

Ref. A05497

PRIME MINISTER

Cash Factors for Public Expenditure Survey

C(81) 44 and 45 and the Secretary of State
for the Environment's letter of 11 September
to the Chancellor of the Exchequer

BACKGROUND

4-9.

In C(81) 45 the Chancellor of the Exchequer recommends that the programme totals shown for 1982-83 in the last Public Expenditure White Paper should now be converted to cash using a factor of 4 per cent for earnings, from due settlement dates from now on, and of 9 per cent for other costs. The resulting totals will provide the base-line against which possible cuts and additional bids will be considered in the Cabinet's public expenditure discussions starting on 20 October and running into November. The overall totals for 1982-83 will be very similar to those arrived at by using the earlier provisional factor of 7 per cent for all costs, but there will be differences in the distribution between manpower intensive programmes and others, and this justifies the use of separate factors for pay and other costs. The Chancellor sees no need at present to change the present general inflation assumptions of 6 and 5 per cent for 1983-84 and 1984-85.

2. If the Cabinet approves these proposals on Tuesday morning, the Chancellor of the Exchequer wishes to issue that afternoon the draft press notice annexed to his paper. He wants to move very quickly to avoid misleading leaks and to get home the message that 4 per cent does not represent a pay norm.

All else later

3. The Chancellor of the Exchequer will be very keen to reach firm decisions on Tuesday. He will be abroad by the time of the next Cabinet meeting on 24 September, and he would not wish to leave for resolution then any major questions about either of the factors. Any delay beyond 24 September would put the whole timetable in jeopardy: until the base-lines are established the Treasury and spending Departments cannot take a final view on what is the level of additional bids at issue.

4. As explained in his paragraph 4, the Chancellor of the Exchequer wishes to leave until the October/November discussions any additional bids which particular Departments might put forward on the grounds that either the pay or the other costs factor is inadequate for their particular programme. Whatever the prospective merits of such bids Treasury Ministers will want to look at them altogether, and alongside other additional bids, rather than to take decisions piecemeal.

7/185. 5. In C(81) 44 the Secretary of State for Social Services proposes that while the National Health Service (NHS) should be subject to the general pay factor of 4 per cent, some additional money should be provided for the pay of certain staff groups (he mentions the nurses, doctors and dentists and 'a very small number of smaller staff groups') directly concerned with patient care where particular service problems arise. His case is that, in contrast with the Civil Service and the local authorities, staff numbers cannot fall in these groups, unless pledges on services are to be broken, and so there is no flexibility for savings which would enable him to negotiate higher settlements than 4 per cent if that were necessary. To provide flexibility, he proposes that some additional but unquantified amount of cash should be made available when the overall cash provision for the NHS is settled later in the autumn. In this way he would hope to avoid a confrontation which could be very difficult for the Government to win, particularly in the case of the nurses.

6. The Chancellor of the Exchequer is likely to argue that, while there may well be force in this argument, the bid for extra cash should be resolved in October/November alongside all the other additional bids. There is no apparent need to take a decision now, since the Secretary of State for Social Services does not want to announce it before he announces the size of the overall NHS cash provision; there is no basis for a firm decision now because the Secretary of State has not quantified his bid, argued his case in detail, or specified all the groups to which the concession might apply.

7. In his letter of 11 September to the Chancellor, the Secretary of State for the Environment returns to the unresolved question of whether, in calculating the cash totals for local authority expenditure, the Government should also allow for ('validate') the 3 per cent by which increases in the prices and wages paid by local authorities during 1981-82 have outrun the 1981-82 cash limit factors. In addition to allowing them this 3 per cent he now wants to let them off 2 per cent of the 4 per cent volume reduction they are currently facing. He believes - and other local authority Ministers will probably support him - that without such concessions the total cuts demanded of the local authorities will be unrealistic; until this question is resolved the local authorities will not know where they are in making their plans for budgets, rates and pay settlements. The Chancellor of the Exchequer (paragraph 4 of his paper) argues that the money necessary to validate in this way is an additional bid which should be considered with other additional bids in October/November; the further 2 per cent volume concession which the Secretary of State for the Environment is now proposing, and which has not been discussed with the Treasury, would normally be considered at the same time. Cabinet will have had little time to consider the detailed case now made by the Secretary of State and you may wish either to defer discussion of it until October/November or possibly to ask the Chief Secretary to put in a paper in time for discussion by Cabinet on 24 September. In the meantime the Secretary of State would have to tell the local government representatives at the Consultative Council meeting on 17 September that this question was under consideration.

