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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

18 April 1980

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TO: ALL MINISTERS

MG

PRIME MINISTER

CENTRAL GOVERNMENT PAY

I attach a summary of the Chancellor's notes in explanation of the increases in Central Government pay, together with background notes on the 1980-81 pay settlement.

We have asked for a
fuller note on the exact
relationship between the
"catching up" component and the "new

MS
18/4

money" component
in public sector
pay.

MS
(*N/S said no need to chase*)

Angus Maude

ANGUS MAUDE

CENTRAL GOVERNMENT PAY

Following recent sessions of the Treasury and Civil Service Committee, attention has been directed to the expected increase of 25% between 1979/80 and 1980-81 in central government pay.

This covers broadly the civil service, the national health service and the armed forces. The corresponding figure for the whole of the public services, including local authority employees, is 23%

There seems to have been some misunderstanding of the nature of these figures.

The figures of 25% and 23% are not the expected level of public service pay settlements. On the contrary, the cash limits on central government expenditure provide for an annual increase in the pay bill of 14% through new settlements from their due settlement dates. The rate support grants and transport supplementary grants provide for a 13% increase in local authorities' costs between 1979-80 and 1980-81 for price increases and new pay awards from due settlement dates.

The Government's general policy is that the cost of new settlements must be contained within these provisions. In the civil service the settlement is being accompanied by economies in manpower costs.

The remaining increase in the public service and central government pay bills in 1980-81 arises because the previous Government decided that 'catching up' awards in

/the last ...

the last pay round should be paid not from the due settlement dates but in stages through 1979-80 and 1980-81.

This approach was applied to a very wide range of public service employees, including civil servants, local authority administrative and manual staff, health service ancillaries, nurses, ambulancemen and teachers. The awards resulting from the work of the Clegg Commission and other comparability procedures have been large, as on previous occasions when 'catching up' settlements have followed a period of incomes policy.

Because some stages of the awards were not paid until the latter part of 1979-80, or in some cases not until 1980-81, the full annual cost of these awards was not reflected in the pay bill for 1979-80. It was delayed until 1980-81.

Together with the changes in staff numbers set out in the Public Expenditure White Paper (Cmnd 7841) this delayed cost represents the difference between the figure of 25% for central government pay and the 14% provision for the new pay awards. It accounts for about one-third of the increase in central government and other public service pay bills between 1979-80 and 1980-81.

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18 April 1980

BACKGROUND NOTES

1. Mr Channon has announced that the civil service pay award will increase existing rates of pay by some 18 $\frac{3}{4}$ %. This is brought within the 14% civil service cash limit for 1980-81 by reducing manpower by some 2 $\frac{1}{2}$ % and by delaying implementing the award from 1 April to 7 May.

2. Figures have been given to the Treasury Select Committee suggesting that average settlement figures so far in this pay round are 18.5% for the private sector and 14% for the public sector. The figures (which are not normally released) were compiled from such information as was available to the Department of Employment (and which will already have been overtaken to some extent by new information). They cannot be compared directly with figures from the CBI data bank because of differences of coverage : in particular the CBI information relates primarily to pay settlements in manufacturing.

3. The earnings index published this week, includes the effects of a number of other factors including overtime, the pattern of back pay, staging of pay awards etc and does not provide a reliable guide to the rate of settlements.

4. None of these average figures is an indicator of any "going rate". Individual pay settlements must be based on a realistic assessment of what the organisation concerned can afford. The CBI data bank information suggests a wide range of settlements.

5. As the Chancellor said this week (16 April) "The speed at which inflation falls depends on a number of factors. One of the most important of these is pay bargaining. The more quickly pay bargainers adjust their expectations to the present and planned slowdown in the growth of money supply, the more quickly the short term inflation rate will come down".