

CONFIDENTIAL

*Copied to  
Civil Service Pay*

Ref. A03234

PRIME MINISTER

---

E: Public Services' Pay

At its meeting before Cabinet on Thursday E Committee will be starting on the road to a series of decisions of crucial importance to the Government's strategy over the next 12 months. The five papers before the Committee are interrelated; this note attempts to draw the threads together.

2. The papers before the Committee stem from two discussions which took place in E before the Recess: that on 23rd July (E(80) 27th Meeting) and that on 7th August (E(80) 31st Meeting). The discussion on 23rd July largely revolved around a paper by the Chancellor of the Exchequer (E(80) 71). The discussion then was not conclusive over the whole range of the Chancellor's proposals in his paper. But in essence the Committee agreed that cash limits should be the overriding determinant of public sector pay in the coming year; that for the Civil Service the collection of pay research evidence should continue; that the Lord President should negotiate with the Civil Service unions on improvements in the PRU system; and that the Chancellor should arrange for officials to examine further the longer-term options for pay research which he had identified in his paper (specifically in paragraph 11 of E(80) 71). The Committee also agreed that the Review Bodies for the Armed Forces, the Doctors and Dentists and Top Salaries should continue with unchanged terms of reference; and that the Secretary of State for Social Services should pursue further, without commitment, options for devising a more satisfactory method of settling nurses' pay designed to protect them against relative pay erosion. Mr. Jenkin was authorised to announce his intention to consult on the options for nurses' pay. The meeting of the Committee held on 7th August resulted in a remit to the Secretary of State for Employment to put in hand a review of the arbitration arrangements in the public sector and the scope for amending them.

3. Since that time a great deal of effort has been spent in "talking down" expectations for public sector pay settlements in the coming year and, on the narrow front of Civil Service pay, the Lord President of the Council has told the

CONFIDENTIAL

CONFIDENTIAL

Civil Service unions that the main determinant of next year's pay settlement for them will be the cash limits set in advance of the settlement. Also since then, however, the police have had a 21 per cent pay settlement (in September) and there are indications that the local authorities are reluctant to upset the pay indexing arrangements they have with the firemen.

4. In addition you have had (though your colleagues have not) the Chancellor's Secret minute to you of 10th October foreshadowing the very difficult decisions on public expenditure with which Cabinet will be faced later this month. In the light of this there can be no doubt that a major effort to restrain public sector pay increases in the coming year is a financial as well as a political imperative.

5. Although the papers before the Committee cover a great deal of ground they do not, for the most part, call for operational decisions - e.g. the actual level of the pay cash limits is for Cabinet to decide on 30th October, more work is needed on arbitration and on the longer-term options for Civil Service pay, and some of the issues touched upon in the Chancellor's paper E(80) 118 involve major political decisions (e.g. abandoning the pledges made to the Armed Forces, the financial provision for police pay next year and the treatment to be accorded to the nurses) which will merit substantial discussion in their own right - probably by Cabinet - before a final view can be taken.

6. In short, I think your aim at this meeting should be to ensure that all of the necessary work is put in hand and as much ground-clearing done as subject matter will allow. But, even if the present discussion must inevitably be of a second reading character, the remaining stages of decision-taking cannot be long delayed. The moment of truth on many of these issues will be the Cabinet discussion on cash limits on 30th October. Given the importance, and the difficulty, of the issues, you may think it prudent to aim for a further meeting of E, devoted to pay, before these Cabinet discussions, with the object of reducing the complexity of the issues to be taken then to manageable proportions.

ReA

ROBERT ARMSTRONG

14th October, 1980

CONFIDENTIAL