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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
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NBPM

11 November 1985

Dear George,

RUNNING COSTS CONTROL

Thank you for your letter of 23 October in which you asked for confirmation that information about a department's pay assumption should not be disclosed before or after a pay settlement.

I see no need to make any statement about pay assumptions in running costs limits until details of departmental figures have been announced. Some information will be in the Public Expenditure White Paper, when figures for departmental running costs will be given within departmental planning totals; publication of running costs as limits will not be until the presentation of Estimates to Parliament. Until then I expect departments to hold to the guidance given in the attachment to my letter of 14 October, and any request for information should be met with a holding reply.

We can expect considerable interest and questioning on pay assumptions. This will not just be on the Floor of the House or from Select Committees. For example, departments will need to allocate their running costs limits to budget holders and for this purpose they may need to circulate internal assumptions about increases in the pay bill element; hence there is a risk that these assumptions will leak. There should be no difficulty about refusing to give information before publication of the White Paper, and indeed before publication of the running costs limits in Estimates. I would also expect departments to continue to withhold such information for as long as possible after that on the grounds that as the only important figure is the running costs limit, it would be misleading to give any prominence or attention to one element.

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Formal refusal to release the information could however do greater damage by appearing to treat pay assumption information as more significant than it is. Once running costs details have been announced therefore after publication of the White Paper I see no need to withhold information if departments are pressed. But I think it important to ensure that the presentational context is right. I suggest the following line:

- (i) Running costs limits have been set at levels which took account of a host of relevant factors which affect individual departments differently. Such factors include the departments' own assumptions about rates of likely cost increases for pay, materials, services etc and the volume of usage e.g. numbers in post at different levels, travel, training, overtime and other staff related costs, accommodation and other administrative items. Departments would have used such factors to build up their Survey bids for running costs which were then subject to discussion/negotiation with the Treasury in the normal way in arriving at a cash figure to cover running costs. It would be misleading at the end of that process to single out one of the original assumptions - e.g. pay increases - as having any particular significance in the total.
- (ii) A single figure for pay assumption is also misleading in that it rests on assumptions about pay movements for different grades, professions, incremental pattern, location, shift and allowances etc. The impact on the pay bill takes in other factors again (such as manpower numbers, amount of overtime etc).
- (iii) Within the running costs limits departments will be required to absorb the effects of whatever pay settlements emerge. Thus internal assumptions about possible pay increases made before the limits were set and the pay negotiations concluded are not highly significant.
- (iv) If notwithstanding this explanation there is still an interest in knowing what the pay assumption was, departments would give it.

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The Treasury issued no central pay assumption or positive direction on the rates of pay to be used. Nevertheless departmental assumptions, and other elements in their bids for running costs, were made known to the Treasury during the Survey discussions and negotiations. Some differences in the percentages used by departments need not be surprising because of the difference between them illustrated by (ii) above. But clearly it would be harder to defend variations in pay assumptions beyond a fairly narrow range and the Treasury have had this very much in mind in its discussions with departments on their running costs limits for the coming year.

I trust that this further guidance will allay your, and colleagues, concern on this matter. I am copying this to the Prime Minister, Members of Cabinet, other colleagues in charge of departments, Permanent Secretaries of Revenue Departments and Sir Robert Armstrong.

Yours etc,
JH

JOHN MacGREGOR

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