pace of negotiations.

#### General level of settlement

9. There appear to be two broad choices before the Group:
  - a. to keep to what can pretty certainly be afforded within existing expenditure provisions: paragraph 17 of the report by the Chairman of the Official Group puts this at up to about 4 per cent;
  - b. to be prepared to go a little further, at the risk of having to make some modest additional provision from the Reserve.

Some members of the Group may express caution about (b), and may well want assurances that if they accept it, additional provision will indeed be made available. No doubt you will wish to avoid categorical assurances here.

#### Pace of negotiations

10. The arguments regarding the pace of negotiations are set out in paragraphs 11 to 15 of the report. But, as the report recognises, the pace is not within the Government's sole control. In particular, if one side to a negotiation wants to play things slowly it can usually get its way. If the Government were determined to force the pace it could soon find itself faced with a choice between offering more than it would wish and early imposition.

11. There is, however, one point which could have a bearing on both the timing and the tactics: should the Government volunteer an offer or wait for the unions to make a definite claim? I understand that the unions have not yet formulated a specific claim, and may find some difficulty in doing so. If Ministers wished to play the negotiations long, it would be perfectly reasonable to refuse to table an offer until the unions had tabled their claim.

*Govt has  
already  
tabled  
3.2.*

Amount of the opening offer

12. Related considerations apply to the amount of the offer. If the Government volunteers an offer of 3 per cent - or indeed any figure below 5 per cent - it will be open to attack for having departed from the Megaw approach. As noted earlier, there is a good answer to this point; but it may put the Government at a presentational disadvantage. There is also a risk that a figure of only 3 per cent would be regarded as inflammatory by the staff, while anything higher would be attacked by the local authority employers as undermining their own position. The Group may therefore wish to consider whether it would be worth waiting to see whether the unions claim more than 7 per cent: if they do, the claim will be above the upper quartile and so outside the Megaw constraints. If the unions ask for 7 per cent or less, the Government does not face any significantly greater presentational difficulty than is inherent in the situation, and the risks at arbitration (if that were conceded) would be less.

Hours and the low paid

*Why?* | 13. No one is likely to disagree with the Official Group's recommendation against any concession on hours (report, paragraph 16 a). The suggestion that authority should be given to discuss 'a modest move to favour the low paid' (paragraph 17) is less straightforward, though such a move featured in the 1983 settlement. The Government's policy, stated in a Commons debate on 15 February and elsewhere, has been that pay differentials are in general a good and necessary thing; that no plausible definition of a 'low-pay line' exists and that low pay should not be a general influence on pay negotiations: indeed, more people should 'price themselves into jobs'. Even if arrangements for the low paid did not feature in the settlement discussion of low pay in the negotiations might favour tighter definition of the 'problem' and give it wider credibility at a time when the Select Committee on Employment is about to hold an inquiry into 'low pay'. The Group should give considerable weight to the Secretary of State's views on any role for 'low pay' in the negotiations.

Reports by negotiators

14. You will wish to establish when it is intended that the negotiations will begin and to commission regular reports through the Chairman of the Official Group.

## HANDLING

15. You may care to start by asking the Chairman of the Official Group briefly to speak to his paper and the Minister of State, Treasury to comment. The Secretary of State for Employment will have comments on relevance to the rest of the pay round and the Minister of State, Privy Council Office on the non-pay background to this year's negotiations. The Secretaries of State for Social Services and Defence will have comments as major Civil Service employers.

## CONCLUSIONS

15. You will wish to record conclusions on the following:

- (yes)
- (up to 4 1/2%)  
(study)
- (wait)
- (imv ans)
- (yes)
- ~~yes~~  
(no)
- i. whether the possibility of a quick settlement at 5 per cent is ruled out;
  - ii. how far in broad terms the Government should be prepared to move and on what time-scale;
  - iii. whether the Government should make an offer or wait to do so until a claim is received from the unions;
  - iv. whether the Government should open at 3 per cent or some other figure;
  - v. whether concessions should be ruled out on
    - a. hours; and
    - b. the low paid.

16. You will probably wish to report the Group's conclusions to the Prime Minister. The Secretariat will let you have a draft.

M.S.B

*Handwritten mark*

FROM: D K WILLOUGHBY

DATE: 27 APRIL 1984

1. MRS. LOMAX
2. CHANCELLOR

*RL  
28/4/84*

cc: Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Lankester  
 Mr Sedgwick  
 Mr O'Donnell  
 Mr Wood  
 Mr Wynn Owen

*All a bit uncertain,  
but doesn't look too  
bad. RUP**Red checkmark*

## MONEY SUPPLY IN BANKING APRIL: "FIRST GUESS"

- ... I attach a note by the Bank giving their first guess at the figures for banking April. There may be more than the usual degree of uncertainty surrounding the figures this month because the Easter break delayed receipt of some of the banks' returns.  $\pounds M3$  is estimated to have risen by 0.5 per cent and PSL2 by 1.1 per cent. Their likely outturns are  $\frac{1}{4}$ - $\frac{3}{4}$  per cent and  $1$ - $1\frac{1}{4}$  per cent respectively. Past experience suggests that with a large negative residual the final outturns may be towards the top of the ranges. Amongst narrow measures,  $M0$  fell by 0.1 per cent and  $M2$  rose by 1.9 per cent (unadjusted).
- ... Table 1 (attached) gives implied growth rates in key aggregates - it is of course too soon to attach significance to annualised growth over the new target period.
2. Banking April represents the final month of the old target period.  $\pounds M3$  (including public sector deposits) rose by 0.4 per cent in April implying an annualised rate of  $9\frac{1}{4}$ - $9\frac{3}{4}$  per cent over the full 14-month period.  $M1$  grew by 1.5 per cent (mainly the NIB component) suggesting a target period outturn of  $13\frac{3}{4}$ - $14\frac{1}{4}$  per cent. The outturn for PSL2 over the 1983-84 target period may be around  $12\frac{3}{4}$ - $13\frac{1}{4}$  per cent.
- ... 3. Table 2 attached compares the "first guess" of the counterparts to  $\pounds M3$  with the forecast circulated in the Monetary Prospects submission of 18 April. Overall, public sector transactions were some  $\pounds 300$  million less expansionary than forecast with modest differences

2.

on each of the components. Recorded sterling lending to the private sector is put at £1.3 billion, much higher than the forecast which had been written down to take account of the very high "PSBR". There is, however, a very large negative influence representing the combination of external and residual items, some of which may go to reduce sterling lending, when the final figures are available.

4. We will receive provisional April figures some time towards the end of next week and they will be published on 8 May. Full money and banking figures appear on 17 May.

5. I am sending a copy of this submission to Mr Turnbull at 10 Downing Street.

*D K Willoughby*  
D K WILLOUGHBY

TABLE 1: MONETARY AGGREGATES - FIRST GUESS

% (seasonally adjusted, bar M2)

	M0	M1	M2*	£M3		PSL2
				Including public sector deposits	Excluding public sector deposits	
"First Guess"	- 0.1	+ 1.5	+ 1.9	+ 0.4	+ 0.5	+ 1.1
"Likely Outturn"	- 0.1	+1¼ to 1¾	+ 1.9	+¼ to ¾	+¼ to ¾	+1 to 1¼
3 month annualised rate	+ 2.6	+22½ to 25	..	+4½ to 6¾	+6¾ to 9	+15½ to 17
6 month annualised rate	+ 3.8	+15 to 16¼	..	+7½ to 8½	+7½ to 8½	+13 to 13½
12 month growth rate	+ 4.7	+13½ to 14	+10.4	+8 to 8½	+8¼ to 8¾	+11¼ to 11½
Growth in <u>1983-84</u> target period to date annualised (14 months)	+ 5¾	14 +13¾ to 14¼	..	+9¼ to 9¾	10 +9¾ to 10¼	13 +12¾ to 13¼
Growth in <u>1984-85</u> target period to date annualised (2 months)	+ 3.0	..	..	..	+9½ to 12¾	+17 to 19

\* not seasonally adjusted

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TABLE 2

BANKING APRIL 1984

£ millions  
seasonally adjusted"First guess" compared to forecast

	<u>First Guess</u>	<u>Forecast*</u>
CGBR (excl. bank deposits)	+1570	+1640
CG Debt: Gilts	-1140	-1030
Treasury bills	+ 20	-
National Savings	- 270	- 245
CTDs etc	- 30	-
	<u>-1420</u>	<u>-1275</u>
Other public sector: LAs	+ 40	+ 160
PCs	+ 260	+ 255
	<u>+ 300</u>	<u>+ 415</u>
OVER(-)/UNDERFUNDING(+)	+ 450	+ 780
Sterling lending to UK private sector (inc. Issue Dept. commercial bills)	+1310	+ 535
Externals	} -1270	- 85
Residual (includes NNDLs and reporting differences)		- 400
STERLING M3 (excl. pub. sec. deps.)	<u>+ 490</u>	<u>+ 830</u>
(monthly % change)	(+0.5)	(+ 0.8)
Public sector deposits	- 120	- 95
STERLING M3 (inc. pub. sec. deps.)	+ 370	+ 735
(monthly % change)	(+0.4)	(+ 0.7)
M1 (monthly % change)	+ 1.5	n.a.
PSL2 (monthly % change)	+ 1.1	+ 1.2

\* As circulated in the "Monetary Prospects" submission of 18 April 1984

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BANKING APRIL 1984 - A FIRST ESTIMATE  
(£ million, seasonally adjusted)

1 The weekly figures are rather more provisional than usual: two banks are missing altogether and some other returns are provisional, because of various troubles doubtless stemming largely from the Easter holiday.

2 The weekly bank figures show a rise in £M3 (excluding public sector deposits) of 490 (+0.5%) in banking April, and a rise in £M3 (including public sector deposits) of 370 (+0.4%). This suggests a final outturn in the range of +1/4% to +3/4% for £M3 (excluding or including public sector deposits)\*. That would give an annualised rate of growth in the full 14 months of the 1983-84 target period of 9 3/4% to 10 1/4% for £M3 (excluding public sector deposits) and 9 1/4% to 9 3/4% for £M3 (including public sector deposits), the latter being the actual target aggregate in that period.\* (It is inappropriate to annualise the outturn for the first two months of the 1984-85 target period.)

3 The weekly figures show a rise in M1 of 670 (+1.5%) in banking April, split between notes and coin (+140), NIB sight deposits (+370), and IB sight deposits (+160). There is a switch in the unadjusted figures between NIB sight deposits and notes and coin in the final week, the result of the usual Easter build up in cash, but there is a negligible net effect on M1. The outturn for M1 may be between 1 1/4% and 1 3/4%, giving annualised 1983-84 target period growth of 13 3/4% to 14 1/4%.

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\*However, the strongly contractionary counterparts residual (see below) suggests that the upper ends of the ranges are more likely than the central figures.

4 Of the remaining components of EM3, there was a fall of 190 in private £ time deposits (including CDs). There seems to have been further switching between time deposits and IB sight chequing accounts. Public sector deposits fell by 120, a rise of 210 in CG deposits being offset by falls in LA and PC deposits (110 and 220 respectively).

5 The latest (unchanged) estimate for M0 (averaged) in banking April is a fall of 10 (-0.1%), a rise in the note issue being offset by a fall in bankers' deposits.

6 PSL2 may have grown by around 1.1% in banking April. Assuming the above range of 1/4% to 3/4% for EM3 (excluding public sector deposits) gives an annualised growth rate of PSL2 over the 1983-84 target period of 12 3/4% to 13 1/4%.

7 The rise in PSL2 includes, besides the increase in EM3, a large rise in the building societies' estimated contribution (1,150), about the same as in March. The net building societies' inflow (non-wholesale) was reduced, at 740 (plus 390 interest credited), and the proportion going into term shares remained steady at 9% in calendar March; there has been a rise in wholesale money (CDs plus time deposits); and liquid assets are estimated to have fallen slightly. The rise in PSL2 also includes 120 of National Savings and an estimated 150 increase in nbps holdings of LA temporary debt.

8 PSL2A, which includes term shares, may also have risen by around 1.0%.

9 M2 is estimated to have risen by 2,310 (1.9%), unadjusted, giving a 12-month growth rate of 10.4%. This is based on information about the largest 16 building societies which suggests an exceptionally large proportion of inflows going into M2 accounts; the M2 figure is subject to some uncertainty until this information has been queried with the societies. The only change in terms of building society accounts in banking April was not of the usual nature and is assumed not to have led to an immediate switch into M2.

Excluding all recent changes in terms of accounts, the unadjusted growth rate of M2 is 8.0% in the 12 months to April. Using partial seasonals, the growth in M2 in April is 1.1%, and is 11.3% annualised

since February 1983, or 9.2% excluding the changes in terms.

10 Apart from the rise in NIBM1 of 1,550 (unadjusted), the increase in M2 includes a small fall in banks' IB retail deposits (-50, unadjusted) and a rise in building society inflows (810).

11

The CGBR (excluding bank deposits) is estimated at +1,570, close to forecast; within this on-lending to LAs was +230 and to PCs was -170. Net purchases of central government debt by the non-bank private sector are estimated to have raised -1,420, much as forecast; gilts were -1,140 and national savings -270.

12 The direct contribution of the rest of the public sector is estimated to have been expansionary by +300, ie less than forecast. LAs were +40 (including falls of -180 in bank lending and +220 in bank deposits); and PCs were +260 (bank lending +120, and falls in bank deposits, +110, in deposits with the NLF, +330, offset by changes in external finance, -140, etc.)

