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E(80) 22nd Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 26 JUNE 1980 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Angus Maude MP
Paymaster General

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

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1. CENTRAL GOVERNMENT BORROWING REQUIREMENT 1980-81

THE CHANCELLOR OF THE EXCHEQUER said that the forecasts for the Central Government Borrowing Requirement (CGBR) in 1980-81 as a whole was £9.3 billion. In April and May alone the borrowing requirement had reached £3.2 billion and it was estimated that by the end of June it would be up to £4.3 billion. While a higher rate of borrowing in the first quarter was usual, these totals were bigger than expected. The problem was on the spending rather than the revenue side of the account. The Chief Secretary of the Treasury was investigating which Departments were over-spending, but it was already known that the main over-spenders were the Ministry of Defence and the Northern Ireland Office. Unless expenditure were brought under control, the resulting higher borrowing would delay the reduction of interest rates and require further cuts in public expenditure. It was possible that the current high rate of spending was a consequence of the severe squeeze on expenditure in 1979-80 and the Treasury were looking at the position in each Department. He welcomed the offer of the Secretary of State for Social Services to analyse his programme in particular. He was making arrangements to review the information supplied by the local authorities, as a basis for monitoring their expenditure against forecasts and would consult with the Secretary of State for the Environment on this.

THE PRIME MINISTER, summing up a short discussion, said that the situation revealed by the Chancellor of the Exchequer strongly reinforced the case for a rigorous approach to public sector pay. High public sector pay settlements led to unemployment and bankruptcies in the private sector, to painful cuts in the volume of public expenditure which often had to be found by reducing investment, and to public sector price increases. Unless public sector pay were brought under control the Government could not hope to bring down inflation and meet the objectives of its economic strategy.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion.

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2. PAY OF THE INDUSTRIAL CIVIL SERVICE

The Committee considered a note by the Lord President of the Council (E(80) 58). Their discussion and conclusions reached are recorded separately.

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3. PUBLIC SECTOR PAY

The Committee considered a Memorandum by the Chancellor of the Exchequer (E(80) 46), Notes by the Lord President of the Council (E(80) 48, 53 and 59), Notes by the Central Policy Review Staff (E(80) 49, 54 and 55) and a Note by the Secretaries (E(80) 56). Their discussion and conclusions reached are recorded separately.

Cabinet Office
30 June 1980

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 22nd Meeting Minutes, Items 2 and 3
THURSDAY 26 JUNE 1980 at 9.30 am

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2. PAY OF THE INDUSTRIAL CIVIL SERVICE

The Committee considered a note by the Lord President of the Council (E(80) 58) on the pay settlement, operative from 1 July, for the industrial civil service.

THE LORD PRESIDENT OF THE COUNCIL said that negotiations now had to be opened on the pay settlement operative from 1 July for the 150,000 industrial civil servants covered by the Joint Co-ordinating Committee for Government Industrial Establishments. About 90 per cent of these civil servants were involved in defence work, either working directly for the Ministry of Defence or in the Property Services Agency. Last year the group received 26.7 per cent and the staging of the payments of this sum was completed by a payment of about 10 per cent from 1 April 1980. On the basis of information collected by the Pay Research Unit (PRU), and of the approach to settlements in earlier years, the group could mount a claim for 23-25 per cent. However, it would be possible to argue for substantially less than this by persuading the unions to consolidate productivity payments into basic rates as had happened in private sector. It would be possible to settle within the cash limit for Civil Service manpower costs either by paying 16.9 per cent with effect from 1 July or 18.75 per cent with some staging. The former course could lead to industrial action, since industrial civil servants would be influenced by the 18.75 per cent awarded to non-industrial civil servants from May and by the 18-19 per cent awarded to some of the grades supervising them. He invited the Committee to consider which of these options would be preferable. For the longer term his aim would be to break away from national pay settlements for the industrial civil service and to settle on a plant by plant basis with regard to supply and demand in local labour markets. But it was not practicable to make such a change this year.

THE SECRETARY OF STATE FOR DEFENCE said that in his view the Government should be prepared to settle for up to 18.75 per cent if necessary and with staging to bring the sum within the cash limit. Anything tighter could well provoke the unions to industrial action which would be damaging to defence objectives.

In discussion the following points were made -

a. A settlement of 18.75 per cent, following 10 per cent in April, would be regarded as yet another inflationary public sector pay settlement at a time of increasing pressure on the private sector and the highest unemployment figures since the war. The public would not be impressed by the argument that this was at the tail-end of the present pay round. They would see it as another high award to the public sector. Staging was unacceptable. It would raise the base for the next year's negotiations. For that reason it had been criticised by the Treasury and Civil Service Committee of the House of Commons.

b. There was a strong case for settling at no more than 14 per cent. Anything higher would reduce the chances of a settlement at that level by nurses and other National Health Service employees. 14 per cent would also recognise the fact that there was currently substantial over-spending on the Defence Budget. While pressure to settle at this level could lead to industrial action in defence establishments this would not be damaging to the public at large.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the settlement for the industrial civil service had to be within the cash limit on Civil Service manpower costs and that there should be no

staging. The maximum offer which could be made was 16.9 per cent. But the Lord President should aim in negotiations for less and if at all possible for 14 per cent. He should bear in mind the importance which the Committee attached to not prejudicing the outcome of the negotiations on nurses pay, which should be completed early in July.

