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Econ Pol: Pt 2
Public Sector Pay

Ref. A03389

PRIME MINISTER

1981-82 Cash Limits and Votes: Pay and Price Factors
(C(80) 60 and 65)

BACKGROUND

In C(80) 60 the Chancellor is proposing a single cash limit uplift figure for new pay settlements in the public services in 1981-82 of 6 per cent and a single figure for prices of 11 per cent. In C(80) 65 he records certain technical recommendations on the staging and "over-hang" elements in cash limits - recommendations which were circulated to E Committee earlier this week (in E(80) 122) and which, though not discussed, appear generally to be acceptable. The one point on which his new paper goes beyond the proposals put to E this week (although it was put to them earlier and not resolved) is the suggestion in paragraph 6 of C(80) 65 that for settlements occurring towards the end of 1981-82 (in the pay round starting on 1st August 1981) the cash limit figure applicable to those settlements should provisionally be 2 percentage points below the figure agreed for the current pay round (ie. 4 per cent if Cabinet agrees to 6 per cent).

2. There are thus four issues to be resolved -

- (a) The cash limit for 1981-82 for pay.
- (b) The cash limit for 1981-82 for prices.
- (c) The treatment of over-hang and staging in 1981-82.
- (d) The "provisional" cash limit for pay in 1982-83.

3. E Committee has already had a general discussion of these matters (E(80) 37th Meeting, Item 1), and the 6 per cent figure was mentioned but not specifically endorsed in that discussion. The Chancellor has taken his cue from that figure, but (I am informed) might, if pushed, go to 7 per cent. In summing up the E meeting you recorded agreement to a single pay figure increase for the public services in 1981-82 and were able to conclude also that "provided that it was not unrealistically low, and was seen to apply fairly through the public services, there was a reasonable chance of securing satisfactory

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settlements without industrial action in the coming winter". You will want to check with the Lord President that this judgment has not been adversely affected by the subsequent announcement of the suspension of the pay agreement for the Civil Service. Colleagues are unlikely to demur from agreement on a single figure limit. But it will be in everybody's interests that they should be quite clear about the implications of their decision. A single figure of 6 per cent for the public services will mean 6 per cent not only for the Civil Service, local government and the National Health Service but also for the Armed Forces, the doctors and dentists, the nurses, the TSRB groups and, in due course, MPs and the police (indeed, if the Chancellor's proposals for a provisional limit for 1982-83 is accepted, the police increase next year could be only 4 per cent - a point also picked up specifically in C(80) 61 on the RSG to be considered later in the meeting). The Secretary of State for Defence will certainly seek an escape clause for the Servicemen. But, as you said at E, the policy will be at risk if it is not seen to be fair. It will be difficult to blur the consequences of the decision, because the interest groups concerned are bound to ask where they stand once the initial announcement has been made.

4. The proposed figure of 11 per cent for price increases reflects a slightly optimistic assumption by the Chancellor about the likely increase in the RPI over the coming year. Nevertheless, his stand with his colleagues has been that the price assumption is realistic and is not intended as an instrument for a further volume squeeze. Most are likely to accept this, though Mr. Pym will point to the differential increase in the price of defence equipment caused by growing sophistication of weaponry. He may not seek a special concession here, in order to reserve his fire for the discussion on defence expenditure as such; but it is possible that he will reserve his position on cash limits generally, pending resolution of the defence package as a whole.

5. As for the technical questions in C(80) 65, there is likely to be little argument about the Chancellor's proposals, other perhaps than on his suggestion for a provisional cash limit for 1982-83 to apply it to settlements reached late in the coming round (paragraph 6 of C(80) 65). Colleagues may accept this as being only a provisional stance which can be re-examined next year in the light of circumstances.

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HANDLING

6. You will wish to ask the Chancellor of the Exchequer to introduce his two papers. It may then be possible to get quick agreement to the technical points in C(80) 65, especially those in paragraphs 2-5 of that paper (paragraph 6 being the "4 per cent point" discussed above). Thereafter you might move to the pay cash limit and ask each of the Ministers primarily concerned whether they accept 6 per cent and whether they are prepared to accept the consequences of this decision for the major groups of staff for which they are responsible, e.g. the overriding next year of the reports of the three review bodies - TSRB, DDRB and AFPRB. The Ministers primarily concerned are: the Lord President (for the Civil Service), the Secretary of State for Social Services (for the NHS, including the doctors and dentists), the Secretary of State for the Environment (for the local authorities), the Home Secretary (for the police), the Secretary of State for Defence (for the Armed Forces) and, possibly, the Chancellor of the Duchy (for MPs).

CONCLUSIONS

7. You will need to record conclusions on -
- (i) The pay factor for 1981-82.
 - (ii) The price factor for 1981-82.
 - (iii) Whether any special provision has been agreed for particular groups.
 - (iv) Whether the technical recommendations in paragraphs 2, 3, 4 and 5 of C(80) 65 are accepted.
 - (v) Whether a provisional pay figure, below that for 1981-82, is acceptable for settlements reached after 1st August 1981, and if so what level for this should be set.

RA

(Robert Armstrong)

29th October, 1980