13 Bank lending in sterling to the private sector is estimated to have risen by 1,310, well above forecast. A fall in the Bank's holdings of commercial bills (Issue Dept +490, Banking Dept -1,250) is offset by increased holdings by the Discount Market, +590.

14 The residual (net non-deposit liabilities plus differences between weekly and non-weekly reporting banks) and including externals was strongly contractionary at -1,270.

SECRET AND PERSONAL

FROM: E P KEMP  
2 May 1984

CHANCELLOR OF THE EXCHEQUER

cc Sir Peter Middleton  
Mr Pearce

REVIEW BODIES REPORT - BRIEF FOR PRIME MINISTER'S MEETING -  
THE NON-INDUSTRIAL CIVIL SERVANTS' PAY

Miss O'Mara's minute of 2 May records your query as to whether in the light of the likely position on the Review Body Reports I think the Government should seek to conclude a settlement with the non-industrial civil servants rather more quickly than had earlier been envisaged.

2. There are two scenarios here; aiming for an outcome at  $4\frac{1}{2}$  per cent, as MISC 66 asked; or aiming for a higher outcome - say 5 per cent. There are also two periods to consider; the run up to the union Conferences starting on 14 May, and the period thereafter starting on 21 May.

3. There is no possible way in which we can reach an agreed settlement at  $4\frac{1}{2}$  per cent prior to the Conferences. It would theoretically be possible to impose  $4\frac{1}{2}$  per cent, but this would cause a very great deal of aggravation with the unions and we recommend firmly against it. A  $4\frac{1}{2}$  per cent solution before the Conferences is therefore not on, as paragraph 5 of the draft minute for you to send to the Prime Minister says.

4. After the Conferences we have the choice of moving quickly or slowly. As I have said, either way an agreed solution at  $4\frac{1}{2}$  per cent is very unlikely but it ought to be possible - depending on handling and what is done about the Review Bodies - to get grumpy acquiescence in an imposed solution at this level without significant industrial action. The choice will be between moving fast following 21 May so as to reach imposition by say the end of May; or playing it long into June. One backstop here is the need for some kind of settlement by mid June if people are to get the back pay in their pockets by end July.

5. It seems to me that the choice between moving fast after 21 May and moving slowly depends on what is decided on the Review Bodies. If there is to be early publication (say in the week starting 21 May) and announcements of decisions pretty well to accept in full all except the TSRB (on that we must anyway wait until after the non-industrial civil servants have been settled) then playing things long seems best; the damage done by the acceptance of the Review Body Reports would be there, but we would simply have to live with that and hope that the effluxion of a bit of time would lessen its sting. On the other hand if it were decided that it were possible to hold back publication and decisions on the Review Body Reports until, say, early June, then there might well be case for us to move very quickly after 21 May on the non-industrial civil servants, with a view to getting an imposition at  $4\frac{1}{2}$  per cent place and leaving a couple of weeks to elapse before the Review Body news emerges. On this second programme we should still, of course, be accused of sharp practice, but that is something we might have to live with.

6. On the whole I prefer this second programme - holding back the Review Body Reports and moving quickly on non-industrial civil servants after 21 May - and this is probably also the most helpful programme from the point of view of the outstanding public sector pay negotiations, including the English and Welsh teachers. But you may find there is very great resistance among your colleagues to holding back the Review Body decisions.

7. The second scenario is if Ministers were prepared to see the Civil Service settle at say 5 per cent. The chances of an agreed settlement at this level are very much greater than the chances of an agreed settlement at  $4\frac{1}{2}$  per cent. In fact although it is leaving it late it not inconceivable that we might reach a settlement with the unions at this level before the Conferences begin, provided we had authority say tomorrow to start talking. (The initial talk would be highly informal, and if it appeared we were not going to reach an agreed settlement before the Conferences at this level all bets would be off.) So far as the post-Conference period goes, of course, the arguments on the 5 per cent scenario are much the same as those on the  $4\frac{1}{2}$  per cent one, except that 5 per cent would be that much easier to manage; I would still tend to go for quick

SECRET AND PERSONAL

agreement after the Conferences with the Review Bodies held back.

8. All that said about 5 per cent, I certainly would not want to recommend you to float this possibility at all. Even if justified by the OME Report and (prospectively) by decisions on the Review Bodies likely to be nearer to 5 than to  $4\frac{1}{2}$  per cent, it would certainly cause trouble with a lot of the other negotiations in the public services and public sector, as set out in the note attached to my minute to you of yesterday - none of these (except the miners' which are rather special) stand at as much as 5 per cent on the table. The practical choice is likely to be between a 5 per cent outturn relatively peaceably and a  $4\frac{1}{2}$  per cent outturn rather less peaceably, and while all other things being equal it is worth going for a peaceful settlement if we can, I think the arguments relating to the other public sector negotiations on the table are as strong now as they were a couple of weeks ago when MISC 66 rejected the 5 per cent option.

9. The short answer to your question, therefore, is that I think we should stick with  $4\frac{1}{2}$  per cent, that we should not try to reach any kind of conclusion before the union Conferences, but that we should try to go very quickly after the Conferences to arrive at  $4\frac{1}{2}$  per cent - this last being conditional on holding back of publication of the Review Body Reports and decisions if you can persuade your colleagues to this. If they insist on early publication (but not we hope much before the end of May) then it may be best to play the Civil Service long.

10. Of course if Ministers did decide fairly substantially to modify the Review Body recommendations then things look different. It would probably be best then to go for an early announcement of this, and to clinch the Civil Service at  $4\frac{1}{2}$  per cent soon after 21 May in any case.



E P KEMP

purp  
 [Red initials]

figures like this for KM3 and bank  
 lending would probably be taken as  
 late good news, last week some

FROM: P WYNN OWEN

DATE: 29 May 1984

1. MRS LOMAX *Commentator were talking about 2% for KM3. So far, at*
  2. CHANCELLOR *least, the lower outturn does not seem to be due to erratically negative external + KNA's. Re.*
- 29/5/84.

cc Economic Secretary  
 Sir P Middleton  
 Sir T Burns or  
 Mr Cassell  
 Mr Lankester or  
 Mr Sedgwick  
 Mr O'Donnell or  
 Mr Wood or

## MONEY SUPPLY IN BANKING MAY: "FIRST GUESS"

I attach a note by the Bank giving their first guess at the figures for banking May. £M3 is estimated to have risen by 0.9 per cent and PSL2 by 1.2 per cent. Their likely outturns are both cited by the Bank as  $+\frac{3}{4}$  to  $1\frac{1}{4}$  per cent, though PSL2 could well be a little higher. Amongst narrow measures, M0 rose by 0.4 per cent and M2 unadjusted may have grown by between  $\frac{1}{2}$  and 1 per cent. Table 1 gives implied growth rates in these key aggregates. £M3 may be just at the top of, or slightly above, its 6 to 10 per cent target range, while M0 is at the bottom of its 4. to 8 per cent target range.

2. The table attached to the Bank's note compares the "first guess" of the counterparts to £M3 with the forecast in Mrs Lomax's Monetary Report submission of 16 May 1984. Overall, the "PSBR" was almost £200 million more expansionary than forecast, while sales of government debt to the non-bank private sector were over £200 million less of a contractionary influence than expected. Recorded sterling lending to the private sector is currently put at the very low figure of £200 million. The Bank's note explains that this may turn out around £½ billion by the time we reach the final figures, still well below forecast. External and net non-deposit liabilities were once again erratic and unexpected, though not perhaps as dramatically as in the past few months.

3. We will receive provisional May figures towards the end of this week and they will be published on Tuesday 5 June. Fully money and banking appear on 14 June.

4. I am sending a copy of this submission to Mr Turnbull at 10 Downing Street.

Philip Wynn Owen.

P WYNN OWEN

TABLE 1: MONETARY AGGREGATES - FIRST GUESS

% seasonally adjusted

	MO	M2*	£M3	PSL2
"First Guess"	+0.4	-	+0.9	+1.2
"Likely Outturn"	+0.4	+ $\frac{1}{2}$ to 1	+ $\frac{3}{4}$ to 1 $\frac{1}{4}$	+ $\frac{3}{4}$ to 1 $\frac{1}{4}$
Growth in 1984-85 target period to date annualised (3 months)	+3.9	-	+10 to 12 $\frac{1}{4}$	+16 $\frac{3}{4}$ to 18
6 month annualised rate	+3.8	-	+9.0 to 10.1	+14.4 to 15.6
12 month annualised rate	+5.1	+10.2 to 10.6	+8.5 to 9.0	+11.6 to 12.1

\* not seasonally adjusted



FOR PHILIP WYNN-OWEN

BANKING MAY 1984 - A FIRST ESTIMATE  
(£ million, seasonally adjusted)

- 1 Figures received from the weekly-reporting banks indicate a rise in £M3 of 860 (+0.9%) during banking May. This suggests a final outturn in the range of  $+1\frac{1}{2}\%$  to  $1\frac{1}{2}\%$ , very much in line with forecast, and gives an annualised growth rate in the first three months of the 1984/85 target period in the range of 10% to  $12\frac{1}{2}\%$  (target range 6%-10%).
- 2 Amongst the components of £M3, notes and coin are estimated to have fallen by 40 whilst non-interest-bearing £ sight deposits have increased by 260 and interest-bearing £ sight deposits have increased by 480 (the growth in the latter is due to the continuing success of interest-bearing chequing accounts). Private sector time deposits (including CDs) rose by 160. Public sector deposits (not now included in £M3) increased by 170, mostly local authorities.
- 3 Our latest estimate for M0 for banking May is an increase of 60 (+0.4% or +3.9% annualised since February 1984). The revision (downwards by 10) to the figure circulated in last week's note is due to the inclusion of figures received from the Scottish note-issuing banks. Information has not yet been received from the Northern Irish banks.
- 4 The attached table compares changes in the counterparts to £M3 with the forecast as circulated in the FR of 17 May. The CGBR is estimated at +1,220, less than forecast: within this, on-lending to LAs was +340 but there was a small repayment by PCs of -30. Net purchases of central government debt by the non-bank private sector are estimated to have raised only -290, substantially less

than the forecast of - 510. Gilt sales raised -210 compared with a forecast of -305.

5 The direct contribution of the rest of the public sector is estimated to have been contractionary by -200, less than the forecast. LAs were -160, within which bank deposits increased (-160) and bank lending fell (-120). PCs were -40, within which bank deposits increased (-40), and bank lending fell (-140); the PCs also increased their net lending to LAs (-110) and surrendered CTDs (+90).

6 Bank lending in sterling to the private sector is estimated to have risen by 200, very much less than forecast. Since the weekly-reporting population was reviewed in November 1983, the weekly banks have under-predicted lending by an average of 250 within a range of +110 to +360. It therefore seems likely that the outturn for lending for banking May will probably not be higher than about +500, still well below the forecast. Within this lending figure the Bank's holdings of commercial bills fell by 330 (Issue -880, Banking +550) and the discount market's holdings fell by 460.

7 Identified external items were contractionary by -350 as compared with a slight expansionary forecast of +130. Overseas holdings of gilts and Treasury bills increased by -30 and -130 respectively, whilst the reserves fell by -120.

8 The residual (net non-deposit liabilities plus reporting differences between weekly and non-weekly banks) was expansionary at +280 (forecast for nndls alone -500).

9 PSL2 may have grown by around 1.2% in banking May. Assuming the above range of  $+1\frac{1}{2}\%$  to  $+1\frac{1}{4}\%$  for EM3, this gives an annualised growth rate of PSL2 over the 1984-85 target period in the range  $16\frac{1}{2}\%$  to 18%.

10 The rise in PSL2 includes, besides the increase in EM3, estimated increases in non-bank private sector holdings of LA temporary debt (+150) and bank bills (+100). The estimated building societies' contribution (+1,000) is similar to April: net non-wholesale inflows were lower (540 plus 340 interest credited), but it is estimated that none of this inflow went into term shares. Wholesale inflows are also estimated as flat. Societies' holdings of liquid assets are estimated to have fallen (+150).

11 PSL2A (which includes term shares) may have risen by around 1.1% in banking May.

12 It is not possible to give a firm figure at this stage for the growth in M2. There are some inconsistencies in the information received from the Building Societies Association concerning inflows into M2 accounts during calendar April, which are unlikely to be resolved until next week. We are however able to estimate the ranges within which the revised figures should lie. There were no known reclassifications of accounts in banking May. M2 may have risen by between  $\frac{1}{2}$ % and 1%, unadjusted, giving a 12-month growth rate of between 10.2% and 10.6%. Excluding reclassifications in terms of accounts, the 12-month growth rate would be between 7.8% and 8.2%.

