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PRIME MINISTER

CABINET: CASH FACTORS FOR THE PUBLIC EXPENDITURE SURVEY

You asked the Chancellor last week to consider whether a 3% pay factor would be better than 4%, and he has confirmed his preference for 4%. This makes it all the more important that the figure is not increased in response to general or particular pressure from colleagues responsible for public service groups.

Whatever pay factor is chosen will be threatened by special pleading. It is a feature of the present cash limit approach to public service pay that every group is a potential exception: the civil servants have arbitration; the teachers will want arbitration back; Patrick Jenkin wants special treatment for doctors and nurses; Michael Heseltine wants local authority employees' pay to start from a higher base than last year's cash limit allowed; policemen and firemen have indexation; and the armed forces will expect continued favourable treatment at the hands of the AFPRB. 4% plus special treatment, plus wage drift, would produce an outturn no better than last year's, which would be incompatible with the Government's wider objectives. It is important that Cabinet avoid exceptions, at least at this stage when we want to make maximum impact on the private sector with an announcement of the 4%.

The CPRS Report

Few of your colleagues will have been able to do more than glance at the CPRS report on pay; they may, however, have noted that in general the CPRS see no alternative to the present approach, and that they think it would be wrong to set the pay factor unrealistically low. The report, however, and especially section 2.5, does contain some points which are relevant to the special cases which Cabinet will be discussing.

Review Bodies

Cabinet will be in no position to take decisions on the future of the review bodies; but a very important presentational issue arises. The press briefing prepared by the Treasury presumes that the review bodies will report before the Government

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decides what to do with their recommendations, whereas, at least in the cases of the DDRB and the AFPRB, it may be necessary to ask them not to report, or at the very least to restrict their terms of reference. Thus, Patrick Jenkin suggests that the DDRB will have to tailor their recommendations to the cash limit; and the CPRS report (para. 54) argues strongly for an end to comparability for the uniformed services. Indeed, it is hard to see how cash limits on the Pay Bill and independent review bodies can continue to co-exist. So Cabinet ought to:

← (a) authorise the Chancellor to take the line that the position of the review bodies will be considered separately, and later; and

← (b) ask E(PSP) to look at the position urgently, on the basis of further work by officials.

The Health Service

^{x para 48(iii)} Patrick Jenkin says he is not seeking a special NHS pay factor, greater than the general pay factor, but that there should be "special treatment for a limited number of staff groups", notably the nurses and doctors. The CPRS report - unhelpfully - does suggest^x that the NHS pay provision should be 1% higher than the general pay factor. I think that either of these approaches would be wrong, especially if an indication were given now that the 4% pay factor would not in some way apply to these large groups. The case for special treatment of doctors and nurses is not clear: doctors are by any standards a well paid group, with many opportunities to enhance their pay, both through favourable tax treatment and through private practice; nurses are by no means a limited case: there are almost as many nurses and midwives (over 500,000) as civil servants, and market factors should apply to their pay as to anyone else's. If the inflexibility of the NHS pay factor is thought to pose a problem, which I doubt, then Cabinet should refer the matter to E(PSP) for separate and later consideration on the basis of an analysis by officials.

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Local Authority Employees

The position here, as outlined in Michael Heseltine's letter of 11 September to the Chancellor, is complicated by the way in which local authority employees extracted a 7½% pay rise from a 6% cash limit, and at the same time failed to reduce their manpower proportionately. Michael Heseltine argues that since as a consequence their pay is 2½% above the planning level used last year, a 4% pay factor would enable pay increases of only 1½% unless their pay is re-based, or "validated". The question of whether or not to validate in this way is not an integral part of the decision to be taken on pay factors, and should clearly be considered later and separately by officials, and perhaps E(PSP). If Michael Heseltine presses the point, quite a strong case can be made against his proposal, on the grounds that to open the pay round with a 1½% offer would not be inconsistent with the current climate in the private sector (viz, for instance, Hoover's offer of a 10% reduction and a subsequent pay freeze until 1985); and the lesson that those who managed to get more last year will have to give it up this year will be a useful one generally. That, of course, would have to be balanced against the likelihood of industrial action by the local authority manuals.

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