The Committee -

Invited the Lord Presdient of the Council to be guided, in the negotiations on the pay settlement for the industrial civil service from 1 July, by the Prime Minister's summing up of their discussion.

3. PUBLIC SECTOR PAY

Previous Reference: E(80) 20th Meeting Minutes, Item 1

The Committee resumed its discussion of the memorandum by the Central Policy Review Staff (CPRS) summarising the main issues on public sector pay, (E(80) 55). They also had before them a memorandum by the Chancellor of the Exchequer (E(80) 46) on public sector pay generally; a minute of 23 June from the Secretary of State for Employment to the Prime Minister about the Standing Commission on Pay Comparability, chaired by Professor Clegg; and a minute of 25 June from Mr Hoskyns to the Prime Minister about public sector pay.

THE HOME SECRETARY said that the pay of prison officers was determined as an average of all civil service increases. He did not wish to argue that any special considerations should apply to the determination of their pay. He was continuing to discuss the pay of the police with the Chancellor of the Exchequer. The Local Authorities were responsible for the pay of firemen who had a commitment to indexation. It was likely that the local authorities would propose to him that they should break with the present arrangements which they regarded as imposed on them by the last Government. If so he would accept their proposals, although it was highly likely that strike action would follow.

The Committee -

1. Took note.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the critical decision for the Government on local authority pay would be taken in the Autumn when Ministers decided on the 1981-82 Rate Support Grant cash limit. In his judgement the local authorities would continue to maintain a firm stance on pay, though this could well lead to strikes.

The Committee -

2. Took note.

THE CHANCELLOR OF THE EXCHEQUER said that the Government had no direct co[ntrol] over pay in the nationalised industries and the main way of applying pressure was through External Financing Limits (EFLs). He proposed three ways to make EFLs as effective as possible in restraining pay. The EFLs for 1981-82 should be announced in the autumn and should include tight pay assumptions, although these assumptions would not be made public. It should be made clear to the chairmen that they were expected to hold settlements down to those pay assumptions. To discourage the industries from too much reliance on price increases, all of them should be required before the autumn to adopt performance targets related to costs per unit of output. If the Committee agreed these proposals he would discuss them with representatives of the Nationalised Industries Chairmens' Group.

THE PRIME MINISTER, summing up this part of the discussion, said that the Committee approved the proposals put forward by the Chancellor of the Exchequer. It was important that as far as possible the nationalised industries should not make price increases and investment cuts in order to offset excessive pay increases. The Chancellor of the Exchequer should be accompanied at his meeting with the Nationalised Industries Chairmens' Group by the sponsoring Ministers dealing with the nationalised industries. He should co-ordinate further work in this area through the Sub-Committee on Nationalised Industry Financing, (E(NF)).

The Committee -

3. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the Standing Commission on Pay Comparability, chaired by Professor Clegg, still had some outstanding references, but there would be only two part-time members to report on the[m] after the resignation of Professor Clegg at the end of September. He would try to appoint a caretaker chairman to deal with these references but if this failed they would have to be completed by some other body. He recommended that no further references should be made and that the Commission should be wound up when its present work was completed.

THE PRIME MINISTER, summing up this part of the discussion, said that the Committee agreed that there should be no further references to the Commission and that it should be wound up as soon as its present references were completed. If it were not possible for the Commission to complete their present programme of work then alternative arrangements would have to be made to deal with it. The Committee note that there was a case for retaining a fact finding capability in this area, but did not need to reach a decision on this at present. The Committee had agreed at their last meeting that the present work being undertaken by the comparability Commission on a longer term system of comparability for nurses' pay was potentially valuable and should continue, either under that Commission or someone else. They would consider proposals in due course from the Secretary of State for Social Services in the light of that review.

The Committee -

4. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.

THE LORD PRESIDENT OF THE COUNCIL said that following the Committee's discussion of civil service pay he had held a preliminary discussion with the General Secretary of the Council of Civil Service unions and indicated the changes which the Government had in mind for improving the Civil Service pay research system. As he had expected, the General Secretary's provisional reaction was that the unions would be unwilling to accept a revised pay research system without a guarantee that its findings would be implemented. If they were asked to accept that, irrespective of the outcome of pay research, the overriding constraint would be the cash limit the unions' likely preference would be to abandon pay research in favour of free collective bargaining. The Lord President would nevertheless continue to try to negotiate the improvements which the Committee had approved.

THE PRIME MINISTER summing up the discussion, said that the Committee noted the Lord President's report. The question when, and at what levels, the cash limit for Civil Service pay should be fixed would be for discussion later. The Committee would also need to discuss the analysis in Mr Hoskyn's minute to her of 25 June. The proposals in the paper on the membership and terms of reference of the three pay review bodies, which was attached to the note by the Lord President of the Council, E(80) 59, could be considered after the Cabinet had discussed the two current reports from the Top Salaries Review Body.

The Committee -

5. Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office

30 June 1980