

PRIME MINISTER

PUBLIC SERVICE PAY AND PUBLIC EXPENDITURE IN 1984-85

Flag A+ I have seen the Chief Secretary's paper (C(83)31) about the pay assumption to be used for 1984-85 in settling our public expenditure plans for that year. As I will not be present at that discussion may I put a few thoughts to you. They essentially revolve around the second paragraph of the Chief Secretary's paper which says that "we have to make an explicit assumption about increases in pay rates" as part of the public expenditure discussion.

← This assumption is questionable. It is true that up to a few years back we had to make an autumn assumption about pay in order to settle rate support grant. It is also true that in the period of our major, and successful, efforts to reduce the rate of inflation there was also a very strong case for publicly demonstrating our will to reduce the level of pay settlements generally and for giving a lead. The RSG argument no longer applies and the "lead" argument is a good deal less strong than it was - not least because the private sector is much more market responsive in terms of pay and is unlikely to be influenced by what happens to civil servants or NHS ancillaries. Moreover everyone will know that the pay of two major groups of our direct employees - the armed forces and the nurses - will be effectively determined by the reports of their respective review bodies and not by percentage figures issued now.

In short while a 3% pay factor might somewhat simplify the administrative processes of public expenditure control it is likely to have little other practical effect. Moreover on the other side of the medal it carries two penalties:-

- (a) it tips our hand to the unions who will not begin seriously to negotiate next year until they have at least 3% on the table.
- (b) if the final settlement next year is anywhere within striking distance of the likely private sector outcome we will be told that "our pay policy has been defeated".

I do therefore wonder whether setting a pay factor at this stage does not carry penalties which outweigh the benefits. There are other ways of handling this situation eg a zero pay factor and whatever sum of money we judge sensible to be tucked away secretly in the contingency reserve. We would then retain full freedom

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to decide at the time how we would meet the cost of any settlement as between supplementary estimates and cost savings. In short we would get much closer to private sector practice while avoiding a good deal of unnecessary hassle and offering political hostages to fortune.

I am sending a copy of this minute to Sir Robert Armstrong.

By

LORD GOWRIE

14 September 1983

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