Financial Statistics Division  
Money & Banking Aggregates Group HO-4  
25 May 1984

Miss V F Howat/I G Kerr (4471)/C R Mann (4764)

VFH

*[Handwritten signature]*

CRM

BANKING MAY 1984£ millions  
seasonally adjustedFIRST ESTIMATE COMPARED TO FORECAST

	<u>First estimate</u>	<u>Forecast*</u>
CGBR	+1220	+1305
CG Debt: Gilts	-210	-305
Treasury bills	+20	
National Savings	-230	-280
CTDs etc	<u>+130</u>	<u>+75</u>
	-290	-510
Other public sector: LA	-160	-165
PC	<u>-40</u>	<u>-310</u>
	-200	-475
Bank lending to UK private sector (inc Issue commercial bills)	<u>+200</u>	<u>+1300</u>
SUB-TOTAL OF DOMESTIC COUNTERPARTS	+930	+1620
External and foreign currency counterparts	-350	+130
Residual (includes NNDLs & reporting differences)	<u>+280</u>	<u>-500</u>
STERLING M3	<u>+860</u>	<u>+1250</u>
(percentage monthly increase)	(+0.9%)	(+1.2%)

EM3 annualised since February 1984

+10.5%\* As circulated in Mrs Komax's "Monetary Prospects" submission of 16 May 1984



10 DOWNING STREET

From the Private Secretary

CH/EXCHEQUER	
REC.	09 JUL 1984
ACTION	No Distribution
COPIES TO	
	9 July, 1984

*MP*

*Deu David*

INDUSTRY AND EMPLOYMENT SEMINAR

The Prime Minister wishes to hold a meeting to discuss industrial and employment questions on the afternoon of 13 September, starting at 1430 hours. The agenda at this stage is provisional but the Prime Minister wishes to concentrate the discussion on the prospects for jobs. This will involve picking up the discussion of the papers tabled at the May meeting plus examination of the papers commissioned at that meeting, in particular that on the cost-effectiveness of various forms of Government spending to promote employment. She may also wish to discuss de-regulation, depending on how much progress is made at the meeting on the administrative and legislative burdens on small firms fixed for 24 July, and at the meeting of E(CP) which is scheduled to take place before the Recess to discuss ways of strengthening the forces of competition in the economy.

The Prime Minister would very much welcome any papers which Ministers wish to table putting forward ideas and suggestions on ways in which more jobs can be created.

I am copying this letter to Callum McCarthy (Department of Trade and Industry), Elizabeth Hodgkinson (Department of Education and Science), David Normington (Department of Employment), John Ballard (Department of the Environment), Michael Reidy (Department of Energy), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Young (Manpower Services Commission) and to Richard Hatfield (Cabinet Office). I would be grateful if this letter could be retained within the Private Offices and any work in connection with the meeting be commissioned without reference to it.

*Yours sincerely  
A. Turnbull*

(A. Turnbull)

D. Peretz, Esq.,  
HM Treasury.



FROM: Minister of State

DATE: 17 August 1984

CHANCELLOR OF THE EXCHEQUER

## NON-INDUSTRIAL CIVIL SERVICE PAY

In your absence I met at their request representatives of the Council of Civil Service Unions on Wednesday morning. I was accompanied by Peter Middleton and other officials, including one from the Department of Employment.

2. The CCSU said that the pay negotiations had broken down. Accordingly they sought to have recourse to arbitration under the 59 year old arbitration agreement. They hoped that the Government would think very carefully before refusing to allow this on public expenditure grounds. In their view public expenditure considerations were common to all years and all Governments and were not sufficient reason to refuse arbitration. A refusal this year would have far-reaching consequences for the future. It would demonstrate yet again that this was a Government which broke agreements with civil servants. This was particularly serious at a time when manpower cuts and the introduction of new technology required active staff co-operation. The Government should reflect on these wider management considerations. Civil servants were, as a result of the Government's behaviour, now ready to take industrial action in circumstances where it would have been inconceivable in the past. They could not understand why the Government was prepared to listen to the views of a third party in the case of groups covered by review bodies; but not in the case of the Civil Service. The CCSU concluded by saying that they hoped that we would agree to sign joint terms of reference for arbitration.

3. In reply I said that the Government considered that the offer made on 31 May was fair and reasonable to all concerned, staff and taxpayer, and was the most that could be afforded. I could not agree that public expenditure considerations were an inadequate ground for refusing to go to arbitration. I reminded them that cash limits and

public expenditure had been the ground on which the Government refused to go to arbitration in 1981. Control of public spending was central to the Government's economic policy. The unions' claim would add over £100 million per annum to public expenditure. I had, nevertheless, listened carefully to the points which they had made and would convey them to you. I said I would let them have the Government's considered response in the near future.

... 4. I attach a copy of the Press Notice we issued.

5. The meeting was good humoured and went very much as expected. Taking account of our earlier discussions in MISC 66 and of what was said on Wednesday our next steps seem fairly straightforward on the basis that arbitration will be refused on grounds of policy. I attach a draft of a letter which, subject to your views and the views of those to whom I am copying this minute, I would propose to send to the CCSU next week. I think they would then seek a meeting with Tom King which I will be ready to attend in support.

(but see  
manuscript  
below)

6. We must recognise that the unions will react adversely and we will be attacked for breaking a long-standing agreement. We are likely to face limited industrial action and perhaps legal challenge. As you know the Attorney has advised us that there should be no significant risk of successful legal action, provided that the unions were given a reasonable chance to make representations before the decision crystallises and that the "grounds of policy" which justify the refusal to go to arbitration are articulated beforehand. I think Wednesday's meeting discharges both these points. However any Court action is a chancy affair, and there is no knowing what obiter dicta might emerge en route.

7. The only possible alternative at this stage which could avoid the accusation that we are breaking the arbitration agreement (something which the unions made much of on Wednesday) is to agree some form of non binding arbitration or mediation. There were signs on Wednesday that something less than the standard arbitration procedures could be agreed. It would be taken as a welcome sign by

the Civil Service that what is seen as the "unfairness and hostility" of the present Government might be ending. On the other hand it has some very significant drawbacks. A recommendation inevitably bigger than our present offer would be a considerable embarrassment, and the more so if we did not implement it. Implementation would add to public expenditure, because even if we staged the increase into next year it would jack up the base line for next year's pay; each 1 per cent costs around £50 million. It could cause trouble with other public service negotiations that are outstanding, particularly Norman Fowler's non-Review Body NHS staff, who look like accepting  $4\frac{1}{2}$  per cent.

8. Finally there is the question of the implementation of the present offer. Nothing was said about this on Wednesday but we continue to emphasise that we remain ready to implement the offer at any time and that it is the steps being taken by the unions which are holding things up. This point is brought out again at the end of the draft letter to the unions.

9. I am copying this minute to Tom King and Grey Gowrie.

BH.

BARNEY HAYHOE





# H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233 3415  
Telex: 262405

15 August 1984

## NON-INDUSTRIAL CIVIL SERVANTS' PAY 1984

In the absence of the Chancellor of the Exchequer representatives of the Council of Civil Service Unions today (August 15) saw Treasury Minister of State Mr Barney Hayhoe. Mr Hayhoe confirmed that the pay offer of 31 May could not be further improved. It was a fair offer and was the limit of what was affordable.

Successive governments had consistently and publicly reserved the right on policy grounds to refuse to go to arbitration. The unions had already been told that this year on public expenditure grounds the Government was minded to exercise this right. However, what the unions had said would be very carefully considered and a reply would be given as soon as possible.

The Government remains concerned that it is now over four months beyond the due date for the payment of this year's increases and hopes that in consultation with the unions matters can be brought to an early conclusion so that staff could have their money.

PRESS OFFICE  
H M TREASURY  
PARLIAMENT STREET  
LONDON SW1P 3AG  
01 233 3415

145/84

### NOTE TO EDITORS

The offer made comprised increases of 5 per cent for staff on flat rates and scale maxima and 4 per cent for staff on other scale points, plus an underpinning minimum increase of £3 per week for full-time staff aged 18 and over and an increase of 4 per cent in most pay related allowances, all from 1 April 1984; increase in rate of London Weighting by 4 per cent from 1 October 1984; and rationalisation of scale points at executive officer and clerical officer levels completed from 1 January 1985. This offer would add just under 4.55 per cent to the 1984-85 paybill.



DRAFT LETTER FOR THE MINISTER OF STATE TO SEND TO:

P D Jones Esq  
Secretary  
Council of Civil Service Unions  
St Andrews House  
40 Broadway  
LONDON SW1H 0BU

1984 PAY

I was glad to be able to meet ~~with~~ you and your colleagues last Wednesday morning to hear <sup>why you believed</sup> ~~your arguments that~~ the present pay dispute should be allowed to go to arbitration. ~~[I repeat again the apologies of the Chancellor of the Exchequer for not being able to be present.]~~

*in the Chancellor's absence m had const. value*

I have now reported to the Chancellor the points which you made, together with <sup>the</sup> points <sup>which</sup> made to Departmental Ministers, ~~including those made to me by~~ Departmental Trade Union Sides *law*

The Government has given very careful consideration to these representations ~~[that have been made]~~ and I write now to set out our views.

Successive Governments have consistently and publicly reserved the right on policy grounds to refuse to go to arbitration. The policy of controlling public expenditure is central to the Government's economic strategy. In our judgement this obliges us to refuse to allow the present pay dispute to go to arbitration on any terms of reference which might result in a settlement costing more than the offer which was made to you on 31 May last.

I hope therefore that you will be prepared now to accept the offer of 31 May so that steps can now be taken to ensure that most staff receive their money by the end of September.



*M. J. Proctor  
to MST*

# CABINET OFFICE

*From the Minister of State*

**Lord Gowrie**

**MANAGEMENT AND PERSONNEL OFFICE**

**Great George Street  
London SW1P 3AL  
Telephone 01-233 8610**

Barney Hayhoe Esq MP  
Minister of State  
HM Treasury  
Parliament Street  
London SW1

21 August 1984

NON-INDUSTRIAL CIVIL SERVICE PAY

You sent me a copy of your minute of 17 August to the Chancellor recording the outcome of your meeting with the CCSU on 15 August.

I agree with you that acceptance of non-binding arbitration or mediation would involve unacceptable risks. I also agree with you in seeing no practical alternative to the course you suggest.

I am copying this letter to Nigel Lawson and Tom King.

LORD GOWRIE

CH/EXCHEQUER	
REC.	23 AUG 1984
ACTION	Miss Sincuarie.
COPIES TO	Sir P. Middleton
	Mr Kemp (OJE)

*22/8*



C/

The separate orange folder  
refers to the work of Sir  
Philip Goodhart's One Nation  
Group, in case anyone  
mentions it.

MOM



10 DOWNING STREET

From the Private Secretary

SECRET AND PERSONAL: CMO

6 September 1984

*Dear David,*

SEMINAR ON INDUSTRY AND EMPLOYMENT

I attach an annotated agenda for next Thursday's meeting. Also attached are the Policy Unit note to be considered under item 5 and the minute from Sir Keith Joseph which is relevant to item 3.

*Sir I have submitted*  
I understand the Chancellor will be circulating the other paper under item 3, that the Secretary of State for Employment will circulate a note under item 4 and the Secretary of State for the Environment the notes mentioned on item 6(iii).

X/ While the papers do not themselves need to be restricted to Private Offices, the existence of the meeting should be restricted to those who strictly need to know and briefing on the papers to be commissioned without reference to it.

I am copying this letter to Elizabeth Hodgkinson (Department of Education and Science), John Ballard (Department of the Environment), Michael Reidy (Department of Energy), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Normington (Department of Employment), Callum McCarthy (Department of Trade and Industry), Steve Godber (Department of Health and Social Security), Richard Hatfield and Peter Gregson (Cabinet Office) and to the Chairman of the Manpower Services Commission.

*Your sincerely  
Andrew Turnbull*

ANDREW TURNBULL

David Peretz, Esq.,  
H.M. Treasury.

SECRET AND PERSONAL: CMO

Industry and Employment Seminar: 13 September  
Agenda

1. Report on recent developments in the labour market

To be raised orally by Secretary of State for Employment.

2. Expenditure Programmes Relevant to Employment

Papers

- Paper attached to David Peretz's letter of 10 August to David Normington
- Replies from DEmp (17/8) and DTI (30/8)

Issues

- (i) Does the Group agree with the analysis of the paper?
- (ii) What policy conclusions should be drawn?
- (iii) Are any adjustments between expenditure programmes called for?

3. Relationships between wages and unemployment

Papers

- Minute from Secretary of State for Education and Science to Prime Minister (8/8)
- Note from the Treasury discussing evidence on link between wages and employment. To be circulated next week.

Issues

- (i) How well is link established?
- (ii) What can Government do to improve understanding of it? (see also Item 5)
- (iii) How can Government avoid accusation that it seeks a low wage economy.

4. Passport for a Job

Papers

- Note to be circulated by Secretary of State for Employment

5. Getting Across the Government's Approach on Employment

Papers

Draft Discussion Paper by No.10 Policy Unit

Issues

- (i) Have the elements of the Government's approach to be creation of jobs been correctly identified?
- (ii) Should theme that removal of restrictions and protections will benefit the "have-nots" be stressed?
- (iii) Is a discussion document/Green Paper the best medium?
- (iv) If not how can Government's message be got across? A programme of speeches? Government publications?
- (v) What measures and policy initiatives should the

Government take over the next year?

6. Background Papers

- (i) Checklist and Conclusions from 25 May meeting - attached to Andrew Turnbull's letter of 29 May.
- (ii) Papers circulated by Secretary of State for Employment for 25 May meeting - attached to Andrew Turnbull's letter of 18 May.
- (iii) Notes to be circulated by Secretary of State for the Environment
  - (a) Public Sector Vacant Dwellings
  - (b) Vacant Under-used Land in the Public Sector.



SECRET AND PERSONALFROM: N MONCK  
DATE: 12 September 1984

CHANCELLOR

cc Sir P Middleton  
Sir T Burns**INDUSTRY AND EMPLOYMENT SEMINAR: 13 SEPTEMBER**

The last seminar in the series was on 25 May. As before, your objectives at this one will be:

- a. to prevent worries about the continuing rise in unemployment from producing decisions which add to your public expenditure\* problems (or, at worst, call in question the financial strategy);
  - b. to press for further substantive decisions to improve the working of the labour market and for sensible presentational efforts to improve the climate for such changes.
2. It is <sup>uh</sup> (satisfactory that Mr King has not met some of the key remits at the last seminar - to bring forward papers on balance of power within unions, the repeal or further amendments of Employment Protection, Wage Councils, and on a publicity campaign about deregulation.
3. This brief follows the agenda circulated by No 10.