8. The discussion could open up some general points on pay in the coming round. The only major alternative approach which has been canvassed is that suggested by the Secretary of State for the Environment whereby the unions would be offered the prospect of enhanced capital investment, and so employment, in return for nil or negligible pay increases in the coming round. He won no support for this either in Cabinet's discussion on 23 July or on 7 September in your meeting on the pay of the nationalised industries. Other Ministers doubt whether the unions would respond - and the discussions at the TUC Conference this week reinforce their doubts - and they point to the impracticability and unfairness of the Secretary of State's idea that excessive settlements by one group, such as the miners, should be financed by abating the indexation of benefits or tax threshold.

*Rev. P. ...
- Sub. ...*

Other more limited points on the approach to pay settlements in the coming year may also be raised - for example, the implications of the 4 per cent factor for the work of the various Review Bodies. These could be followed up either in the Chancellor of the Exchequer's Sub-Committee on Public Service Pay (E(PSP)) or, possibly, in the further discussions which will no doubt follow the report which the CPRS will be putting to you very shortly on pay questions.

HANDLING

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10. After the Chancellor of the Exchequer has introduced his paper you will wish to hear in particular the views of the Ministers responsible for the major ④ expenditure programmes and the main ② public service pay groups ; the Lord President of the Council and the Secretaries of State for the Environment, Social Services, ③ Education and Defence. The Secretary of State for Employment ⑤ will want to give his general views on the implications for pay bargaining of the proposed factors. Before dealing with the proposals for exceptions, you might prefer to establish whether there is agreement on the two figures and on the press statement. The main questions which you will wish to cover seem to be as follows -

11. Are the two figures of 4 and 9 per cent acceptable?

- Although separate factors of 4 and 9 will bring home very sharply the message that, for the public services at least, the prospect is of a fall in living standards in real terms, the case for two factors rather than a 7 per cent average seems overwhelming if there is to be a fair and defensible distribution between the various programmes.
- Anything higher than 4 per cent for pay would be highly unwelcome to the CBI who are looking for a range of 4-8 per cent in the private sector and will not want their own floor raised.
- 9 per cent for other costs compares with the Treasury's present internal forecasts of about 10 per cent for the RPI in this period and represents a rounding down of the $9\frac{1}{2}$ per cent which they judge to be the likely average price increases for Government spending.



12. Is the press statement annexed to C(81) 45 acceptable?

- Paragraphs 4 and 5 make clear that there is flexibility in the system and that the Government's approach is therefore consistent with its assurances to the Civil Service unions of negotiations on the 1982 non-industrial settlement without a predetermined limit on the cost.
- You can ask the Chancellor of the Exchequer to arrange for his officials and those of the other Departments concerned to sort out over lunch-time any drafting points which might be made so that, subject to his approval, the statement could issue later in the afternoon. The Treasury are in touch with the other main departments on supplementary briefing, both generally and for particular pay groups.

13. Should the exception for the NHS, and any other exceptions, be accepted at this stage?

- Given the lack of quantification in his proposal, the best that the Secretary of State for Social Services can expect seems to be agreement that Ministers should look sympathetically at his proposals at a later stage. There might be a case for E(PSP) looking at the details in terms of pay policy before a final decision on the amounts, if any, of any additional cash for the NHS is taken by the Cabinet in the autumn.
- In response to the Secretary of State for the Environment's proposal for the treatment of local authority expenditure you might ask the Chief Secretary, Treasury whether it would be possible for him to put forward proposals on this question for discussion by Cabinet on 24 September (indeed there might be some advantage in getting this question out of the way before 20 October when there will be more than enough other issues for the Cabinet to consider). This should not necessitate postponing the announcement on Tuesday 15 September of the two factors for 1982-83.

CONCLUSIONS

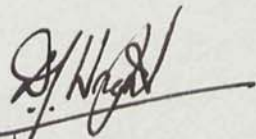
14. You will wish to sum up the discussion with reference to the three recommendations in paragraph 24 of the Chancellor of the Exchequer's paper, C(81) 45 -

- i. the two factors
- ii. the press statement
- iii. the deferment until October of decisions on additional bids to allow for exceptional increases, on pay or prices grounds, for particular programmes.

In summing up on iii. you will wish -

- a. with reference to the Secretary of State for Social Services' proposals, either to defer the decision until October/November or to agree in principle now, subject to working out the details ~~later~~ later or to agree to look sympathetically at the proposals subject, perhaps, to further work in the meantime on the details by E(PSP).
- b. In response to the Secretary of State for the Environment's proposals for local authority expenditure, you will wish either to defer the decision until October/November or to invite the Chief Secretary to make proposals in time for discussion by Cabinet on 24 September.

You will wish to take note of any general points which are made on the approach to pay negotiations in the coming year and, where appropriate, to agree that they might be pursued further either by E(PSP) or, perhaps, in the context of the further discussions following the CPRS report.


ROBERT ARMSTRONG

*(Approved by Sir R Armstrong
and signed on his
behalf)*

11 September 1981