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CABINET

PAY AND PRICE PROVISIONS FOR THE 1980-81 CASH LIMITS

Memorandum by the Chancellor of the Exchequer

1. The 1980-81 cash limits on the Rate Support Grant (RSG) and the external financing limits on the nationalised industries were announced on 16 November. We now need to take decisions on the pay and price provisions in the Main Estimates for 1980-81 and in the other remaining cash limits.

A. EXPENDITURE CONCERNED

2. These are the limits on central Government expenditure and on local authority capital expenditure. They cover over £25 billion (at 1979 Survey prices). The main areas of central Government expenditure include defence, the hospital and community health service and the universities. The limits cover numerous pay groups principally the Armed Forces, doctors, nurses, National Health Service ancillaries and university staff.

3. At this stage, we can leave on one side Civil Service pay: a global provision for the Civil Service pay settlement is to be made in a single Vote which need not be decided until February.

B. PROVISION

4. I propose that provision should be made for a 14 per cent increase between 1979-80 and 1980-81 in current costs covering both new pay awards and other current expenditure. This differs from past practice when a separate factor was used for pay and two other factors for the remainder of current expenditure but it follows the approach we agreed for the RSG. The advantage of the RSG approach is that it avoids publishing an explicit figure for pay which could become a starting point for negotiations.

5. I propose continuing past practice of using separate price factors for capital expenditure. Separate provision would be made for the outstanding comparability awards for the university teachers and for nurses. All the proposed factors are shown in Annex A.

6. These factors are based on the Industry Act forecast which showed a 14 per cent increase in the Retail Price Index (RPI) between the fourth quarter of 1979 and the fourth quarter of 1980. They are also broadly in line with the figures supplied to the Government Actuary; these showed the same increase in the RPI and a 14 per cent increase in earnings between 1979-80 and 1980-81 for the economy as a whole (see Annex B).

7. As part of the RSG settlement, the local authorities were given a figure of 13 per cent for increases in the costs of their current expenditure generally. This cash limit represents a maximum contribution from the central Government. We can justify the slightly higher figures of 14 per cent for central Government cash limits on the grounds that for each central Government service the cash limit is an absolute constraint whereas local authorities have greater flexibility and, in the last resort, their own balances to fall back on if inflation turns out higher than expected.

C. IMPLICATIONS FOR PUBLIC EXPENDITURE PLANS

8. We cannot, consistently with our own published forecasts, make a higher provision than now proposed. And it is essential, in our first full year, to hold expenditure within the cash limits we set.

9. The effect of the cash limits on services will depend both on inflation generally and on public service pay settlements. If these costs increase faster than provided for, the cash limit will be bound to result in further reductions in the volume of expenditure. The size of these will depend on the mix of different types of expenditure on each service.

10. Any forecasts of inflation are inevitably subject to a wide margin of error, but it would be unrealistic if my colleagues do not allow for the possibility that the cash limits will require some further reduction in the volume of the services for which they are responsible in 1980-81. All spending authorities must manage their resources throughout the financial year in such a way that they keep within the cash limits even if costs rise faster than provided.

CONCLUSION

11. I invite the Cabinet to agree the pay and price provision proposed in Annex A.

G H

Treasury Chambers

10 December 1979



Provisions proposed for 1980-81 cash limits (based on the Industry Act forecast)

	% increase 1980-81 on 1979-80
i) New pay awards and price increases on current expenditure *	14.0
ii) Capital Expenditure:-	
Construction	
- Housing	15.8
- roads	16.4
- other	15.5
Land	15.0
Other capital expenditure	15.9
iii) Outstanding comparability awards	
a) nurses in the range 20-25 per cent annual increase in earnings. This assumption will be replaced by the actual figure if the Clegg Report is available in time.	
b) university teachers in the range 15 - 20 per cent annual increase in earnings.	

* Apart from the global provision for civil service pay which will be settled later.



Published figures

a. Assumptions given by the government to the Government Actuary for use in his report on the National Insurance Fund:

- Economy wide increase in earnings (including outstanding public sector comparability) of 14 per cent between 1979-80 and 1980-81
- RPI increase 14 per cent 1979 (Q4) to 1980 (Q4).

b. Industry Act Forecast:

- No earnings figure. Refers to "a progressive reduction in the rate of settlements over the coming year" by implication from the underlying increase of 15-16 per cent mentioned for this year.
- RPI increase 14 per cent 1979 (Q4) to 1980 (Q4).

c. RSG cash limit:

- increase in costs of 13 per cent between 1979-80 and 1980-81.

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