**Item 1 - Recent Developments in the Labour Market**

4. In commenting on Mr King's Report you could draw on Mr Shields' note in Annex A to this brief.
5. Annex B contains information on:
  - a. details of unemployment rates and length of unemployment etc for different age groups in the UK; and
  - b. latest OECD figures for unemployment in member countries.

\* The Chief Secretary is seeking net savings from Mr King and Mr Jenkin and has bilaterals with both of them next week. See Mr Mercer's brief on the DE bilateral of 7 September and Chief Secretary's bidding letter to Mr Jenkin of 2 August. Mr Young's new appointment is itself likely to worsen the outlook for savings on DE public expenditure.

Item 2 - Expenditure Programmes Relevant to Employment

6. Less time should be spent on this Report than on Items 3 and 5. But the meeting will no doubt address the three issues in the agenda and perhaps the replies from the Departments of Employment, Trade and Industry, and now Environment (letter from Davis to Peretz of 6 September):

- i. no points have been raised in correspondence about the analysis as such. Mr Tebbit criticises the Report's emphasis on first year employment effects. This was the only basis on which comparable figures for cost-effectiveness were available. As Mr Tebbit concedes, the Report was careful to recognise the different supply side merits of different schemes. We propose to discuss with DTI officials in the next few weeks the points that are made in their letter;
- ii. paragraph 29 of the Report contains some implications for policy choices. Apart from switches between programmes (see iii. below) there are two procedural propositions:
  - a. that the DE Manpower Group might in future years cover programmes which could compete in short-term cost-effectiveness with SEMs; and
  - b. that future public expenditure proposals based primarily or largely on cutting unemployment or increasing employment, notably for loss making industries, should be supported by figures for net Exchequer cost per person off the unemployment count etc;

DOE welcome a., but suggest that the Cabinet Office should chair the Group to see fair play. This is unnecessary, as DE do the job in a balanced way. It would be better for the proposal to be agreed in its original form. Proposal b. should help Treasury Ministers since departments would either have to give figures showing relatively poor cost-effectiveness

or have to renounce reliance on jobs arguments as a major justification. It would be good to get this proposal agreed for expenditure, which are based 'primarily or largely' on unemployment or employment arguments, (if necessary subject to further work on the costing technique.

- iii. On adjustments between expenditure programmes you will want to argue that at present the first and overriding requirement is to achieve the overall public expenditure aims Cabinet endorsed before the holiday. Any adjustments between programmes would have to be consistent with that. So any addition to a job-rich programme would have to be conditional on both identifying and agreeing upon further savings on top of those required already - which have not yet been secured on a sufficient scale. So the realistic option is to introduce the proposed new procedure in next year's exercise.

7. You might also wish to say, particularly if the Report is represented as favouring SEMs too much, that SEMs and their short-term benefits would not in general be the first choice for public expenditure. Long-term supply benefits should normally be given priority within public expenditure constraints. However to the extent that Ministers switch expenditure to SEMs etc to deal with pressing unemployment problems, it is vital to choose the schemes which are most cost-effective in the short-term.

#### Item 3 - Relationships Between Wages and Unemployment

8. You have the paper by Sir T Burns on this. It would be best to deal with issues i. and iii. - the strength of the link and Government's alleged advocacy of a 'low wage economy' - under this item but to cover ii. under Item 5 (see paragraphs 12-14 below).

#### Item 4 - Passport for a Job

9. A revised proposal by Mr King was circulated on 10 September. You have already had Mr Gordon's submission about the Report circulated with Mr King's letter of 21 August. The Report dealt

with a scheme for workers under 18. But in his August covering letter Mr King widened the target area to the 18-24 age group. The latest proposal is different again. It is focussed on people aged 17, 18 or 19. Most of the arguments in Mr Gordon's submission still apply, though the figures about which we were not consulted, would be different.

10. You should oppose the proposal, drawing on the following points:

- a. the Treasury was not consulted about the costs and we think they are under-estimated perhaps by 50%;
- b. even on the highly uncertain figures in the paper the scheme would be relatively poor in cost-effectiveness. On this basis the cost per person off the register would be about £2,100 (and our own estimate is closer to £3,000) compared with an average of about £1,600 for SEMs;
- c. the scheme would be less attractive to employers than the Young Workers Scheme it would replace: much of the cost goes on remissions of income tax and national insurance contributions for employees. At the proposed maximum wage of £50 the employee would save about £8 a week. To the extent the scheme worked as an incentive, employers would get rid of workers as they reached their 20th birthday; Tax threshold: same - 740
- d. very doubtful whether the scheme would have any supply side benefits via wage expectations; indeed it could do damage compared with the YWS which has a maximum wage of £50 gross, whereas this scheme effectively allows £50 net;
- e. the scheme would not relieve employers of unfair dismissal obligations unless there were primary legislation.

11. For all these reasons the scheme is not worth pursuing. (However changing the employment and protection rule is worth pursuing in its own right; see paragraph 16 below.)

Item 5 - Getting Across the Government's Approach on Employment

12. The Policy Unit originally envisaged that the Government might publish a document on the lines of their "discussion paper". This seems a very bad idea. It would not be seen as an adequate answer to the unemployment problem as a whole but would arouse hostility to the further specific measures which would be canvassed but would not be Government decisions, the worst of both worlds.

13. The seminar should discuss the presentational and substantive issues separately.

14. On presentation it would be right to revive the idea of a co-ordinated series of Ministerial speeches which Mr King was asked to work up in consultation with you at the last seminar. I attach at Annex C the outline which was submitted to Mr King in July after interdepartmental official discussion. The aim would be to put across the opportunities and advantages of the measures already taken in the area of deregulation etc. This should help the climate for further measures without arousing opposition in advance of specific decisions. Ministers will also need to put across their case in the NEDC jobs exercise. Speeches can in due course be supplemented by published material eg in EPR and NEDC papers.

15. On substantive issues Ministers should aim to take further collective decisions on measures that could be taken after the miners' strike.

16. Possible further measures include:

- a. Employment Protection: 1980 legislation reduced potential costs for employers of taking on new people by extending the qualifying period for notice of dismissal or compensation from 26 weeks to a year and to 2 years for employers of up to 20 people. Further legislation could lengthen the period(s) or raise the employment ceiling. Alternatively Mr King could by-pass his worries about the politics of removing existing rights, by legislating for new jobs starting after a specified date?

b. Wages Councils: Mr King is due to come back to EA on this. There may be no great hurry about denouncing the ILO convention as the window for that does not start till August 1985. But it would be possible without breaching the convention to legislate to prevent wages councils from setting wages for young workers at more than a specified percentage of the award for adults. This ought to be pursued urgently.

17. The seminar should renew the remit to Mr King on these issues and on the preparation of speech material (for which the Policy Unit's discussion document contain some useful material about what has already been done).



N MONCK

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*Pe report  
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SECRET & PERSONAL

COPY NO. 17 OUT OF 50

FROM: MISS M E PEIRSON  
DATE: 12 October 1984

CHANCELLOR

cc Chief Secretary	Mrs Lomax
Financial Secretary	Mr Mowl
Economic Secretary	Mr Riley
Minister of State	Mr Shields
PCC members	Mr Stibbard
Mr Burgner	Mr M Williams
Mr H P Evans	Mr S Powell
Mr Fitchew	Dr Webb
Mr Jameson	Mr Ridley
Mr Lankester	Mr Lord
Mr Monger	Mr Portillo
Mr Odling-Smee	
Mr Scholar	Sir L Airey - I/R
Mr Gray	Mr Fraser - C & E

**TREASURY ECONOMIC FORECAST, OCTOBER 1984: PUBLIC FINANCES**

I attach a copy of the report on the outlook for Public Sector Finances in the Treasury Economic Forecast. This complements the main report on the forecast being circulated by Huw Evans.

*MEP*

MISS M E PEIRSON

SECRET & PERSONAL

TREASURY ECONOMIC FORECAST

REPORT ON PUBLIC FINANCES

OCTOBER 1984

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## SUMMARY

The main features of the forecast are:-

- For 1984-85
- The PSBR is now put rather higher (possibly £1½ bn higher) than the Budget forecast of £7¼ billion. Higher public expenditure is partly offset by higher North Sea taxes. However, the margin of error in forecasts made at this time of year is at least ± £2 billion.
  - The public expenditure planning total is expected to be some £1½ - 2 billion above the PEWP total of £126¼ billion.
- For 1985-86
- A positive fiscal adjustment (ie tax reductions) is still expected, possibly £1-1½ billion above the Budget forecast of £2 billion. The margin of error is however ± £4-5 billion. The increase in the fiscal adjustment results from higher North Sea and other taxes, which more than offset higher expenditure.
  - The public expenditure planning total depends in part on the outcome of the survey, but without more cuts than in GEP's July assessment it seems likely to be above (perhaps £1-1½ billion above) the PEWP total of £131¼ billion.
- For 1986-87 and later
- Large fiscal adjustments are still foreseen. Despite continued forecast overspend on public expenditure plans, expenditure declines in real terms owing to the restraints imposed, whilst tax revenues continue to rise in real terms.

**ASSUMPTIONS**

1. The fiscal projections are crucially dependent on the assumptions employed, as follows:-

(i) The PSBR is constrained from 1985-86 onwards to the MTF5 projections, ie 2% of GDP in 1985-86 and 1986-87 and 1½% in the next two years, by fiscal adjustments assumed to be taken on personal income tax. (On the revised forecast of GDP, this produces a PSBR of £7½ bn in 1986-87 rather than £7 bn as in the Budget forecast, which implicitly assumed 1.9%.)

(ii) The miners' strike ends at the end of December, and coal restocking proceeds but not at an exceptionally rapid rate.

(iii) The outcome of the public expenditure Survey for 1985-86 onwards is as in GEP's July assessment. For 1985-86 that means £3 billion of irresistible bids accepted and £1½ billion of cuts in programmes agreed, plus £1½ billion cut in the Reserve. Despite subsequent developments, GEP do not feel that this is too far away from the likely outcome. The extra £½ billion of asset sales in 1985-86 (see vii below) seem likely to be largely offset by the effect of revised economic assumptions (see paragraph 24 below). (The actual Survey decisions will be taken into account for the Autumn Statement.) Forecast outturn reflects not only these assumed increases and cuts in published programmes, but also likely longfalls and shortfalls.

(iv) Public service earnings rise at 6% pa (see main report), whilst nationalised industry earnings rise (with private sector earnings) rather faster.

(v) In 1985-86, adjustments to cash-limited plans are assumed to be limited to Survey bids and cuts and any subsequent "discretionary" allocations from the Reserve - see vi below. In the later years it is assumed that cash-limited plans are further adjusted for the effect of higher public service pay and prices (compared with PEWP assumptions), subject to a squeeze (maximum 2%) on the volume of cash-limited public expenditure. In all years demand-led items are unconstrained.

SECRET & PERSONAL

(vi) Net public expenditure increases are charged to the Reserve until that is exhausted, and then added to the planning total. Allowance is made for £1 billion a year of "discretionary" increases, as well as for overspends on local authority expenditure and nationalised industries' external finance, for demand-led increases, and for the effect of higher pay and prices on cash-limited programmes.

(vii) Asset sales are £2¼ billion in 1984-85 and £2½ billion in 1985-86, in line with PE's latest estimates, and £2 billion a year thereafter, by assumption.

(viii) Net payments to the EC in 1984-85 are based on recent decisions which suggest that the 1983 rebate will be received shortly and that there will be some supplementary financing. The 1984 rebate is assumed to be received in 1985-86, and later rebates received evenly throughout the year following that in which they arise: eg one-quarter of the 1985 rebate received in 1985-86, the rest in 1986-87. Further supplementary financing is assumed in 1985 and the VAT ceiling is raised in stages from 1% to 1.4% by 1 January 1986.

(ix) No new legislation on local authorities is assumed, but current legislation is carried through (eg abolition of GLC etc.). Measures to keep capital spending close to cash limits in 1985-86 onwards are introduced as necessary.

(x) There is full revalorisation each Budget of all income tax bands and allowances and specific taxes on expenditure.

(xi) National Insurance contribution rates are held constant for both employees and employers (rates for April 1985 must be decided this autumn). The Exchequer supplement to the Fund is held at 11%, despite the rapidly growing surplus on the Fund. The earnings threshold is uprated in line with prices, with the ceiling computed at 7.35 times the threshold (as in 1984-85) but rounded down to the nearest £5. Benefits are uprated each November in line with price increases to the previous May.

## PSBR

2. The fiscal prospects for 1984-85 are somewhat worse than in the Budget forecast. Our central projection for the PSBR is now £8¾ billion, £1½ billion higher. In 1985-86, however, the prospect is of a rather higher fiscal adjustment than in the MTFs projection.<sup>x</sup> In later years the annual fiscal adjustment remains large.

Central projectionsFiscal Adjustment and the PSBR

	1983-84		1984-85		1985-86		1986-87		1987-88	
	Outturn	FSBR	October	FSBR	October	FSBR	October	FSBR	October	
PSBR (£bn)	9.7*	7.2	8.7	7.0	7.1	7.0	7.6	6.8	7.0	
PSBR (% of GDP)	3.2	2.2	2.7	2	2	2	2	1¾	1¾	
Fiscal adjustment from previous years (£bn)¢	-	-	-	-	-	1.9	3.2	6.6	7.7	
Annual fiscal adjustment (£bn)¢	-	-	-	1.9	3.2	4.7	4.4	3.4	2.9	

\* New definition, excluding bank deposits; outturn on old definition was £10.0 bn.

