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CABINET

1981-82 CASH LIMITS AND VOTES:
PAY AND PRICE FACTORS

Memorandum by the Chancellor of the Exchequer

1. We need to decide now the inflation factors to be used in fixing cash limits for 1981-82. This is material to the decision to be taken during the next month on the Rate Support Grant (RSG). It will be useful to announce the factors generally in the near future.
2. These factors need to be considered at the same time as the volume programmes discussed in C(80) 58. It is the cash limits which will ultimately determine how much money is available for the cash controlled programmes next year. Whatever figures we decide, it is central to our policy that the resulting cash limits should be rigorously observed.
3. The cash limits cover over £40 billion at late 1979 prices, that is, much of central Government expenditure including defence, the hospital and community health service and universities, and the RSG and local authority capital expenditure.
 - A. PAY
4. On pay, cash limits cover numerous public service pay groups including the Armed Forces, doctors, nurses, National Health Service ancillaries, teachers, local authority manual workers and civil servants.
5. The suggestion has been made that the 1981-82 cash limits and Votes should provide for a 6 per cent annual increase in earnings from due settlement dates in the current pay round, for all public service groups including the Armed Forces.
6. Certain ancillary questions concerning the provision to be made for settlements due late in 1980 or late in 1981 and so belonging to the next pay round, and the treatment of staging, are under discussion separately. When these matters are settled, the decisions will need to be reflected in the actual calculation of cash limits.

B. PRICES

7. I propose that in cash limits and Votes we provide for an increase in prices of 11 per cent between 1980-81 and 1981-82 (average over the year as a whole). This is clearly within the range of realistic expectation, but requires the recent good performance on prices to be continued. Some moderate degree of cash limit squeeze may still be implied. Quite distinct from this is the general volume cut proposed in the Chief Secretary's paper.

8. Eleven per cent would apply to all expenditure other than pay. There is no significant difference in the price prospects in the different areas of expenditure, so it is not necessary to use a range of different price factors as in the past.

9. This combined with the factors for pay (paragraph 5 above), with appropriate weighting, would be the provision for pay and price increases in the RSG

CONCLUSION

10. I invite colleagues to consider the proposals in paragraphs 5 and 7 above.

G H

Treasury Chambers

22 October 1980