

Ref: A04058

PRIME MINISTER

Cash Limit Factors

(C(81) 7)

BACKGROUND

The Ministerial Committee on Economic Strategy decided on 14 January that the pay factor for the 1981-82 cash limits for the Civil Service and for the National Health Service should be 7 per cent. Cabinet decided on 15 January that the price factor for the same groups should be 10 per cent. The Cabinet agreed that it would be preferable for neither of these factors to be announced before the end of January although they noted that there was a risk that the figures would leak in the course of preparation of the estimates. The Chancellor of the Exchequer was invited to consider this problem, and the timing of the announcement, further with those Ministers concerned with the current pay negotiations in the public sector. (C(81) 2nd Conclusions, Minute 4.)

2. In C(81) 7 the Chancellor reports the outcome of these discussions which failed to resolve the issue. In paragraph 3 he reports that the Lord President and the Secretary of State for Employment are against announcing 7 per cent now and presenting it as rigid. They want to negotiate from the starting point of 6 per cent and then move to a higher figure to accommodate a settlement. They do not want an announcement before about 20 February. The Chancellor rejects this view and invites the Cabinet to confirm the earlier decisions and to agree to his making a statement, on the lines of the draft annexed to his paper, on Monday 26 January.

3. Although the Chancellor does not refer to in his paper, his draft Statement, in the last sentence of paragraph 5, revives a policy decision taken at an earlier stage. The summary of policy decisions published in Hansard with the Chancellor's economic policy statement of 24 November 1980 (column 337) stated that 'the cash limits for the RSG and for the universities' grant will include allowance for increases in earnings of 6 per cent in annual settlements due before 1 August 1981, and also provisionally of the same amount for annual

settlements due after that date'. (My underlining.) It is therefore necessary to say now for the NHS, which includes groups with settlement dates from December, that the provision is for 7 per cent in the present round and, provisionally, for either 7 or 6 per cent for settlement in the next round but payable in 1981-82. (The same problem does not arise for the Civil Service where the pay year coincides with the financial year.) When this was last considered Ministers were disposed to defer a decision on the pay factor to apply for the next round, and thus to let the figure for this round be assumed to run on for the next round. In recommending the announcement of a provisional figure for the next round of 6 per cent, the Chancellor is in effect inviting the Cabinet to take a new decision: to say that, for present purposes, the assumption about the pay factor for the next round should not be the same as this round but should be 6 per cent.

HANDLING

4. I suggest that you divide the discussion into two parts. You will first wish to dispose of the question of whether the cash limit is flexible or whether the decisions taken so far stand. You might then go on to the question of the timing of the announcement.

5. After the Chancellor of the Exchequer has introduced his paper the Lord President and the Secretary of State for Employment will wish to explain why they want flexibility in the cash limit with no announcement until 20 February. There seem to be strong objections to this course -

- i. Cabinet has already decided on the factors after careful discussion.
- ii. As the Chancellor argues in his paragraph 5, to set cash limits to accommodate rather than to influence pay settlements is completely contrary to present policy, would destroy the discipline of the cash limit system, and would inevitably set a pattern for dealing with public sector pay groups generally, including the local authorities, next year.
- iii. The Estimates would have to be prepared using a pay factor of 6 per cent, and then there would have to be Supplementary Estimates with risks of leaks in the meantime.

iv. The Secretary of State for Social Services would be left in limbo for his negotiations with the NHS ancillaries whose settlement date was last December.

6. We are in this difficulty because the pay factor for cash limits has to be decided and announced before the pay negotiations for the groups concerned, and thus virtually destroys the freedom of negotiating manoeuvre: the unions will expect an offer not less than the cash limit, and management cannot afford to offer significantly more. It is not easy to see how this can be avoided unless either the effective date of pay increases is brought on to a common date of 1 January, or the completion of the Estimates can be delayed until after pay settlements have been reached. It could be that, while Cabinet reject any change in the arrangements for the current pay round, they see sufficient force in the doubts expressed by the Lord President and the Secretary of State for Employment to justify a further look at the arrangements for the next round. If so, this could be taken on board by the Chancellor of the Exchequer in the paper which E Committee invited him to prepare on 16 October on the longer term options for determining Civil Service pay (E(80) 37th Meeting, Item 4), though the remit would have to be extended to cover other public services, so far as this problem is concerned.

7. If Cabinet confirm that the cash limits are not negotiable, and that the factors for the remaining limits are 7 and 10 per cent, the next question is when those factors should be announced. The case for a statement on Monday 26 January, as proposed by the Chancellor, is -

i. It deals with the problem of leaks and allows for publication of the Estimates on 10 March without a need for Supplementary Estimates.

ii. It would suit the Secretary of State for Social Services who wants to give a firm figure to the NHS management side for their pay negotiations opening on 28 January.

iii. It has some advantages for the Civil Service pay negotiations - it could take some of the wind out of the sails of the militants at the special conferences beginning on 28 January; and it could be better to announce the decision now rather than to appear to be bowing to union pressure later on.

8. But is it really necessary to make an announcement? If no announcement is made, the NHS management side can be given instructions which enable them to start at 6 per cent and go up to $7\frac{1}{2}$ per cent, without specifying a pay factor for cash limits. No doubt instructions have to go out for the preparation of Estimates: but how long can that be postponed? Can the instructions be given on a basis which suggests that the figure is still provisional - or even on the basis of two figures at this stage, both 6 and 7 per cent, so that no conclusions can be drawn? Is it intolerable if there is no announcement and the figures do emerge in the first instance by way of leak?

9. You will wish to hear the views of the Lord President and the Secretary of State for Social Services on all these points and also -

- i. to ask the Secretary of State for the Environment whether there is any risk that an announcement on 26 January could upset the expected endorsement on 27 January by the local authority manuals of their $7\frac{1}{2}$ per cent settlement, and
- ii. to ask the Secretary of State for Education whether the timing raises any problems for pay negotiations for his groups.

I understand that at official level the timing is acceptable to the DOE and DES.

10. Finally you will need to deal with the reference in paragraph 5 of the draft announcement to the provisional factor of 6 per cent for next year. Given what was said previously (see paragraph 3 above) there seems no avoiding such a statement, but the Secretary of State for Social Services and other Ministers will wish to give their views on whether it should be provisionally 6 or 7 per cent.

CONCLUSIONS

11. In the light of the discussion you will wish to record conclusions with reference to paragraph 10 of the Chancellor of the Exchequer's paper -

- i. Either confirming the earlier decisions for factors of 7 and 10 per cent for the remaining cash limits or agreeing that they should be flexible.



ii. If appropriate, inviting the Chancellor of the Exchequer to take account of any general points in the longer term paper which he is due to produce (see paragraph 6 above).

iii. Deciding whether there should be a statement; if so, whether the statement should be on Monday 26 January, and, if not, when it should be; and whether the draft annexed to C(81) 7 is acceptable.

iv. Specifically agreeing on whether the provisional pay factor to be announced for next year should be 6 per cent, as proposed by the Chancellor, or 7 per cent as this year (see paragraph 10 above).

ROBERT ARMSTRONG

(Approved by Si. R. Armstrong and signed on his behalf.)

21 January 1981