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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PUBLIC SERVICES PAY IN 1980-81: TRANSITIONAL PROBLEMS

Memorandum by the Chancellor of the Exchequer

Following the meeting of E Committee on 15 October, the Treasury has given further consideration to the financial consequences of (a) past staging and (b) settlements between 1 October 1980 and 31 March 1981. Annexes A and B to this paper have been prepared with the help of officials of other departments though with no commitment on their part.

2. We need if possible to reach at least a provisional decision on these matters so that, when we take our decision in Cabinet on the general pay factor for use in calculating cash limits, we shall know the implication for the groups discussed in those papers of what we are deciding. The two issues are clearly connected. Provided my colleagues agree with the proposal that the general factor should be 6 per cent, I should be content to adopt Option (a) in Annex A and Option (b) in Annex B. But, if we go for a markedly different figure, I might need to think again in view of the substantial sums involved.

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3. I also believe that we should make clear our opposition to any further staging of awards from now on and say that, if staging did take place, we would set cash limits in a way that required the deferred element of the cost to be offset by a corresponding reduction in the money available for the subsequent pay award.

H.M. Treasury
24 October 1980

(G.H.)

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ANNEX A

PUBLIC SERVICE PAY IN 1980-81 PAY ROUND
FINANCIAL CONSEQUENCES OF PAST STAGING

Even without any new pay settlements there will be increases in earnings between pay years 1980-81 and 1981-82 for some groups deriving from the fact that their previous settlements were staged and these previous awards will now be in payment for a full year instead of part of a year. The main groups, the numbers concerned, the percentage increases in earnings and amounts involved are shown below:

- (i) Civil Service (500,000): The 1980 pay settlement for the non-industrials ran from 7 May instead of the normal 1 April. The overhang gives rise to 1½ per cent on the pay bill between FY 1980-81 and FY 1981-82, equivalent to around £60 million.
- (ii) Teachers (600,000): In England and Wales, of the total overhang (equivalent to 4 per cent of pay), about 3 per cent reflects the staging (on 1 January and 1 September 1980) of the Clegg award and about 1 per cent follows from the arbitrators' staging of part of the 1980 pay award to run from September 1980. In Scotland the overhang (also 4 per cent) is entirely attributed to the Clegg award. Taking both together, it produces an increase in the pay bill between FY 1980-81 and FY 1981-82 equivalent to about £200 million.
- (iii) University teachers (40,000): The balance of the 1979 "catching-up" settlement was staged on 1 April 1980 and 1 October 1980. These staged payments will add about 12 per cent to earnings

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during the pay year following 1 October 1980 by comparison with the preceding year; by the start of the financial year 1981-82 (for university staffs pay year and financial year do not coincide), some of this will have dropped out of the comparison and the "overhang" will add about 3½ per cent (£15 million) to earnings in FY 1981-82 compared with FY 1980-81.

2. If we are setting new cash limits on the basis of allowing a standard factor for pay increases in the new round, it would be logical to take account of the fact that some groups will have increases in earnings, without new settlements derived from these previous staged settlements. This would meet the criticism we encountered last year from the Select Committee on the grounds that cash limits were financing pay increases greater than those permitted by the publicly stated factors for pay and prices. On the other hand, it would be represented as unfair that the only groups which would suffer, if corresponding amounts were withheld from the allowance for pay in new cash limits, would be those whose pay increases in the previous round had already been delayed, with the concurrence of the government, as a means of reducing their cost and without explicit warning that the increase in earnings in the following pay year, to which the delay gave rise would be a pretext for reducing that year's settlement also. If the allowance for new pay settlements were to be adjusted downwards to reflect the increase following staging, it would therefore be necessary to be clear about the grounds for this action and that it was defensible.

3. The options for approaching this problem appear to be as follows:

(a) To allow all of the overhang to be financed over and above the standard pay factor for cash limits. This would be in accordance with how staging was dealt with

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on the last round and so avoid accusations of changing the rules retrospectively. But it would leave the Government open to attack (particularly from the Treasury and Civil Service Committee) for again allowing higher increases in earnings by means of staging - even though this loophole is to be stopped up in future years. The extra increases in the pay bill (FY on FY) for each group would be:

Civil Service	1½ per cent
Teachers	4 per cent
University teachers	3½ per cent (see paragraph 1 (iii))

- (b) To allow none of the overhang, and require it to be met out of the standard pay provision. This would reduce expenditure on pay in 1981-82 by some £300 million. It would mean that whatever money was available through the general pay factor for financing pay increases in the current round would be reduced by 1½ per cent for the non-industrial civil service, 4 per cent for teachers and 3½ per cent for university teachers. This is probably impracticable.
- (c) An arbitrary and standard deduction from the pay factor might be applied to all those groups. This gets the worst of all worlds, being open, though to a lesser degree, to the objections to both (a) and (b) above.
- (d) To finance the element of overhang for some groups but not for others.
- (i) One basis of discrimination might be between Clegg and other more long-standing awards on the one hand and new settlements on the other. This might be defended on

