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*Copyied to
Public Sector Pay*

Ref. A03539

PRIME MINISTER

Pay Factors in Cash Limits

(C(80) 60, 65 and 70)

BACKGROUND

At its meeting last Thursday the Cabinet agreed that the price factor, throughout the public services, should be 11 per cent (except in the case of defence where a decision was reserved); that for planning purposes the objective on the pay factor for cash limits should be 6 per cent throughout the public services, subject to a deferred decision on the reconciliation of this cash limit with the outcome of the next report of the Armed Forces Pay Review Body; that the 6 per cent pay cash limit should be applied forthwith to the Rate Support Grant settlement; that announcements of cash limits for other parts of the public services should not be made before they were operationally necessary (the public formula being that settlements in the remainder of the public services would be dealt with "broadly within the same financial disciplines" as were being applied to local authorities); and invited the Chancellor of the Exchequer to circulate a memorandum for discussion at the present meeting on the implications of these decisions particularly as regards the timing of any announcements. The memorandum (C(80) 70) by the Chancellor of the Exchequer fulfils this remit, and reverts also to the outstanding "technical" decisions left over from his earlier paper C(80) 65 (dealing with the treatment of "staging" and "overhang").

2. In the course of their discussion the Cabinet accepted that a 6 per cent limit could be very tight, particularly in cases like the NHS where there were no alternative sources of finance and no significant possibility of staff reductions. They also wanted to avoid converting a 6 per cent cash limit into a rigid 6 per cent "norm". In short they wanted to preserve as far as they could a measure of flexibility to deal with the circumstances of particular negotiations as they arise and, as Sir Keith Joseph put it, to be prepared to envisage a "scatter" of settlements in the public services around, but not necessarily at, the 6 per cent figure.

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3. In effect the Chancellor's new paper is saying that there can be no flexibility around 6 per cent and that the only flexibility available is in the timing of announcements. Even here it is, he argues, necessary to confirm publicly the 6 per cent figure very soon for the universities and the NHS (the next groups to negotiate) and that, while no early announcement need be made about the applicability of 6 per cent to the Civil Service, that figure should be used now for the construction of the estimates in the knowledge that in practice no higher figure is conceivable. In political terms this is no doubt a realistic assessment. Certainly if a 6 per cent figure is announced for the NHS there could be no question of later flexibility for the Civil Service. The key question therefore is whether 6 per cent is realistic for the NHS, both for the immediate negotiations on ancillary staff and later for the nurses, the doctors and the dentists. If colleagues are prepared to run the risks here, the rest follows.

4. Some of the colleagues may complain that, in the treatment by the media of the 6 per cent pay factor in the cash limit for the RSG, and of your Written Answer to a Question the following day, the implication that 6 per cent would be the pay factor in cash limits for other public services as well as for local authorities came across much harder than the Cabinet intended; these Ministers can be expected to reiterate their arguments in favour of retaining as much flexibility for as long as possible on the cash limit for other public services. The Home Secretary may want to reiterate that 6 per cent is a cash limit not a pay norm: he is not happy with a letter which he received from the Secretary of State for the Environment, to the effect that taking that line made life more difficult for the local authority employers in their negotiations on the pay of firemen and other employees.

HANDLING

5. You will wish to ask the Chancellor of the Exchequer to introduce his paper and then call on the Secretaries of State for Social Services and Scotland to comment particularly on the NHS point and the Secretary of State for Education and Science to comment on the universities. If these three Ministers are prepared to go along with the Chancellor's recommendations, the Cabinet will no

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doubt readily accept them, including those on the "technical" points in paragraph 7 of C(80) 70. If however serious doubts emerge about the practicality of successfully enforcing a 6 per cent "norm" on the NHS groups (the university groups have no real muscle and must lump it), the choice is between setting a higher figure now for the NHS (which the Cabinet would no doubt be most reluctant to do); accepting that, in the event, there may have to be some give as negotiations unfold (a decision which would become rapidly apparent in the case of the NHS ancillaries and risk the policy as a whole).

CONCLUSIONS

6. The choices would appear to be:-

either

(i) to accept the conclusions in paragraph 8 of C(80) 70;

or

(ii) to accept the conclusions in paragraph 8 of C(80)70 with the proviso that the Government would need to weigh, as negotiations with NHS ancillaries, nurses and doctors proceed, the balance between relatively minor breaches in the cash limit against the costs of disruption.

REA

ROBERT ARMSTRONG

12th November, 1980

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