

COVERING CONFIDENTIAL

6 NO



Treasury Chambers, Parliament Street, SW1P 3AG

27 September 1984

Andrew Turnbull Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew

PUBLIC SERVICE PAY AND EXPENDITURE IN 1985-86

... I attach a draft paper which the Chief Secretary proposes to circulate to colleagues tomorrow or on Monday if the Prime Minister prefers.

Yours Sincerely
Paul Pegler
PAUL PEGLER
Assistant Private Secretary

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DRAFT



PUBLIC SERVICE PAY AND EXPENDITURE IN 1985-86

Note by the Chief Secretary to the Treasury

We need to agree what to assume about public service pay increases in our public expenditure plans for 1985-86.

2 I am proposing that we should adopt an assumption of 3 per cent for all public service groups except the local authorities; and that public expenditure baselines should be reduced by the difference between this assumption and the 4 per cent factor originally used to construct baseline figures for 1985-86.

The choice of pay assumption

3 The pay assumption for 1984-85 was 3 per cent. With the prospects for private sector pay settlements for the next round no lower than 5½ per cent a lower figure for next year (say, 2½ per cent) would be seen as unrealistic and could be ineffective.

4 A higher figure (4 per cent) would give the wrong signal about the course we want future settlements to take. I have concluded that we should retain an assumption of 3 per cent. The CBI are arguing, on similar grounds, for a pay assumption of 3 per cent.

Application

5 The figure chosen underlies the provision made in the public expenditure plans for 1985-86 and later years for increases in pay rates and allowances deriving from settlements between now and 31 March 1986. It will be the basis of the provision for pay in 1985-86 Estimates. The assumption will not apply formally to local authorities (although it is not inconsistent with the targets that we have announced and in practice it should influence their behaviour). Similarly, as last year, the assumption does not apply to the nationalised industries (although tight EFLs and financial targets should help to ensure that discipline is maintained). A 3 per cent assumption will produce much needed baseline reductions of about £200 million in each year of the Survey.

Running Costs

6 Following our discussion in July (CC(84) 25th conclusions), I will be seeking to agree with colleagues a figure, for most departments in line with the provision sought in the Survey, for the increase in their running costs in 1985- 86. I will then expect Estimates provision for running costs to be within the agreed figure. My aim will be to agree running cost figures that in aggregate imply an increase of not more than 4 per cent above this year's provision. This approach should not be affected by our choice of a pay assumption.

Announcement

7 I think we should avoid any formal announcement of the pay assumption before other public expenditure decisions are announced in the Autumn. In the last 2 years we explicitly announced the pay assumption. In both cases, we got unhelpful headlines. If questioned before the Autumn Statement, we should say that there will again be a pay assumption, and that it will be much the same next year as this; pay assumptions are a routine part of public expenditure planning, under present arrangements; but they are not norms, do not determine particular settlements, and do not merit a special announcement.

Conclusion

8 I propose that:

- i. for the cash plans and Estimates we should use a single general assumption of 3 per cent for pay settlements affecting 1985-86 for all public service and affected groups, other than local authorities;

- ii. I should take account of the assumption by reducing the public expenditure baseline for all selected programmes to reflect the difference between 3 per cent and 4 per cent;

- iii. there should be no formal announcement^A in advance of the Autumn Statement.