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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PAY FACTORS FOR REMAINING CASH LIMITS
Note by the Chancellor of the Exchequer

We announced in November that the pay factors in the cash limits for the Rate Support Grant and grants to universities in 1981-82 would provide for an increase in earnings of 6 per cent from due settlement dates. We also announced that the pay factors for other cash limits would be set within broadly the same financial disciplines. This has been generally interpreted by the press and public as meaning that they too will be set at 6 per cent.

2. Cabinet decided that the other cash limits should be set when operationally necessary (CC(80)40th conclusions).

(a) A decision is now needed for the National Health Service (NHS). This is discussed in the memorandum by the Secretary of State for Social Services E(81).

(b) A decision is needed for the Civil Service this week if the 1981-82 cash limits and Votes are to be published on Budget Day.

(c) A decision is also needed in respect of the Armed Forces for the purposes of the Defence Estimates, though special considerations apply in this case (see paragraph 8 below).

3. My view is that the appropriate pay factor in all these cases is 6 per cent. Public opinion expects this, and will regard any increase in it as clear evidence of a weakening in the Government's resolve. The offer to the local authority manual workers is no justification for such a weakening. On the contrary, the offer is consistent with the 6 per cent assumption, since the local authorities have indicated that forecast manpower savings are expected to offset the excess cost; there is no indication that they propose to meet the excess through the rates.

4. Higher increases would cost substantial sums. Each additional 1 per cent would cost some £70 million in the NHS and £50 million in the Civil Service.

5. Other arguments support this approach.

(a) A higher pay factor for the NHS and Civil Service would make it more difficult for the local authority employers to secure moderate settlements with other important groups, such as the school teachers, since any argument based on keeping the increase in the total local authority pay bill within 6 per cent would be seriously undermined.

(b) What would be misrepresented as the success of the local authority manual workers in forcing the Government to "abandon its 6 per cent policy" would encourage other public service unions to take a harder line in negotiation in the hope of further such "successes".

(c) The resolve of management to get low settlements in the private sector and the nationalised industries could well be undermined.

6. I accept that, for the reasons set out in the memorandum by the Secretary of State for Social Services, a 6 per cent cash limit may apply more harshly in the NHS (and Civil Service) than in local government. But that does not dispose of the

central argument that pay increases must be determined by what we can afford, and it is no easier for us to finance increases in the NHS or Civil Service than increases elsewhere. Besides, if the argument is accepted this year, it will be hard not to do so in others; and we cannot tolerate a situation in which the Government's policy on pay for its own staff is, in effect, determined by the local authorities.

7. I therefore propose that the NHS and Civil Service cash limits should be set on the basis of a 6 per cent increase in earnings from due settlement dates. Different increases for different groups would, of course, be permissible, but only within individual cash limits based on the 6 per cent factor.

8. For the Armed Forces, I propose that we should use the same figure for the purpose of provision in the Defence Estimates, but on the understanding that, as we have already agreed, the cash limit will be revised if necessary to accommodate the Government's decision on the recommendations of the Armed Forces Pay Review Body.

(G.H.)

HM TREASURY
12th January 1981