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E(79)33

7 September 1979

COPY NO. 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

FINANCING THE COST IN 1979-80 OF THE FIRST CLEGG REPORTS

Memorandum by the Chancellor of the Exchequer

When the first Clegg Reports were published on 1 August we undertook to implement the awards but stated that "it will be necessary to consider reductions in public expenditure to offset the cost". This note proposed the reductions that should be made in 1979-80. 1980-81 can be considered in October in the light of the new economic forecasts which will then be available.

2. The first Clegg reports covered the university manuals and technicians, the NHS ancillaries and ambulancemen and the local authority manuals. The budget arithmetic implicitly allowed 6-7 per cent for the cost of the Clegg awards for these groups. In fact the awards cost 11 per cent on average and the gap has to be bridged.

3. Offsetting reductions could theoretically be sought in unrelated programmes of expenditure. But, even if I were aware

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of other areas where further savings are available this year, I do not believe this would be the right approach. These costs must be borne where they fall for two fundamental reasons.

4. First, it is essential that the need to finance wage awards should be brought home as clearly as possible to both unions and management in the area concerned.
5. Second, Clegg identified improvements in efficiency and working practices, e.g. through elimination of manufactured overtime, that should be made for the pay groups covered by these reports. Such savings would offset, in part, the cost of the award. Clegg did not put a figure on these savings but he is thought to consider that they could be equivalent to 2 per cent of the pay bill. We should not provide finance to meet the awards without taking account of these savings. This is one way to put pressure on employers and employees to make the improvements Clegg described. Unions must not be led to expect high pay and restrictive practices.
6. Departments have now costed the Clegg awards and have made proposals on their financing. These are as follows (all figures are for Great Britain).

A. University technicians and manuals

7. The Clegg Report gave the technicians a 13 per cent interim increase and the manuals an increase of 5 per cent. The cost in 1979-80 is £4.5 million for the technicians and £1.8 million for the manuals (including the consequential of the local authority manuals). Clegg did not identify any particular improvements in working practice for these groups which might lead to savings in the cost of the awards.
8. Our predecessors' commitments on the universities cash limits left the universities to find the whole of the cost of the technicians' award within their existing cash limit but provided for the appropriate cash limits to be increased by £1.8 million to meet the cost of the manuals. In her letter of 5 September to the Chief Secretary, the Minister of State, Department of

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Education and Science, has pointed out that we have undertaken to honour these commitments. It means the universities have to find the bulk of the cost in this financial year.

9. The Minister of State has also pointed out that the awards for university technicians and manuals and for NHS ancillaries involve costs for the Research Councils. She proposes an increase of £0.2 million in the cash limits. As these cash limits total over £200 million I consider we should treat the costs as 'de minimum'.

B. NHS ancillaries and ambulancemen

10. Clegg gave the ancillaries an increase of 9 per cent and the ambulancemen over 20 per cent. The cost in 1979-80 is £27.4 million for ancillaries and £6.6 million for ambulancemen.

11. These figures make no allowance for improved efficiency. The Clegg Report draws attention to a number of undesirable practices in this area - bonus schemes, guaranteed overtime and the structure of the working week - and said that, with the implementation of its proposals, there would be no justification for their continuation.

12. The NHS management agree that these practices needed to be eliminated. There are suggestions that the savings would be particularly significant for the ambulancemen.

13. In his letter of 11 September to the Chief Secretary, the Secretary of State for Health and Social Security proposes that the NHS cash limit should be increased by the full cost of the awards with no allowance for improved efficiency because he considers that it will not be possible to bring about the improvements sufficiently quickly to achieve significant savings in 1979-80, because the £24 million of pay settlements already absorbed within the cash limit specifically related to the initial 9 per cent awards to these groups, because a failure to meet the costs in full would be seen as a breach of faith by the health authorities and because a further squeeze on cash limits may result in some

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authorities "throwing in the towel".

14. The health authorities were not asked to find the previous saving of £24 million specifically from manpower costs. Our undertaking to the health authorities was in relation to the "approved cost of settlements" which clearly means at most the cost after deducting efficiency savings. I believe we must put every pressure on NHS management to secure the identified improvements in efficiency.

15. For these reasons, and as a general contribution to expenditure restraint, I propose that the cost should be shared more or less equally by the Government and by the health authorities. On this basis the cash limit might be increased by £18 million and the authorities left to find the other £16 million from their existing allocations. This split leaves the authorities to find a reasonable assessment of the value of the Clegg efficiency savings and also to absorb their own proposal to consolidate existing pay supplements in implementing the award.

C. Local Authority Manuals

16. Clegg gave the manuals an increase of 11 per cent costing £90 million in 1979-80. The Rate Support Grant (RSG) cash limit for 1979-80 would be increased by £52 million if we were to decide to provide in full the standard RSG proportion for the cost.

17. As with the NHS, Clegg identified savings in efficiency in this area. Again these were not quantified.

18. Officials in the departments concerned have argued that we should pay the full £52 million of extra grant. They consider that it is unrealistic to expect any savings in 1979-80 from improved efficiency and that the pressure we have already put on local authorities to cut expenditure this year is giving them every incentive to make economies.

19. I consider that, as with the NHS, we must put every pressure

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on managers to secure the improvements in efficiency. Our predecessors undertook to increase the RSG cash limit in respect of the Government's share of the manuals' settlement. But I made it clear in the Budget Statement that, while we would take account of pay settlements in calculating the Increase Orders for RSG, a substantial reduction in the total so calculated would be made and that the figure of £335 million which I announced then "may have to be increased when we know the cost of further pay increases". Again the taxpayer should not pay for inefficiency and the unions must face up to the fact that higher pay requires higher productivity. I propose that we should increase the RSG abatement by £20 million for England and Wales and £3 million for Scotland. This would mean we would be paying £29 million of the cost rather than the £52 million and we would be looking to the local authorities to find the rest.

CONCLUSION

20. It is important that spending authorities should be informed as quickly as possible of the way in which the cost of these awards will be met. This is necessary to give them time to make whatever adjustments are necessary. If my proposals are agreed I suggest that I should issue a press statement on 14 September setting out our decisions.

21. In the light of the cost in 1979-80 of the first Clegg Reports I invite the Committee to agree that I should issue a press statement on 14 September recording that:

- (i) relevant education cash limits be increased by £1.8 million to meet the cost of the award to the manuals but no increase be made to meet the cost of the award to the technicians;
- (ii) the health service cash limits be increased to meet £18 million of the cost of the award to the ancillaries and ambulancemen;
- (iii) the across-the-board reduction in RSG should be increased from £335 million to £358 million (£320 million

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England and Wales and £38 million Scotland) in response to the award to the local authority manuals;

- (iv) the balance of the cost is to be met by spending authorities through offsetting savings including the improvements in efficiency and working practices identified by Clegg.

(G.H.)

HM TREASURY
7 September 1979

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