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CABINET

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PAY FACTORS IN CASH LIMITS

Memorandum by the Chancellor of the Exchequer

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1. I was invited at Cabinet on 6 November (CC(80) 39th Conclusions, Minute 3) to circulate a memorandum on the implications of the decisions that:
  - i. the pay factor in the cash limit for the rate support grant (RSG) settlement for 1981-82 would be 6 per cent;
  - ii. announcements of cash limits for other parts of the public services would be made when they were operationally necessary;
  - iii. for planning purposes the objective should be to achieve a 6 per cent pay factor in the cash limit for the financial year 1981-82 throughout the whole of the public services, the limit to apply provisionally in respect of settlements in the 1981-82 pay round as well as of settlements in the 1980-81 round.
2. Public ~~expectations~~<sup>expectations</sup> has already been heavily influenced by the announcement of the 6 per cent pay factor for the RSG, and the Prime Minister's statement that the remainder of the public services would be dealt with broadly within the same financial disciplines. This has produced the expected favourable response from the private sector where people have been looking for a lead from the Government in dealing with its own employees. We have undertaken to be firm on this issue, and much of the benefit would be lost if we now appeared hesitant and uncertain. But there are arguments in favour of our retaining as much flexibility as is consistent with our broader counter-inflation objective.

### IMMEDIATE REQUIREMENTS

3. The responsible managements will need to know the Government's decisions on the pay factors for next year's cash limits before pay negotiations with each group of public service employees are taken very far. Very early decisions will therefore be needed in the case of:

- i. university technicians - the university authorities have already agreed a provisional settlement staged over 18 months giving increases amounting to an annual rate of about 18 per cent, but an early indication of the pay factor could lead them to reconsider.
- ii. University teachers - the authorities and the teachers have proposed increases of 13 per cent as a basis for negotiation with the Secretary of State, who has delayed any response until he can indicate the pay factor in the relevant cash limit.
- iii. National Health Service (NHS) ancillaries - the next meeting with the management side of the Whitley Council is on 1 December. The Council will need to be informed of the pay factor at, or preferably before, that meeting.

4. These cases apart, the only major public service groups remaining are the Armed Forces and the Civil Service. We are to consider the former separately. There is no operational need for an early announcement about the latter.

### ALTERNATIVE APPROACHES

5. From the standpoint of flexibility, it would be convenient if we could announce the pay factor for each group as the need arose, having regard only to the particular circumstances of that group. Such a course would, however, undermine the negotiating position of the local authority and other employers who settle relatively early in the pay round, since it would risk leaving the impression that the Government would be ready to treat later groups more leniently. On the other hand to announce now that, come what may, the figure for every group would be 6 per cent would remove every trace of flexibility and would be readily misinterpreted as a rigid pay norm. In practice, therefore, I see two alternative courses:

- i. Fix and announce the pay factors now for each group, prescribing a scatter of different figures around 6 per cent depending on the circumstances in each case (ie lower figures in cases where there is more flexibility from reductions in numbers or alternative sources of revenue).



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ii. Confirm 6 per cent as the factor for the three groups in paragraph 3, and use the same figure as a working assumption in the preparation of the Departmental Estimates. Formal indications would then be given later as the timing of negotiations required.

6. The first course would be attractive in rebutting accusations of pay norms. But although I should like to adopt an entirely pragmatic approach, it seems unrealistic now to propose a figure lower than 6 per cent in any individual case, while it would be very hard to justify higher figures for central Government groups either to the local authorities or to public opinion at large. I am led, therefore, to prefer the second approach.

7. We also need to let the employers know our attitude to staging in future and how we propose to provide for the effects of staging last year of the settlements of the non-industrial Civil Service, teachers and university teachers. I propose that we should deal with these on the basis set out in paragraphs 2 and 3 of C(80) 65. We shall also need to make clear how we intend to calculate the cash limits for financial year 1981-82 for those groups, of which the local authority manuals, the firemen, the NHS ancillaries and the university teachers are the most important, where there is "over-provision" in the cash limits for financial year 1980-81. I propose that we should adopt the approach I suggested in paragraph 4 of C(80) 65.

CONCLUSIONS

8. I invite my colleagues to agree that:

a. The pay figure for the cash limits on the universities grant and the hospitals should be set at 6 per cent.

b. No immediate final decision should be taken on the Civil Service, but that a firm figure of 6 per cent should be used for planning purposes, including preparation of next year's Estimates.

c. The problem of past staging and overhang should be dealt with as proposed in paragraph 7 and that an early announcement should be made on this.

G H

Treasury Chambers

11 November 1980