¢ + means a reduction in taxes compared with current tax rates and indexed thresholds.

3. The contrast between a worsening in the fiscal prospect in 1984-85 and an improvement in 1985-86 compared with the Budget forecast can be explained largely by changes to the forecast of central government revenue. Expenditure is higher in both years by roughly the same amount. The upward revision since the Budget to North Sea taxes in 1985-86 (about £3 billion) is some £1¼ billion higher than that in 1984-85. And the revision to other receipts in 1985-86 is some £1¾ billion higher than that in 1984-85.

4. However, there are very large margins of error associated with these projections. Even for 1984-85, the margin of error is at least £2 billion in forecasts made at this time of year, and for later years it is considerably greater. Besides the inescapable errors involved in forecasting the difference between two large and partly unassociated quantities, additional uncertainties at present include:-

- the length of the **miners' strike** and the likely consequentials;
- the outcome of the public expenditure **Survey**;

x The improvement since the preliminary forecast in September stems largely from an increased forecast of non-North-Sea taxes.

∧ But see footnote page 11: the PSBR would then be £8½ bn.

- the effect of the privatisation of such a large industry as **British Telecom** on the PCBR, as it is taken out of the nationalised industry sector;
- the size of net **EC** contributions;
- the effect of **rate-capping** on local authority borrowing.

5. In judging the stance of fiscal policy, it is useful to look separately at the profile of North Sea taxes, the change in VAT on imports, and special asset sales. The first two items are essentially temporary influences and asset sales have much smaller economic effects than cuts in public expenditure.

#### Special factors affecting the PSBR

	1983-84	fbn							
		1984-85		1985-86		1986-87		1987-88	
		FSBR	October	FSBR	October	FSBR	October	FSBR	October
North Sea taxes	8.9	10.2	12.0	9.6	12.7	9.4	11.0	9.4	9.6
VAT on imports (change)	-	1.2	1.2	-	-	-	-	-	-
Special asset sales	1.0	1.9	2.3	2.0	2.5	2.0	2.0	2.0	2.0
<b>PSBR</b>	<b>9.7</b>	<b>7.2</b>	<b>8.7</b>	<b>7.0</b>	<b>7.1</b>	<b>7.0</b>	<b>7.6</b>	<b>6.8</b>	<b>7.1</b>

6. Since the Budget forecast the projections of North Sea taxes and asset sales have been revised upwards. This might imply an easier fiscal stance than earlier envisaged.

#### Sectoral split

7. The forecast worsening in the fiscal position in 1984-85 shows up in higher Central Government borrowing (higher expenditure, particularly grants to the Coal Board for the miners' strike, being only partly offset by higher North Sea taxes) and higher Local Authority borrowing (because of higher capital expenditure). In 1985-86 the improvement compared with the Budget is entirely in Central Government borrowing, the higher North Sea and other taxes more than offsetting higher expenditure. In later years the improvement in CG borrowing remains at about the same level, owing to growth in tax revenues generally (not just North Sea), but is offset to an increasing extent by forecast higher LA and PC borrowing.

## Sectoral split of Borrowing

£ billion

	1983-84		1984-85		1985-86		1986-87		1987-88	
	Outturn	FSBR	October	FSBR	October	FSBR	October	FSBR	October	
CG own account (before fiscal adjustment)	8.2	5.3	6.5	3.8	1.9	-0.3	-2.4	-3.8	-5.9	
Local Authorities	1.2	1.3	2.0	0.9	1.4	1.0	1.7	1.1	1.8	
Public Corporations	0.3	0.6	0.2	0.5	0.6	-0.2	0.6	-0.5	0.6	
Fiscal adjustment (cumulative)	-	-	-	1.9	3.2	6.6	7.7	10.0	10.5	
PSBR	9.7	7.2	8.7	7.0	7.1	7.0	7.6	6.8	7.0	

## Profile during 1984-85

8. A revised forecast of the profile of the PSBR during 1984-85, consistent with the forecast for the year as a whole, will be submitted separately.

## Path of PSBR over forecast period

9. The table overleaf shows the principal influences on the PSBR in cash terms. There is a very sharp reduction forecast in the PSBR between 1984-85 and 1985-86, from £8½ billion to £4 billion (before fiscal adjustment). The miners' strike in 1984-85, which adds £1¼ - 1½ billion to the PSBR, is roughly offset by the once-for-all change in VAT on imports. The main reason for the forecast decline in the PSBR between the two years is that, whereas (ignoring the VAT change and the fiscal adjustment) total revenues are expected to rise by some £12 billion (8½%), much in line with the growth in nominal GDP, the public expenditure planning total is forecast to rise (ignoring the miners' strike) by only £6 billion (5%), even allowing for forecast overspend above plans.

10. Subsequently, there are further forecast sharp reductions in the PSBR (before fiscal adjustment), to roughly nil in 1986-87 and a negative borrowing requirement thereafter. These reductions too, and the corresponding large annual fiscal adjustments, stem from the growth of taxes broadly in line with the nominal growth in the economy, whilst expenditure is assumed to be held back.

## SECRET &amp; PERSONAL

## INFLUENCES ON THE PSBR IN CASH TERMS

	1983-84	1984-85	1985-86	1986-87	1987-88
	estimated outturn		October forecast		
Central government taxes and contributions (before fiscal adjustment)					
: fbn	105.2	115.9	125.5	134.6	143.0
: % increase	6½	10	8	7½	6
: % increase (ignoring VAT change)	6½	9	9½	7½	6
o/w North Sea taxes:					
: fbn	8.9	12.0	12.7	11.0	9.6
: % increase	14	34½	6	-13	-13
Local authority rates					
: fbn	12.5	12.8	13.8	14.5	15.2
: % increase	1½	2½	8	5	5
Rent, dividends, interest and other receipts					
: fbn	11.4	10.7	11.0	11.4	12.0
: % increase	2	-6	2½	4	5
Central Government expenditure*					
: fbn	113.9	121.7	126.1	130.4	135.6
: % increase	9½	7	3½	3½	4
: % increase (ignoring miners' strike)	9½	6	4½	3½	4
Local Authority expenditure*					
: fbn	34.7	36.5	37.1	39.0	40.7
: % increase	15	5	1½	5	4½
o/w : relevant current					
: fbn	24.5	25.7	26.2	27.4	28.8
: % increase	7	7	2	4½	5
: capital					
: fbn	4.2	4.1	3.6	3.8	3.8
: % increase	22	-2	-13	5½	-
Public Corporations' borrowing					
: fbn	0.3	0.2	0.6	0.6	0.5
Special asset sales					
: fbn	-1.0	-2.3	-2.5	-2.0	-2.0
Public expenditure planning total <sup>x</sup>					
: fbn	120.5	128.0	133.0	139.0	144.9
: % increase	6	6¼	4	4½	4¼
: % increase (ignoring miners' strike)	6	5	5	4½	4½
General government debt interest					
: fbn	14.8	16.2	16.8	16.9	17.2
: % increase	2½	9½	3½	½	2

\* Excluding special asset sales, lending to public corporations and debt interest.  
(Housing benefit is included under Local Authorities.)

<sup>x</sup> Excluding national accounts adjustments made to other entries in table

## CHANGES SINCE THE BUDGET

11. The table overleaf draws together the main changes since the FSBR in Central Government income and expenditure, and hence in the CGBR(0), and in the LABR and PCBR. In 1985-86 onwards, tax receipts and the CGBR(0) are shown before fiscal adjustment.

12. The main changes shown in the table are discussed briefly below. The increases in **expenditure** are then discussed more fully in the section on public expenditure.

## 1984-85

13. Higher **expenditure** accounts for the threatened overshoot on the PSBR in 1984-85 compared with the Budget forecast. The main changes are nearly £1¼ billion for the miners' strike (chiefly affecting CG grants to PCs and LAs in the table), £½ billion for the EC, £½ billion for debt interest (including interest support costs for ECGD) owing mainly to higher interest rates, and £½ billion of local authorities' capital overspend (affecting the LABR in the table), partly offset by nearly £½ billion of extra asset sales.

14. Higher **revenues** go only part way towards offsetting the expenditure increases. The main increase is £1¾ billion in **North Sea** taxes, reflecting both higher production and (mainly) higher sterling oil prices. The forecast also includes higher taxes on **expenditure** (nearly £¼ billion), reflecting slightly higher than expected VAT receipts so far this year.

However, this is offset by lower **personal** taxes (-£½ bn), due partly to reduced earnings by miners, partly to higher mortgage tax relief (higher interest rates and greater volume of mortgages), and partly to a lower estimate of self-employment incomes in 1983. Forecast onshore **company** taxes are also slightly lower.

15. Because of some switches from loan to grant in respect of the Coal Board and Housing Corporation, the PCBR is now expected to be lower than in the Budget forecast. But the CGBR(0) is expected to be some £1 billion higher and the LABR £¾ billion higher (see also discussion of local authorities below).



## CHANGES TO PSBR SINCE BUDGET

fbn

	1984-85	1985-86
<u>CG own account</u>		
<u>Income (incr +)</u>		
Personal taxes*	- 0.5	+ 0.5
Onshore company taxes	- 0.2	+ 0.3
North Sea taxes <sup>x</sup>	+ 1.5	+ 2.9
Expenditure taxes	+ 0.3	+ 0.5
National Insurance contributions	-	+ 0.3
Rent, dividends, interest	- 0.1	- 0.2
Trading surpluses etc	- 0.1	- 0.3
Other	+ 0.1	- 0.1
1. Total income	+ 1.1	+ 3.9
<u>Expenditure (incr +)</u>		
Supply (excl support for PCs and social security)	+ 0.4	+ 0.7
Social security (Voted + nat ins)	-	+ 0.7
EC contributions	+ 0.4	+ 0.3
Special asset sales (affecting CGBR(0))	- 0.3	- 0.5
Debt interest (incl ECGD support)	+ 0.5	+ 0.8
Grants to PCs	+ 0.9	+ 0.1
o/w NCB	(+ 0.9)	(-)
Grants to LAs (incl housing ben)	+ 0.7	+ 0.2
o/w miners' strike policing	(+ 0.2)	(-)
Other	- 0.3	- 0.2
2. Total expenditure	+ 2.3	+ 2.1
<u>CGBR(0)* (row 2-row 1)</u>	+ 1.2	- 1.8
<u>LABR</u>	+ 0.8	+ 0.5
<u>PCBR</u>	- 0.4	+ 0.1
<u>Fiscal adjustment (cumul)</u>	-	+ 1.4
<u>PSBR</u>	+ 1.5	+ 0.1

<sup>x</sup> Excluding ACT set off against MCT (this ACT is included in "onshore company taxes"). Table in paragraph 5 includes ACT. In 1984-85, such ACT is now estimated £0.3bn higher than in Budget.

\* Before fiscal adjustment.

## 1985-86

16. As in 1984-85, expenditure and revenue are both expected to be higher in 1985-86 than in the Budget forecast. But by contrast with 1984-85, the forecast is that higher revenues in 1985-86 will more than offset higher expenditure, which is held back by cash limits etc. Clearly, however, the uncertainties surrounding the projections for 1985-86 are even greater than for 1984-85.

17. Higher **expenditure** in 1985-86 includes the following main changes since the Budget forecast: £1 billion for social security benefits, £½ bn because no net underspend on cash limits is now expected, £¼ billion for the EC, and £¾ billion for debt interest (reflecting in part higher borrowing in 1984-85 but mainly higher interest rates), partly offset by £½ billion of extra asset sales. (See below for further details.)

18. However, higher **revenues** much more than offset these expenditure increases. Again the main increase is £3 billion in **North Sea** taxes. In addition there is £½ billion on taxes on **expenditure**, reflecting higher growth in consumers' expenditure; £½ billion on **personal** taxes, reflecting the higher earnings in the main forecast; and £½ billion on onshore **company** taxes, reflecting the higher profits in the main forecast. **National insurance** contributions are slightly higher, reflecting higher earnings; but other CG receipts (of **interest** and **trading surpluses**) are lower, reflecting lower on-lending to LAs and PCs and increased claims on ECGD, respectively.

19. In consequence, the CGBR(0) is forecast almost £2 billion lower than in the Budget. Although the LABR is forecast nearly £½ billion higher (see discussion of local authorities below) this leaves the fiscal adjustment more than £1 billion higher.

**Later years**

20. The main message concerning the later years is that, so long as expenditure is controlled and revenue continues to grow in line with nominal GDP, the fiscal adjustment will grow sharply. This is so even though North Sea taxes are forecast to decline after 1985-86. Further details of the forecast for later years are available on request.

## PUBLIC EXPENDITURE

21. The implications for the public expenditure planning totals are shown in the table overleaf.

22. The forecast of public expenditure for 1984-1985 is consistent with the position report to be circulated shortly by GEP;\* the two reports make the same assumption about the end of the miners' strike.

23. For the **later years**, the likely outcome of the **Survey** is based on the July assessment (see Assumptions, page 2). On top of the assumed Survey decisions concerning the published plans for individual programmes, the forecast adds estimates of **longfall** (or shortfall), charging these to the Reserve until that is exhausted and thereafter assuming overspend over the published planning totals (see Assumptions, page 3).

