

Tim Minchin 2

To note that

Civil Service Department
Whitehall London SW1A 2AZ

01-273 4400

any savings on

23 January 1981

non-pay expenditure

cannot be transferred
to pay.



Mr. Haskins
Mr. Vercher

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

Dear Chancellor,

At Cabinet yesterday morning it was decided that we should reverse our previous decision to use a pay factor of 7% and a price factor of 10% in preparing the Estimates for central Government expenditure and for fixing the cash limits associated with these. Instead we would use 6% and 11%. We also agreed that we would not announce these decisions until Budget day.

This means providing for expenditure overall at a level which would be similar to (and indeed a little above) the level resulting from a pay factor of 7% and a price factor of 10%. We therefore assumed that this would provide us with a comparable degree of elbow room in the pay negotiations in the NHS and Civil Service. My understanding is that we also accepted that, if necessary, Cabinet would have to consider the possibility of Supplementaries to finance any extra cost of pay settlements which we eventually reach.

I must point out that where the costs of Government Departments are concerned, there is very little room for manoeuvre. Staff costs are segregated into separate Votes for each Department. There are about 70 of these, and the great majority of them are predominantly for pay (80% is the typical figure). In consequence the Government cannot finance any excess in pay by raiding the provision made for non-pay expenditure without altering the Votes and in the process exceeding the cash limits of those which are being increased.

If therefore the assessment we made earlier of the forthcoming negotiations was right and we need to be prepared to accept an outcome of 7% or 7½% on pay then yesterday's decision means we shall have to face far greater procedural and presentational problems in providing for this. We shall not be able to do so on the new basis without a string of Supplementaries for most of the 70 or so Votes involved to redistribute the pattern of expenditure within the overall total for which we shall have planned. This would involve a wholesale resetting of the cash limits with some going up and others down. Colleagues should realise that this is the effect of our abandoning the framing of the Estimates with a price factor of 10% and a pay factor of 7%.

I am copying this letter to the Prime Minister, to other members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely,
Buncey
(Private Secretary)

Tim This is yet another example of chaotic decision on totally inadequate information. This cannot go on Mr.

SOAMES (Dictated by the Lord President and signed on his behalf)