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the grounds that it was more difficult to deny the benefit of the "overhang" in the case of those whose full settlements had been delayed for more than one year. The practical effect of this would be that the university teachers' overhang would be financed in full, since their 1979-80 staging was part of their catching-up exercise; for other teachers in England and Wales about 3 per cent would be allowed and 1 per cent disallowed (see paragraph 1 (ii)) but Scottish teachers are in the same position as university teachers; for the non-industrial civil service the earnings increase in the 1981 pay settlement would be constrained by about 1½ per cent. This course would reduce pay expenditure in the financial year 1981-82 by about £100 million by comparison with option (a) (allowing all the staging to count towards the base for cash limits). But the Civil Service unions would not accept that the deferment of their pay increase in 1980 meant that their 1981 increase should be that much smaller and would resist this more strongly if other groups were not subjected to the same treatment.

- (ii) An alternative basis of discrimination, saving £200 million in 1981-82, would be to single out the teachers (Scotland as well as England and Wales) on the grounds of the Clegg "error" which happens to coincide in scale (4 per cent) with the overhang problem.

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4. Only option (b) meets the criterion that the new cash limits should allow a standard factor for increases in earnings. But option (a) alone avoids the criticism of discrimination (possibly unfair discrimination) against groups which had had their previous settlements postponed. Options (c) and (d) are intermediate points: Option (d) (i) or (d) (ii) is perhaps less arbitrary than (c) but is arguably more discriminatory even than (b). There would be some quite awkward practical problems associated with (b), (c) and (d), e.g. because of the differences between earnings figures and settlement figures; these would, however, be soluble once the decisions on principles were taken.

2. The largest groups (of 10,000 or more) subject to theoretical over-provision in cash limits in financial year 1980-81 are as follows (cash calculated on assumption that new pay factor for each group in 1980-81 pay round is 6 per cent):

(1) Local authority manuals (700,000)	£70 million
(2) Firemen (10,000)	£60 million
(3) Bus and coach drivers (200,000)	£120 million
(4) University teachers (40,000)	£240 million

The options for resolving this problem are as follows:

(a) Recalculate cash limits in 1980-81 to remove the excess provision. This would be the most direct and most effective course. There is a possibility that the cash limits for 1980-81 were not originally

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ANNEX B

PUBLIC SERVICE PAY IN 1980-81 PAY ROUND
Financial Consequences of Settlements between
1 October 1980 and 31 March 1981

The early settlements in the current pay round will be influenced by the cash limit provision in the current financial year as well as that in the financial year beginning April 1981. For the current financial year, cash limits reflected pay factors of 13-14 per cent, higher than the assumptions likely to be adopted for settlements in the new round generally. It will be important to ensure as far as possible that settlements this autumn are not provided for in cash limits beyond the extent permitted by the general pay factors about to be determined. This should strengthen the hand of management in this autumn's negotiations and ensure consistent treatment for all public service settlements in the current pay round.

2. The largest groups (of 30,000 or more), numbers and theoretical over-provision in cash limits in financial year 1980-81 are as follows (cash calculated on assumption that new pay factor for cash limits in 1980-81 pay round is 6 per cent):

(i) Local authority manuals (700,000)	£70 million
(ii) Firemen (36,000)	£ 7 "
(iii) NHS ancillaries (211,000)	£33 "
(iv) University teachers (40,000)	£33 "
	<hr/>
	£143 million

3. The options for tackling this problem are as follows:

(a) Recalculate cash limits in FY 1980-81 to remove the excess provision. This would be the most direct and most effective course. There is a precedent in that the cash limits for FY 1979-80 were set originally

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on the basis of a pay factor of 5 per cent for the 1979-80 pay round and this was revised upwards to 13-14 per cent last year; so to do the operation in reverse this year would be defensible. On the other hand, cash limits should be left undisturbed as far as possible and in the current financial year some unanticipated cost increases have had to be absorbed without increasing cash limits.

(b) Calculate cash limits for FY 1981-82 so as not to finance more than the standard pay factor in the current pay round. This was the course envisaged in E(80)118. It would leave the "over-provision" in the cash limits for FY 1980-81. But the danger of its being spent on excessive pay settlements (whatever else it might be spent on) would be reduced by the fact that the provision for the year beginning in April 1981 would assume the new general pay factor and nothing more. To maintain the discipline in a situation where pay years and financial years do not coincide, it would be necessary, under this option, to carry the new pay factors forward to form the base for whatever level of pay settlement were thought appropriate in the 1981-82 pay year; if this were done, while an over-generous authority might be able to postpone the consequences of its improvidence until towards the end of the 1981-82 financial year, they should come home to roost eventually.

4. The choice between (a) and (b) thus involves considerations relating both to pay and to public expenditure more generally. It is arguable that, particularly in the case of the NHS where the Government is the direct paymaster, Option (b) will provide an adequate constraint on the possible level of pay increases - though, in that case, it would relax in equal degree the constraint which the cash limits will exercise on the volume of expenditure during the remainder of the current financial year.

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The universities and the local authorities both have means by which any relief on the cash limit in the present financial year can effectively be carried forward into the new one.

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