**Economic assumptions**

24.

These estimates of longfall take account of the changed economic circumstances since the **assumptions** circulated to Departments in July. A separate submission is coming forward on the assumptions concerning unemployment, interest rates and inflation which should now be put to Departments. These recommendations would cause Departments to put in further additional bids amounting to some £400 million in 1985-86/ and £500 million in later years. However, these prospective additions are already allowed for in the estimates of longfall in the present forecast.

**Required Reserve in 1985-86**

25. The table shows that the Reserve of £2¼ billion in 1984-85 is likely to be overspent by £1¾ billion, of which nearly £1¼ billion is accounted for by the miners' strike. In 1985-86, a Reserve of only £2¼ billion, resulting from the proposed Survey cuts, is forecast to be overspent by around £1¼ billion. That is, the **required** Reserve to avoid overspend is forecast to be at least £3½ billion in 1985-86, or over £1 billion higher than the actual Reserve in 1984-85.

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\*Since the present forecast was finished, new information on housing subsidies suggests that the estimated planning total for 1984-85 to be reported by GEP may be somewhat lower; perhaps £127.8 bn.

## SECRET &amp; PERSONAL

## PUBLIC EXPENDITURE PLANNING TOTALS

fbn

	1984-85		1985-86		1986-87		1987-88
	FSBR	October	FSBR	October	FSBR	October	October
1. PEWP less NIS <u>less Reserve</u>	126.3	126.3	131.7	131.7	136.3	136.3	139.1
	- 2.8	- 2.8	- 3.8	- 3.8	- 4.8	- 4.8	- 5.0
2. <u>Baseline for forecast</u>	123.5	123.5	127.9	127.9	131.5	131.5	134.1
<u>Forecast judgments</u>							
3. <u>CG</u> (excl support for PCs) and housing <u>ben</u>							
i) <u>Supply</u> (excl soc. security)							
Survey bids and cuts*	-	-	-	+ 0.1	-	- 0.1	- 0.3
Discretionary reserve	+ 0.6	+ 1.0	+ 1.0	+ 1.0	+ 1.0	+ 1.0	+ 1.0
Cash limits shortfall	- 0.4	- 0.4	- 0.5	-	- 0.5	-	-
Cash limits pay & prices	-	-	-	-	-	-	+ 0.8
Non-cash-lim (exc soc security)	+ 0.6	+ 0.6	+ 0.6	+ 0.7	+ 0.6	+ 1.1	+ 1.4
ii) <u>Soc security</u> (Voted, NIF, housing ben)							
Survey bids and cuts*	-	-	-	+ 0.5	-	+ 0.4	+ 1.6
Other	+ 0.4	+ 0.6	+ 0.4	+ 1.0	+ 0.5	+ 1.2	+ 1.3
iii) <u>EC Contributions</u>							
Survey bids & cuts*	-	-	-	+ 0.3	-	+ 0.1	+ 0.2
Other	-	+ 0.4	- 0.1	- 0.1	- 0.2	- 0.2	-
iv) <u>Other</u>	+ 0.2	- 0.1	-	-	+ 0.1	- 0.1	- 0.1
4. <u>Local authorities</u> (excl support for PCs & housing ben)							
i) <u>Relevant current</u>							
Survey bids & cuts*	-	-	-	+ 1.2	-	+ 1.2	+ 1.2
Other	+ 1.1	+ 1.3	+ 1.7	+ 0.3	+ 2.4	+ 1.1	+ 2.0
ii) <u>Other current</u> (excluding housing ben)	+ 0.2	+ 0.2	+ 0.2	+ 0.2	+ 0.2	+ 0.3	+ 0.4
iii) <u>Capital</u>							
Survey bids & cuts*	-	-	-	- 0.3	-	- 0.3	- 0.4
Other	-	+ 0.5	-	+ 0.1	-	+ 0.2	+ 0.1
5. <u>Nat. Inds. EFLs</u>							
Survey bids & cuts*	-	-	-	- 0.3	-	- 0.5	- 1.0
Other	-	+ 1.0	+ 0.5	+ 1.0	+ 0.6	+ 2.0	+ 2.4
6. <u>OPCs' cap. exp.</u>	-	- 0.3	-	-	-	-	-
7. <u>Special Asset Sales</u>	-	- 0.4	-	- 0.5	-	-	-
8. <u>Total</u>	126.3	128.0	131.6	133.0	136.2	139.0	144.9
9. <u>o/w Reserve</u> (after Survey cuts*)	2.8	2.8	3.8	2.3	4.8	4.0	5.0
10. <u>Overspend on reserve</u> (8 - 1)	-	1.7	-	+ 1.3	-	+ 2.6	+ 4.5 <sup>x</sup>

\* Survey bids and cuts in this table are those in GEP's July assessment.

<sup>x</sup> Excluding agreed increase in general uplift of programmes from 2½% to 3% (£1.3 bn).

SECRET &amp; PERSONAL

26. The main reasons for this are that, in contrast to the expected outcome for 1984-85, no offset to expenditure increases is expected in 1985-86 from cash limits underspend (see under "Central Government" below) and that, even without much in the way of miners' strike effects, the nationalised industries' demands for external finance in 1985-86 are forecast to exceed published plans by a substantial amount (see under "Nationalised Industries" below).

#### CENTRAL GOVERNMENT EXPENDITURE

27. The main forecast changes in CG expenditure (excluding support for PCs but including housing benefit) compared with the PEWP plans are as follows, taking into account the Survey bids and cuts assumed as above:

- Following a £0.4 billion shortfall expected on **CG cash limits** in 1984-85, no net underspends in later years. This view on cash limits in 1985-86 and after diverges from earlier forecasts: for example, the Budget forecast assumed £½ billion pa underspend. It is assumed (see Assumptions, page 2) that the cash limit plans are adjusted for bids, cuts, any "discretionary" allocations from the Reserve, and - after 1985-86 - the effect of inflation subject to a volume squeeze (see below). This leaves them looking very tight, against the forecast of pay and prices: hence the forecast of nil net underspends.
- On **Social Security** (including housing benefit) overspend on the PEWP plans rises from £½ billion in 1984-85 to about £1¼ billion in 1987-88. Of this longfall, about £¼ billion pa reflects the effects of revised economic assumptions; the remainder reflects different estimates of the number of claimants. The social security forecast, and that for the National Insurance Fund, will be reported in more detail in a separate note by PSF division available on request.
- An allowance for overspend on other **non-cash-limited** items (eg IBAP, FPS) broadly in line with the forecast overspend in 1984-85.
- Higher net **EC** contributions up to 1985-86, reflecting the latest decisions and assumptions.
- Higher **asset sales** up to 1985-86.

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28. The addition for higher **inflation** stems largely from the forecast that average public service wages will rise by 6% pa (see main report), considerably above that implicit in the 1984 PEWP plans. It is assumed that cash-limited plans in 1985-86 will not be adjusted for higher inflation; and that in subsequent years the addition necessary to compensate for the higher inflation will be offset in part by a squeeze on volumes up to a maximum of 2% on all cash-limited programmes. The latter includes defence, since the 3% NATO commitment will no longer apply, although it is likely that defence will have a share in the "discretionary" allocations from the reserve. As a result of the assumed squeeze, there is no net addition to plans before 1987-88, when the plans are increased by £¼ billion.

29. The net impact of these judgments and those for local authorities and public corporations (see below) implies considerable overspend on the Reserve, particularly in the later years. Despite this, the volume of central government expenditure is forecast to fall by over 2 per cent between 1984-85 and 1987-88 after rising in 1984-85. For example total CG employment is forecast to fall by over 100,000 between April 1984 and April 1988, compared with the planned reduction in Civil Service manpower of 30,000 over the same period.

**LOCAL AUTHORITY EXPENDITURE AND BORROWING**

30. Local authority **relevant current** expenditure is forecast very close to the Budget forecast in all years (adjusting the latter for the transfer of London Regional Transport (LRT) to the nationalised industry sector).

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31. The settlement decided by Ministers for local authority targets in 1985-86 adds around £1 billion to the PEWP plans (£¼ billion below the bid assumed in July.) This is reduced by a further £¼ billion because of the transfer of LRT/ and other classification changes. The settlement is tough, and the various constraints on LA spending (such as rate-capping and grant hold-back) should moderate overspend.

32. However, LA manpower has not been falling recently (save in 1984 Q1) and it does not seem realistic to assume more than a 1-2% drop in manpower and around a 5% drop in the volume of procurement between 1984-85 and 1985-86. Given the forecast of public service wages and prices, this implies overspend on the settlement of around £¾ billion. The implied increase in rate income is nearly 8% in 1985-86.

33. LG division consider that this forecast of overspend in 1985-86 is towards the upper end of the range of likely outcomes.

34. In the later years, the forecast assumes little further drop in manpower or procurement volumes, and in 1986-87 some extra transitional costs are assumed for the abolition of the Metropolitan Authorities. The annual increase in rates is assumed to be 5%.

35. For LA **capital**, it is assumed that there are cuts in the published plans for 1985-86 onwards (including taking account of the overspend in 1983-84 and 1984-85) in line with the July assessment of the survey. It is also assumed that measures are adopted to keep LA capital close to the cash limits, and only a very modest amount of overspend is assumed. The resulting path of LA capital shows a £½ billion reduction between 1984-85 and 1985-86 and subsequently a little recovery.

36. LA **borrowing** is expected to be £¾ bn higher in 1984-85 than in the Budget forecast. The cause is the £½ bn capital overspend, plus the £¼ bn of expenditure on home improvement grants in late March 1984 which pushed up borrowing in April. However, in 1985-86 capital expenditure is expected to be £½ bn lower, and no special factor such as the home improvement grants is expected; consequently borrowing is forecast to revert to roughly the 1983-84 level and to rise only a little subsequently.

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**NATIONALISED INDUSTRIES AND OTHER PUBLIC CORPORATIONS**

37. The forecast for the NIs' external finance has been constructed afresh since the Budget. In particular, British Telecom and British Airways have been removed (and London Regional Transport added) from 1985-86 onwards. Despite this, the forecast for 1985-86 is very close to the Budget forecast.

38. In 1984-85, the miners' strike adds about £1 billion to expected external finance. Subsequently, some stock rebuilding is assumed but not at an exceptionally rapid rate.

39. The following table shows the build-up of the forecast of external finance and some of the factors contributing to the changes between the years:

**Nationalised Industries' external finance: October forecast**

	£bn			
	1984-85	1985-86	1986-87	1987-88
Capital requirements	6.3	5.7	5.3	5.5
o/w : fixed investment	(7.1)	(5.2)	(5.2)	(5.3)
: stock building	(- 0.7)	(0.4)	(0.1)	(0.1)
Internal resources	3.4	3.8	3.8	4.1
o/w : gross trading surplus	(4.4)	(5.0)	(5.2)	(6.0)
: interest & tax	(- 2.6)	(- 2.7)	(- 3.2)	(- 3.7)
<b>External finance</b>	<b>2.9</b>	<b>1.8</b>	<b>1.5</b>	<b>1.4</b>
Special factors:				
BT/BA (part year)	- 0.3	-	-	-
LRT	-	+ 0.3	+ 0.3	+ 0.3
miners' strike	+ 1.0	+ 0.1	-	-
corporation tax	+ 0.2	+ 0.3	+ 0.7	+ 1.2

40. The increase in forecast corporation tax payments shown above results in part from the 1984 Budget changes.

41. Allowing for the adjustment for LRT, the comparison with the Survey proposals and the Budget forecast is as follows:



**External Finance: comparisons with Survey and Budget**

	£ bn			
	1984-85	1985-86	1986-87	1987-88
IFR baseline	1.8	1.4	0.3	0.3
Survey cuts proposed	-	- 0.3	- 0.5	- 1.0
Resulting proposed published plans	1.8	1.1	- 0.2	- 0.7
<b>Forecast overshoot on proposed published plans</b>	<b>+ 1.1</b>	<b>+ 0.7</b>	<b>+ 1.7</b>	<b>+ 2.1</b>
October forecast of total external finance	2.9	1.8	1.5	1.4
Budget forecast (adjusted for LRT after 1984-85)	1.8	2.0	1.1	..
<b>Increase in forecast since Budget</b>	<b>+ 1.1</b>	<b>- 0.2</b>	<b>+ 0.4</b>	<b>..</b>
o/w miners' strike	+ 1.0	+ 0.1	-	-

42. The present forecast assumes that the electricity industry raises its prices by 1% (real) in April 1985, and the gas industry by 3% (real), but that thereafter there are no real price increases/ <sup>in these industries.</sup> These April 1985 increases are consistent with the "intermediate path" for prices proposed by the Treasury, but that path also assumed real price increases in later years.

43. Although the forecast external finance does not decline as steeply as in the Survey proposals, it still shows some decline, even after the drop in 1985-86 following the miners' strike. A major influence on internal resources is the growth in gross trading surpluses resulting from the price increases assumed, together with some gains in productivity and other cost savings. This offsets the effect of increasing corporation tax liabilities. Fixed investment is assumed to be roughly constant in cash terms, in line with PEWP plans, implying significant real reductions. Also, a slowdown in stockbuilding after the post-strike effects reduces capital requirements in the later years.

44. PE are in broad agreement with the assessment for 1985-86. For the later years, however, they consider that a more realistic assumption would be of

SECRET & PERSONAL

some further real price increases. Every 1% price increase in the energy and water industries would reduce the forecast external finance requirements by £175 m a year.

