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Civil Service Pay

Ref. A03237

PRIME MINISTER

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Public Service Pay in the 1980-81 Pay Round

(E(80) 118)

BACKGROUND

Without suggesting actual numbers at this stage - they are for Cabinet on 30th October - the Chancellor of the Exchequer is seeking in this paper to obtain assent in principle to the main elements which will determine the negotiation, and the financing, of public service pay settlements in the next 12 months. The style is bland, the objectives are unexceptionable, and there are no figures; but the subject matter is potentially explosive. Colleagues are not likely to be prepared to give the Chancellor assent in principle to most of his propositions without further and more specific consideration of their implications. Nevertheless it will be salutary, as a ground-clearing operation, to work through the conclusions set out in paragraph 11 of his paper and collect comments on them. Points which might arise on each are:-

→ 11(a): Cash limits "well down into single figures". Colleagues are unlikely to object to "single figures" but will want to see the colour of the Chancellor's money before assenting to "well down". Some (e.g. the Lord President) are likely to be concerned at the base-line from which the percentage applies (conclusions 11(b) and (c)) and others will remember that the report of the Scott Committee on public services pension contributions is imminent. Taken together it is not inconceivable that these two factors might reduce say an 8 per cent cash limit to a 4 per cent increase in take-home pay - and thus imply a cut in real wages approaching 10 per cent when set against the likely movement in the RPI.

✓ — 11(b): Staging to be dealt with as proposed in E(80) 71 and avoided from now on. Colleagues may not object to this proposal in principle - it reflects the battering the Chancellor had this year at the hands of the

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Treasury and Civil Service Select Committee over Civil Service pay - but it would remove from the negotiating armoury one means by which a pay settlement above the cash limit guidelines can be reconciled with those limits. Some colleagues might also ask about the implications of such a principle on the pay settlement for MPs and Ministers due next June.

11(c): The overhang of staging from the 1979-80 pay round. This is a specific facet of the principle in 11(b). The Chancellor suggests in paragraph 6(a) of his paper that some flexibility may be needed. He must be right, not only because of the difficulty of negotiating against tight cash limits further constrained in this way but also because, strictly applied, university teachers would presumably get no pay increase at all next year. He might be asked to make specific proposals so that the Committee can properly judge the implications of the proposal.

11(d): Impact of this year's pay settlements on next year's cash limits. This proposal reflects the awkwardness that individual pay years and financial years do not always coincide. The Home Secretary might well ask about the implications of the Chancellor's dictum for the financing of the police pay settlement reached this September. The answer may be that police expenditure is covered as to 50 per cent by specific Exchequer grants not subject to cash limits; but another 11 per cent is covered by RSG, and local authorities have to find the balance out of rate revenue. Are local authorities next year supposed to finance this September's pay award to the police at the expense of other services? And will it be necessary next year to abandon the present arrangements for indexing police pay?

11(e): Adopt provisional pay assumptions relating to the 1981-82 pay round, i. e. for FY 1982-83. This proposal goes to the heart of the argument which will emerge under Items 3 and 4 of the agenda. The Chancellor is in effect saying that for at least the next two years public service pay must be determined by financial needs rather than by market forces. The Lord President and others will challenge this. The basis of the challenge will be that unless pay in the private commercial and service

sectors falls in a parallel way - and there is no reason to suppose that it will - there will be a growing disparity between the pay of public servants and that of their peers. In this situation there could well be industrial action and a major catching-up exercise in two or three years' time. Moreover, it will be argued, the Chancellor's concept here of a declining cash limit for public service pay over the years ahead is incompatible with the options for longer-term arrangements for Civil Service pay set out in E(80) 115 which themselves derive from the Chancellor's own options in his July paper E(80) 71. And in that paper the Chancellor argued against seeking to establish public service pay simply by reference to tough cash limits (it would, he said, play into the hands of the militants and lead to demands that the unions should "participate in the decisions about the level of the pay element in cash limits which is where the crucial decisions would lie"). This does not mean that the Government cannot get away with a tough cash-limited settlement next year (though something will depend upon what promises they are able to make for the future), but the Lord President and others will argue that the usefulness of the cash limit as a determinant of pay is almost played out, that keeping the lid on will become increasingly difficult, and that after next year pay settlements will inevitably, by one means or another, determine cash limits.

11(f): Changes in the arrangements for arbitration. This issue will be discussed in greater detail under the next item on the agenda.

Colleagues can be expected to point to the difficulties. The Chancellor will no doubt argue that the prize is large - as he says in the first paragraph of his paper, each 1 per cent off public services pay would save nearly £300 million in FY 1981-82. But a glance at the annex to his paper shows that that prize will be very difficult to attain. Half of the public servants concerned are local government employees with either negotiated or statutory rights to arbitration (plus, in the case of the police, specific Government pledges). And of the Government's direct employees, half again are in the National Health Service and a

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substantial number in the Armed Forces. With the exception of the Doctors and Dentists Review Body, most of the National Health Service employees do not have a right to arbitration but, in the case of the nurses, enjoy both public sympathy and the benefit of promises of protection against the erosion of their pay. The Armed Forces have the protection both of the Review Body and of Government pledges. The residue, the Civil Service proper, have an arbitration agreement with the Government which in form guarantees unilateral access to binding arbitration - though the Government has frequently ignored it. Thus the Chancellor's £300 million could turn out to be a mirage unless the Government is prepared and able to be very tough indeed.

11(g): Override the Review Bodies. The Government successfully overrode the TSRB recommendations this year and could no doubt continue to do so, except perhaps in the case of MPs. But overriding the Armed Forces and Doctors and Dentists Review Body recommendations presents political problems of a wholly different order.

11(h): Announcements "relating to the above" should be made on 19th November. No problem is likely to arise here unless the Chancellor envisages the announcement extending beyond the cash limit factors into the areas of Review Bodies, arbitration and future pay determination in the public services generally. He should be asked about his intentions.

## HANDLING

2. You might call on the Chancellor of the Exchequer to introduce his paper and then take the Committee seriatim through the conclusions in paragraph 11.

## CONCLUSIONS

3. If the Chancellor's paper arouses strong opposition, the sensible main conclusion may be simply to note it and agree to return to the issues at a subsequent meeting. Additionally it may be possible to record specific agreement on some points, for or against the Chancellor's proposals, and, where appropriate, to ask for further papers (e.g. the Chancellor could be asked to bring forward specific proposals for dealing with the "overhang of staging" referred to in conclusion 11(c)).



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15th October, 1980