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CABINET

PUBLIC SERVICE PAY AND PUBLIC EXPENDITURE
IN 1983-84

Memorandum by the Chief Secretary, Treasury

1. We need now to decide how to deal with public service pay in finalising the public expenditure plans for 1983-84. In the Ministerial Committee on Economic Strategy on 1 July (E(82) 17th Meeting, Item 1) we agreed that the aim must be to seek a lower level of settlements throughout the economy in the next pay round. The question of a pay assumption for the public services was left for further consideration at the end of September.

2. Our plans already contain provision for inflation, covering both pay and prices, of 6 per cent. That is public knowledge. We now have to make an explicit assumption about pay, as we did last year, to provide a firm basis for our public expenditure discussions and subsequently for the preparation of Estimates. The assumption will have to be disclosed when the plans are published in late November or early December. There has already been Press speculation. Doing nothing would be taken to imply 6 per cent for pay, and that would of course be extremely damaging.

GIVING A LEAD: THE QUESTION OF ANNOUNCEMENT

3. What we do, and the manner in which it becomes known or is announced, will have an impact on the private sector and produce a political reaction from the unions concerned.

4. For 1982-83, we used a general pay factor of 4 per cent, applied to all the public services, and announced it in September. In the circumstances of the last pay round, this had a moderating effect on public service pay settlements, and gave a useful signal to the rest of the economy.

5. The next pay round will begin against a different background. Inflation is coming down rapidly. Some unions are in a less militant mood. But earnings in the public services have been falling behind, and there are mounting pressures for some "catching up". The two biggest Civil Service unions have conferences in December, at which militants would welcome the chance to interpret any announcement as provocation and prejudicial to the discussion of Megaw. A specific early announcement would undoubtedly be interpreted in that sense.

6. Moreover, for our expenditure planning we need a figure which is both credible and tenable. This may make it less useful this year as a signal to the private sector. It is for this reason that the Confederation of British Industry (CBI) only favour an early quantified signal if it is lower than last year's.

7. For these reasons the Chancellor and I have concluded against a formal announcement until late November or early December when we shall have a batch of post-survey announcements to make. This will still be before the union conferences. But it would be the natural time to disclose this among other assumptions embodied in the plans then announced. If it leaked before then, as must be expected, this may be no bad thing. It would enable us to give a lead without appearing to throw down a gauntlet to the unions.

PROPOSED DECISION

8. I propose, therefore, that we decide a single general assumption for the provision in our expenditure plans, and Estimates, for pay increases (from due settlement dates) in 1983-84 for the Civil Service, Armed Forces and other public service groups, but that we should not announce this until *late* ~~the Autumn Statement~~ ^{or early December}. We have to leave the National Health Service on one side for the time being, until the present dispute is settled. There is no need to make any assumption for the local authorities. The July statements about local authority current expenditure and the Rate Support Grant (RSG) were made without reference to pay. But we can say if necessary that our assumption is consistent with the provision, for local authorities.

THE NUMBER

9. Any figure higher than this year's 4 per cent would be inconsistent with the aim of pay settlements lower than last year.

10. With inflation coming down, 4 per cent would be more generous in real terms than the same figure last year and might be seen as 'easing up'. Certainly, the unions will regard it as a floor for negotiations. This year the average settlement was about 6 per cent. If we choose 4 per cent again, it will be crucial to stress that we are nevertheless seeking a much lower level of settlements next year.

11. A lower figure - perhaps 3 per cent - would point more strongly to a reduction in the level of settlements and be welcome to the CBI and others on that account. This is of course a very considerable advantage. The danger is that it would be too low to carry conviction, would therefore be of less value as a signal, and would provoke unhelpful confrontation with the unions concerned. And because it would not be credible, and in the end not tenable, its value as a constraining influence in our expenditure planning would be much weakened.

12. This is a choice which colleagues will wish to discuss. On balance my own conclusion is in favour of 4 per cent, as the lowest figure which can be presented as realistic. But the need for settlements lower than in the current year must be stressed.

13. When we come to announce or explain this assumption, we should present it as before, not as a forecast, nor as a decision on the offer to be made in any individual case, but as the provision we are making in our cash plans and Estimates for the various programmes. It does not rule out settlements higher, or lower, than 4 per cent; but it does imply a presumption that the additional costs of any higher settlement would be found from within existing provisions, by reducing numbers or by other economies. Recourse to the Contingency Reserve is not necessarily excluded; but equally there is no presumption that it will be allowed.

EFFECT ON PUBLIC EXPENDITURE

14. I shall take account of the effects of this new assumption about public service pay, and of the latest forecast of prices, in the proposals about public expenditure which I shall be putting to Cabinet shortly. The figures for local authority current expenditure will not be affected.

LATER YEARS

15. We do not need at present to make any specific assumptions about public service pay in 1984-85 and later years.

CONCLUSION

16. I propose that:-

- i. for the cash plans and Supply Estimates we use a single general assumption for increases in pay in 1983-84 of 4 per cent for public service groups apart from the National Health Service (about whom a decision should be deferred). If necessary, we can say that this is consistent with the proposals already announced for local authority current expenditure and the RSG settlements;
- ii. this decision should not be formally announced until late November or early December;
- iii. without delay we should take every opportunity to stress the need for settlements in the coming year to be much lower than those in the past year;
- iv. I should take account of the assumption as appropriate, programme by programme, in making my proposals to Cabinet next month about public expenditure.

L B

Treasury Chambers

23 September 1982