45. The following table shows the forecast for total PCs' borrowing:

<b>Public Corporations' borrowing</b>					
£bn					
	1983-84	1984-85	1985-86	1986-87	1987-88
NIs' external finance	2.3	2.9	1.8	1.5	1.4
o/w grant & subsidies	2.3	2.8*	1.8	1.4	1.3
leasing	0.1	0.1	0.1	0.1	0.1
CG on-lending	0.5	0.5	1.5	0.4	0.4
market & overseas borrowing	- 0.5	- 0.5	- 1.5	- 0.4	- 0.4
NIs' borrowing	-	-	-	-	+ 0.1
Other PCs' borrowing	0.3	0.2	0.6	0.6	0.6
<b>PCBR - October forecast</b>	<b>0.3</b>	<b>0.2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>
- Budget	0.7	0.6	0.5	- 0.2	- 0.5
- change since Budget	- 0.4	- 0.4*	+ 0.1	+ 0.8	+ 1.0

\* Affected by switches from loan to grant in respect of Coal Board and Housing Corporation.

**COST TERMS**

46. The table overleaf shows the main influences on the PSBR in "cost terms", ie deflated using the forecast GDP deflator.
47. In common with previous forecasts, the scope for fiscal adjustments from 1985-86 onwards is expected to stem from the buoyancy of **CG receipts**. Despite a sharp decline in North Sea taxes after 1985-86 (a year later than in the Budget forecast), total CG taxes and contributions (before fiscal adjustment and ignoring the VAT change in 1984-85) are forecast to rise by 3-4% pa in cost terms from 1984-85 onwards.
48. Part of this rise is due to the forecast growth in real earnings; part to growth of 1% pa or more in total employment; part to very strong forecast growth in real profits, particularly in 1984 and 1985 (more than 10% in each year), which affects corporation tax receipts in 1985-86 and 1986-87 respectively; and part to growth of 3-4% pa in real consumers' expenditure.
49. In contrast with the revenue side **public expenditure** shows a much flatter path in cost terms over the forecast period. The **planning total** rose by 1 $\frac{3}{4}$ % in 1983-84 and is expected to rise by a further 1% in 1984-85 and to remain roughly constant in 1986-87. Ignoring the miners' strike, it would remain roughly constant over the whole period 1984-85 to 1986-87.
50. In 1984-85 public sector prices seem to be rising a little more than prices in general, with some rise in volumes (particularly procurement and social security). In later years, volume and cost terms figures move roughly in line: although public sector earnings are expected to rise faster than prices in general, other important public sector prices are forecast to rise roughly in line with the general price level (eg the prices for social security and central government procurement) or below (eg local authority procurement).

## SECRET &amp; PERSONAL

## INFLUENCES ON THE PSBR IN COST TERMS

	1982-83 prices			
	1983-84	1984-85	1985-86	1986-87
	estimated outturn	October forecast		
Central government taxes and contributions (before fiscal adjustment)				
: fbn	100.7	105.8	108.7	112.0
: % increase	2	5	3	3
: % increase (ignoring VAT change)	2	4	4	3
o/w North Sea taxes:				
: fbn	8.5	10.9	11.0	9.2
: % increase	9½	28	½	-16½
Local authority rates				
: fbn	12.0	11.7	12.0	12.1
: % increase	-3	-2	2	1
Rent, dividends, interest and other receipts				
: fbn	10.9	9.8	9.5	9.5
: % increase	-2	-10½	-2½	-½
Central Government expenditure*				
: fbn	109.1	111.1	109.2	108.6
: % increase	5	2	-1½	-½
: % increase (ignoring miners' strike)	5	1	-½	-½
Local Authority expenditure*				
: fbn	33.3	33.3	32.1	32.4
: % increase	10½	-	-3½	1
o/w : relevant current				
: fbn	23.5	23.4	22.7	22.8
: % increase	3	-	-3	½
: capital				
: fbn	4.1	3.8	3.1	3.2
: % increase	17	-7	-17½	1½
Public Corporations' borrowing				
: fbn	0.3	0.2	0.5	0.5
Special asset sales				
: fbn	-1.0	-2.1	-2.2	-1.7
Public expenditure planning total <sup>x</sup>				
: fbn	115.5	116.8	115.3	115.7
: % increase	1¼	1	-1¼	+¼
: % increase (ignoring miners' strike)	1¼	¼	-¼	+¼
General government debt interest				
: fbn	14.2	14.8	14.6	14.1
: % increase	-2	4	-1½	-3½

\* Excluding special asset sales, lending to public corporations and debt interest.  
(Housing benefit is included under Local Authorities.)

x Excluding national accounts adjustments made to other entries in table.

✓ 1/11

CH/EXCHEQUER	
REC.	1 NOV 1984
ACTION	Mr. Kemp.
COPIES TO	CST, MST,
	Sir P. Middleton,
	Mr. Gwynn
	Mr. Bailey.

Ref. A084/2823

PRIME MINISTER

Mr Carter Mr Mountfield  
Miss Sinclair  
Mr Ridley

Mr Butler's minute of 4 October records you as agreeing that, before you decide whether to refer the question of differential job weighted pay rates for Permanent Secretaries to the Top Salaries Review Body, I should be asked whether I feel able to recommend any changes in the present categorisation of Permanent Secretary posts for pay purposes without reference to the TSRB.

2. I have to say that I should very much prefer not to have to make recommendations to Ministers without reference to the TSRB, either as to whether there should be changes in the categorisation or, if so, as to what these changes should be.

ARMSTRONG  
→  
No 10  
1/11

3. On the first question - whether there should be changes - I should be readier to make a recommendation if I detected anything approaching a consensus on the subject among my fellow Permanent Secretaries. But I do not. Opinion is fairly evenly divided. It is interesting to note that those who are against change include the majority of those who would almost certainly be in the higher category. I think that some of them may be reluctant to declare support for a proposal which would give them more money than some of their colleagues; but there is also a genuine reluctance to break with the traditional "parity of esteem" - at any rate for salary purposes - among Permanent Secretaries.

4. I am myself among those who favour some categorisation, though I do not think that it should be very complicated. Other countries with similar systems do have a degree of categorisation among Permanent Secretaries, and it seems to work well enough. I find it difficult to resist the argument that the job of being, say, Permanent Secretary to the Ministry of Defence is in

every way weightier than the job of being, say, Permanent Secretary to the Welsh Office, and that this difference should logically be reflected in a remuneration differential. I do not think that the arguments of cohesiveness and collegiality on which the defenders of "no change" rely carry sufficient weight to affect this consideration. You may think that I ought to have the courage of my convictions and formally recommend accordingly; but in the circumstances I should find it invidious to have to do so. I think that it would actually be useful to put the proposition to the test of independent external assessment; the resulting conclusion will carry greater authority as well as independence than if it comes from me alone. The TSRB is better equipped than any other external source of advice to arrive at an informed judgment on the matter.

5. I should be even more reluctant to proffer single-handed recommendations on what the categorisation should be. Again, I have views both as to how many categories there should be and as to which Permanent Secretary posts should be in each category. But those views would not necessarily commend themselves to others, and particularly to those Permanent Secretaries who would think that I had categorised them below their deserts: if I said that Sir Arnold Robinson in Department X should be in Category A but Sir Humphrey Appleby in Department Y should be in Category B, my relations with Sir Humphrey would be likely to be damaged.

6. I have also to bear in mind that in certain circumstances my own and Sir Peter Middleton's rates of pay could be indirectly affected, if greater categorisation were introduced as a result of recommendations made by me and the TSRB then made salary recommendations which opened out the concertina of rates at these levels. I should prefer not to be in that position.

7. In short, I should prefer not to be asked to give you formal advice on this, and I hope that you will agree to refer to the TSRB:

1. whether there should be job-weighted categorisation of Grade 1 Permanent Secretaries in charge of Departments;
2. if so, what categories there should be and which Permanent Secretaries should be in which category;
3. what the salary rates should be.

8. I understand that the TSRB would be prepared to take delivery of such a reference and deal with it in the course of the 1985 review on which they are now embarking and on which they will report about next April.

--- 9. In the hope that it may be helpful, I attach a draft of the note which I have in mind to send to the TSRB, if you agree that they should receive the reference, setting out facts, considerations and option without seeking to make recommendations or suggest conclusions. In preparing the draft I have consulted Sir Peter Middleton, who is content with it.

10. I am sending copies of this minute to the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster.

ROBERT ARMSTRONG

1 November 1984

DRAFT OF 1 NOVEMBER 1984

JOB WEIGHTING FOR PERMANENT SECRETARIES

Note by the Secretary of the Cabinet and  
Head of the Civil Service

The Committee of Inquiry into Civil Service Pay under Mr Justice Megaw, reporting its conclusions on merit pay in the Civil Service, said that they did not believe it possible to devise a satisfactory merit pay scheme at the levels of Permanent Secretary and Deputy Secretary. They did, however, believe that a change should be made to introduce differences in the rewards of the Deputy Secretaries and Permanent Secretaries according to the weights of jobs.

2. The Government agrees that there is a case for considering whether there should be job-weighted pay distinctions in respect of Permanent Secretaries in charge of Departments, given the manifest disparities in the weight of responsibilities covered by the posts concerned. There are, however, arguments against job-weighted pay distinctions at this level. The Government has reached no conclusion on the subject, and would welcome the advice of the Top Salaries Review Body, as to:

(1) whether there should be job-weighted pay distinctions at Permanent Secretary level;

(2) if so, what should be the subdivisions within the grade, and which Permanent Secretaries should be in each subdivision; and

(3) what would be the appropriate salary rates for each subdivision.

3. The Government considers that the case for considering job-weighted salary differentials at Deputy Secretary and Second Permanent Secretary levels is less clearly established. There is (as a rule) only one Permanent Secretary in charge of any one Department, however large or small; differences between one Department in the load carried at Second Permanent Secretary and Deputy Secretary level are broadly reflected in the numbers of posts at those levels.

4. The remainder of this note is concerned with the possibility of job-weighted salary differentials among Permanent Secretaries in charge of Departments.



Facts

5. There are at present three grades of Permanent Secretary:

Grade 0 (£51,250)  
Total in Grade 2  
(plus PUS, FCO)

Secretary of the Cabinet  
Permanent Secretary, Treasury

Grade 1 (£45,500)  
Total in Grade 21  
(plus C and AG,  
PCA)

Permanent Secretaries in charge of  
Departments:

Agriculture  
Customs and Excise  
Defence  
Director of Public  
Prosecutions  
Education and Science  
Employment  
Energy  
Environment  
Health and Social Security  
Home Office  
Inland Revenue  
Lord Chancellor's Department  
Parliamentary Counsel  
Scottish Office  
Trade and Industry (2)  
Transport  
Treasury Solicitor  
Welsh Office

Others in:

Cabinet Office (1)  
Defence (1)

Grade 1A (£42,000)  
Total in Grade 14

Second Permanent Secretaries in  
the following Departments:

Cabinet Office (2)  
Defence (3)  
Education and Science (1)  
Environment (2)  
Health and Social  
Security (2)  
Overseas Development  
Administration (1)  
Treasury (3)

6. Until 1956 , the only Permanent Secretary to be paid above the standard rate was the Permanent Secretary to the Treasury as *ex officio* Head of the Civil Service. The Secretary of the Cabinet became a separate post again in 1963, and the holder was paid at the higher rate. While the Civil Service Department was in existence its Permanent Secretary was *ex officio* Head of the Civil Service and was paid at the higher rate, with the Permanent Secretary to the Treasury and the Secretary of the Cabinet.

Case for further Subdivision

7. All Permanent Secretaries in charge of Departments have responsibilities for leading their Departments both in formulating policy advice and executing policy decisions and in managing the staff and organisation of the Department. There are wide differences in the extent and importance of the responsibilities of Permanent Secretaries in charge of Departments. Size of Department is one criterion but only one. Breadth of responsibility, intellectual requirements, managerial control, weight of experience, and the scale of demands are among the others. Most of these factors are impossible to quantify; but the differences are none the less real. To illustrate the case from its extremes, one can quote Sir Frank Cooper, writing to the Chairman of the Top Salaries Review Body on the date of his retirement from the public service:

"It surely must be nonsensical that my level of pay over the last ten years has been the same whether in the Northern Ireland Office or the Ministry of Defence ..... I must tell from my own personal experience that there are vast differences between jobs. I was Permanent Secretary in Northern Ireland from the early part of 1973 to the early part of 1976. It was a very active and demanding time politically and in security and economic terms. It involved very very long hours and much travelling within the United Kingdom. Yet in terms of the demands made on me here in the Ministry of Defence and the responsibilities carried there is no real comparison. Here they have been vastly greater: the range of work is much larger; its nature more disparate and geographically widely dispersed; and, above all, there are large number of senior managers - both civilian and service - with whom one has to deal and over a wide range of issues."

In these circumstances there would be practical management value in having a pay structure which acknowledges some of these differences and provides scope for further promotion for some Permanent Secretaries.

Case against further Subdivision

8. The case against further subdivision essentially relates to the advantages of a relatively broad-banded grading system at senior levels. The fact that the grading and salary structure is (broadly speaking) common to all Departments at these levels facilitates the transaction of business between them, and the cross-posting of individuals between one Department and another within grades in the open structure. Further subdivision at Permanent Secretary level could put these advantages to some extent at risk. There is no reason to suppose that any one would work harder or more efficiently as a result; and at a time when

unified grading is being extended down as far as Grade 7 (Principal), a grading subdivision within Grade 1 might look illogical. It would be difficult to introduce subdivisions within Grade 1 which allowed for significant salary differentials without being at risk of "opening out the concertina of salary rates" and thus increasing the overall cost of remuneration at these levels. Moreover subdivisions within Grade 1 could make more explicit the fact that there is a pecking order among Departments: the extension of explicit "class distinctions" among Departments could create resentments, could affect freedom of manoeuvre in making cross-postings of civil servants from one Department to another (not just at Permanent Secretary level), and could even inhibit the decisions of the Prime Minister in making Ministerial appointments.

