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CABINET

PUBLIC SERVICE PAY AND PUBLIC EXPENDITURE IN 1984-85

Note by the Chief Secretary, Treasury

We need to decide how to deal with public service Pay before finalising the public expenditure plans for 1984-85. I promised to come forward with further proposals in my July paper C(83) 23.

2. As last year, we have to make an explicit assumption about increases in pay rates to provide a firm basis for our public expenditure discussions, and subsequently for the preparation of Estimates. Whether we wish it or not, our decision will be treated as a signal of our intentions for the next pay round in the public sector and of our hopes for pay increases more generally.

THE NUMBER

3. For 1983-84 we used a figure of 3½ per cent. For 1982-83 it was 4 per cent and for 1981-82, 6 per cent. I propose that for 1984-85 we use a figure of 3 per cent.

4. A lower figure would point more strongly to a reduction in the level of settlements. But with inflation running at 4.2 per cent and generally expected to rise modestly over the next few months, it would risk being neither credible nor sustainable. If not tenable, its value as a constraining influence on the expenditure plans would be much weakened.

5. Anything more than 3 per cent, on the other hand, would be taken as implying that we were expecting a level of settlements much the same as this year, which is not the message we want to get across. The unions are bound to treat whatever figure we choose as a floor. They and others will be well aware that in each of the last three years public service settlements have been between 1½ and 2 per cent higher than the pay assumption used.

6. The choice of a pay assumption for 1984-85 is not directly affected by the proposals on public service pensions in C(83) 30 which we are also discussing of 15 September (though quick progress on those proposals could affect the climate for pay bargaining next year).

APPLICATION

7. The assumption determines the provision made in the aggregate pay bill for 1984-85 and later years for increases in pay rates and allowances deriving from settlements between now and 31 March 1985. This

is not, of course, the same as the increase in the pay bill in 1984-85 compared with this year, which will also be affected by changes in numbers, grade structure and other similar factors. The assumption will be applied to the provision for pay in our expenditure plans, and in the Estimates, for all public service groups including the armed forces and health service, and to the universities and other expenditure treated in this way last year, but not to the local authorities. There is no operational need to make any assumption for the local authorities, since decisions have already been announced about the provision for their current expenditure in 1984-85. We can say if necessary that our assumption is consistent with this. Nor, as last year, does the assumption apply to the nationalised industries (though we will need to stress here also the need for settlements lower than in the current year and set External Financing Limits accordingly).

EFFECT ON PUBLIC EXPENDITURE

8. I shall take account of the effects of this new assumption about pay in the proposals about public expenditure which I shall be putting to Cabinet shortly. Our published plans implicitly contain provision for inflation, both pay and prices, of 5 per cent made during the move to cash in the 1981 survey. We will therefore immediately reduce the Public Expenditure Survey baseline for programmes containing public service pay (other than local authorities) by the difference between 5 per cent and 3 per cent for all forward years. The figures for local authority current expenditure will not be affected. The reduction in the baseline will produce savings of about £400 million a year.

ANNOUNCEMENT

9. Our decision will need to be widely disseminated for operational reasons, and we will have to accept that it will become public knowledge. I propose therefore that we should announce it immediately.

10. When we do, we should present it as before not as a decision determining any individual settlement, but as the provision we are making in our cash plans. It will not rule out settlements higher, or lower, than 3 per cent. But, as in previous years, it does imply a presumption that the additional costs of any higher settlement will be found from within existing provisions. We cannot at this stage say that recourse to the Contingency Reserve is excluded. But certainly there is no presumption that it will be allowed.

CONCLUSION

11. I propose that:

i. For the cash loans and Supply Estimates we should use a single general assumption for increases in pay rates affecting 1984-85 of 3 per cent for all public service and other affected groups apart from the local authorities.

ii. This decision should be announced immediately.

iii. I shall take account of the assumption by reducing the public expenditure baseline for all affected programmes to reflect the difference between 3 per cent and 5 per cent.

P R

Treasury Chambers

9 September 1983

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