9. If there is to be further subdivision in Grade 1, it should not be too complicated or sophisticated: there should be no more than two, or at most three, sub-grades.

10. As to the criteria for distributing particular Departments within the sub-grades, there must inevitably be a considerable element of subjective judgment. As there can be presumed to be some connection between size of Department and burden of management responsibility, there is attached at Annex A a list of Departments in size order. A rough indicator of policy responsibility could be the number of open structure posts; there is attached at Annex B a list of Departments in order of numbers of open structure posts.

11. Putting these two together, and taking account of other factors which can only be the matters of subjective judgment, a possible subdivision of Grade 1 into the sub-grades might be:

Permanent Secretary to:

Grade 1.1

Ministry of Defence  
 Department of the Environment  
 Department of Health and Social Security  
 Home Office  
 Scottish Office  
 Department of Trade and Industry

Grade 1.2

Ministry of Agriculture  
 Customs and Excise  
 Department of Education and Science  
 Department of Employment  
 Department of Energy  
 Inland Revenue  
 Lord Chancellor's Department  
 Northern Ireland Office  
 Department of Transport  
 Treasury Solicitor  
 Welsh Office

12. An alternative subdivision into three sub-grades might be:

Permanent Secretary to:

Grade 1.1	Ministry of Defence Department of the Environment Department of Health and Social Security Department of Trade and Industry*
Grade 1.2	Ministry of Agriculture Customs and Excise Home Office Inland Revenue Scottish Office Department of Transport
Grade 1.3	Department of Education and Science Department of Employment Department of Energy Lord Chancellor's Department Northern Ireland Office Treasury Solicitor Welsh Office

\* Assuming that the Department of Trade and Industry reverts to a single Permanent Secretary. So long as it has two joint Permanent Secretaries, they should both be in Grade 1.2.

13. Clearly, however, there is an element of arbitrariness both about the choice of number of sub-grades and about the distribution of Departments within any given subdivision, and the structures indicated in paragraphs 11 and 12 are not the only viable or defensible possibilities.

Head of the Civil Service

14. Since it is possible that at some future date the Prime Minister might decide to appoint some one else than the Secretary of the Cabinet or the Permanent Secretary to the Treasury as Head of the Civil Service, it might be convenient to establish a convention that the Head of the Civil Service should always be in Grade 0, even if he is Permanent Secretary of some other Department than the Cabinet Office or the Treasury.

ANNEX A

	<u>Total Staff in Post</u>
1. Ministry of Defence	197,630
2. Department of Health and Social Security	90,065
3. Inland Revenue	68,966
4. Home Office	36,634
5. Department of the Environment (including PSA and the Crown Suppliers)	33,522
6. Department of Employment (excluding MSC, HSC/HSE)	29,609
7. Customs and Excise	25,175
8. Department of Transport	14,215
9. Department of Trade and Industry	12,449
10. Ministry of Agriculture, Fisheries and Food	11,382
11. Lord Chancellor's Department (including Public Trustee Office)	10,017
12. Scottish Office	9,702
13. Department of Education and Science	2,386
14. Welsh Office	2,192
15. Department of Energy	1,086
16. Treasury Solicitor's Department	446
17. Northern Ireland Office	179

ANNEX B

## OPEN STRUCTURE POSTS (as at October 1984)

	<u>0</u>	<u>1</u>	<u>1A</u>	<u>2</u>	<u>3</u>	<u>Total</u>
1. Ministry of Defence (excluding ROFs)		2	3	18	69	92
2. Department of Health and Social Security		1	2	12	50	65
3. Department of Trade and Industry		2		11	46	59
4. Department of the Environment		1	2	9	43	55
5. Scottish Office		1		9	27	37
6. Ministry of Agriculture, Fisheries and Food		1		5	25	31
7. Home Office		1		6	21	28
8. Inland Revenue		1		6	19	26
9. Department of Transport		1		5	18	24
10. Department of Education and Science		1	1	4	13	19
11. Department of Energy		1		2	12	15
12. Lord Chancellor's Dept		1		2	12	15
13. Welsh Office		1		2	10	13
14. Customs and Excise		1		3	8	12
15. Department of Employment		1		3	8	12 (exc MSC and HSE)
16. Treasury Solicitor's Dept		1		1	7	9
17. Northern Ireland Office		1		2	4	7

<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
MOD 92	Environment 55	Transport 24	Customs and Excise
	Health and Social Security 65	Home Office 28	Education and Science
	Trade and Industry 59	Inland Revenue 26	Employment
		Scottish Office 37	Energy ODA
		MAFF 31	Northern Ireland Office
			Welsh Office
			Lord Chancellor's Department
			Treasury Solicitor's Department

cc Sir P. Middleton  
Mr Bailey  
Mr Kemp  
Miss Sinclair



10 DOWNING STREET

From the Principal Private Secretary

9 November 1984

FERB  
→  
PERETZ  
9/11

✓

RP

Dear David,

JOB WEIGHTING FOR PERMANENT SECRETARIES

The Prime Minister has seen your letter of 5 November and was grateful for the Chancellor's comments recorded in it.

The Prime Minister has thought further about this matter and happened to see Lord Plowden two evenings ago, when the subject was mentioned. Lord Plowden was enthusiastic about looking at this question, and the Prime Minister formed the impression that the TSRB may do so anyway.

After further consideration, the Prime Minister has concluded that she should give the TSRB a formal remit on this matter and has authorised Sir Robert Armstrong to submit the note attached to his minute of 1 November.

I am copying this letter to Paul Thomas (Chancellor of the Duchy of Lancaster's Office) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

(F.E.R. BUTLER)

David Peretz, Esq.,  
HM Treasury.



SECRET AND PERSONAL

FROM: B T GILMORE

27 November 1984

PS/CHANCELLOR

cc PS/Chief Secretary

Sir P Middleton

Mr F K Jones

Spare (Float)

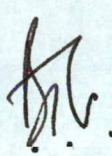
**PUBLIC PROTECTION**

The Chancellor was concerned that it seems to be seriously proposed that we should be in a position to publish a replacement for "Protect and Survive" as early as next spring.

2. The date is receding. In the paper being taken this afternoon it has already slipped to next summer. More importantly, the whole tenor of the two reports from officials (both on civil defence generally and on public protection in particular) is to proceed with great deliberation. The recommendation on "public protection" is that officials should work up costed options. When we get them I would expect the question of effectiveness ("so what do we actually get for this money?") to require a further period of study. The Home Secretary may well become impatient, but even his natural desire to have a more credible civil defence stance will work in the same direction, so long as we stick to the point that there has to be something credible to say before we can improve credibility by saying it.

XI

That.  
 My concern - wh  
 may not have been  
 full reflects on ~~the~~  
 about's minutes - stand in  
 long & unclear for  
 just the P.C.S. was  
 a major own goal, which  
 which on no account must be  
 rejected. So I agree study  
 but X. in

  
 B T GILMORE

JOB WEIGHTING FOR PERM SECS

For Friday's bilat? *ms*

- see also separate note below

Chancellor,

PERSONAL

I am very bothered about this  
Can we have a word at the

FROM: E P KEMP  
7 December 1984

(a back paper)

SIR PETER MIDDLETON

next breakfast

c Miss Sinclair

*ms*  
7/12

*Ben*  
*Ym.*  
*[view of perm secs?]*

JOB WEIGHT FOR PERMANENT SECRETARIES

You asked for advice on Sir Robert Armstrong's letter and draft below.

2. I have had a long talk with Mr Williams, who runs the OME who are the Secretariat of the Review Body. What he told me filled me with increasing foreboding.

3. As far as I can see, the TSRB will be tackling this part of their remit on the following lines :-

- a. They are going to seek written statements from all Permanent Secretaries (with the possible exception of yourself and Sir Robert Armstrong - that was unclear) and all Second Permanent Secretaries; it is not too clear what this will cover but it will cover how the individuals themselves see their jobs and their responsibilities, and may also invite some free-wheeling commentary.
- b. Some of those giving written evidence will also be asked to give oral evidence to the TSRBs chosen advisers;  
Sir Geoffrey Wardale plus - as you surmised - Hay/MSL.
- c. Some of them may also be interviewed directly by members of the TSRB or perhaps the TSRB as a whole.
- d. Sir Robert Armstrong (no mention of you!) will be asked to give evidence, certainly oral but possibly also written; this will ~~be~~ separate from the Government evidence that is being put to the TSRB for their general remit, and the oral evidence that they will be taking from yourself and Sir Robert Armstrong.

PERSONAL

- e. Some Ministers will be asked to give oral or written evidence; probably one from each of the two central Departments, and also one from each of three other Departments.

The TSRB will then presumably pull all this lot together and make their recommendations.

4. I pressed Mr Williams particularly on the question of how integrated their two remits would be; that is to say, would their recommendation on this remit start from where they had arrived on their main remit (which would mean, in logic, that job differentials for Permanent Secretaries would all have to be slotted in below the absolute level of pay they thought right for yourself and Sir Robert Armstrong) or would the whole thing be seen together, with the obvious risk that the TSRB might feel they had to recommend higher pay levels for yourself and Sir Robert Armstrong than might have otherwise been the case just to give adequate headroom and relativities down the line. Mr Williams was confused on this point, but my impression is that the TSRB will, at this stage, want to see all their recommendations taken together.

5. As I say, this is pretty gloomy and bears out our worst fears, thus :-

- a. To start with, and it is the least of our worries, this is going to take up quite a lot of the time of presumably busy Permanent and Second Permanent Secretaries.
- b. While the presence of Sir Geoffrey Wardale may or may not be helpful, the presence of Hay, notably not renowned for any moderation in pay recommendations at all, is very bad news.
- c. It is ominous that written or oral evidence seems to be sought from Sir Robert Armstrong alone, without your involvement.

PERSONAL

- d. The proposed involvement of Ministers from both central Departments and a sample of other Departments seems to me to risk (i) accentuating the "political" nature of the exercise (pecking orders for different Ministers and different Departments), (ii) giving embarrassment if what different Ministers say emerges in the TSRBs published report and (iii) compromising the Government's position if/when it comes to thinking about rejecting or modifying the recommendations.
- e. The likely integration of the two remits (paragraph 4 above) will lead almost inevitably to higher recommendations than might otherwise be the case.
- f. And finally it still remains quite unclear whether and if so how the TSRB are going to be able to feed into this exercise overall thoughts about what the job of a Permanent Secretary really is and how it fits in with how Whitehall and indeed the public services generally really run themselves, so as to lead to a basis for their recommendations. I do not see how the process set out in paragraph 3 above necessarily providing the answer.

6. The letter which Sir Robert Armstrong wants to send to you, in the shape of the draft attached to his letter of 5 December, is I suppose all right as far as it goes. But I wonder whether you would like to take up some of these other points with Sir Robert; he may or may not be aware in detail of how the TSRB propose to proceed. I could let you have a draft, or this may be a matter on which it would be more appropriate for you to talk to him.



E P KEMP

PERSONAL AND CONFIDENTIAL



884

*Sydney*

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/3241

5 December 1984

*My dear Peter,*

As I told you the other day, the TSRB have accepted the reference on pay differentials for Permanent Secretaries according to job weight. They want to collect information and views for this purpose. If you agree, I propose to write to colleagues in terms of the draft attached. As they want to write in the near future, I should be grateful for an early reply.

*Yours ever  
Robert*

*Ask P Kemp  
for advice. I  
showed sheets  
know how the  
TSRB are doing  
this. I am  
against the  
involvement of Hans  
-MSL*

Sir Peter Middleton KCB

PERSONAL AND CONFIDENTIAL

1.8

Armstrong  
→  
Pen  
5/12

DRAFT LETTER FROM SIR ROBERT ARMSTRONG TO  
SIR PETER MIDDLETON KCB, TREASURY

cc All Permanent Secretaries

As you know, the Prime Minister has referred for consideration by the Top Salaries Review Body the question whether there should be pay differentials for Permanent Secretaries according to job weight. The reference is on the basis of a neutral question; the Government has taken no position on the matter, but has asked the TSRB to advise.

The TSRB has accepted the reference as part of its current review.

For this purpose the TSRB proposes to undertake a thorough examination of the work of Permanent Secretaries. It will wish to obtain from them detailed information about their jobs, as well as any views they may have on the questions arising. It also seems to the TSRB to be essential to include in this examination the job of Second Permanent Secretaries and their relationship with Permanent Secretaries. It will aim to develop criteria, related specifically to the type of demands placed

on Permanent Secretaries, which might allow differences in the weight of the jobs concerned to be gauged in a systematic manner. It hopes by these means to acquire, along with other evidence, a reasonably objective basis for exercising its judgment on the underlying points of principle and the possible options for further differentiation in the pay of Permanent Secretaries.

The TSRB will be writing in the near future to each of the Permanent Secretaries and Second Permanent Secretaries to seek co-operation in gathering information which they will require. In some cases it already has job descriptions, and account will be taken of those.

I am writing to ask you and other Permanent Secretaries, to whom I am sending copies of this letter, to co-operate with the TSRB in giving it the information which it requires for this purpose.