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SUBJECT



file 111
cc Messrs. Ingham
Wolpan
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10 DOWNING STREET

From the Private Secretary

5 May 1981

As you know, the Chairman of the Doctors' and Dentists' Review Body, Sir Robert Clark, called on the Prime Minister this afternoon. Your Secretary of State was also present.

The Prime Minister began by thanking Sir Robert Clark for all the work that had been done in the preparation of the Review Body's recent report. She accepted that they had tried to take fully into account the overall economic circumstances in putting forward their recommendations. However, in considering them, she and her colleagues had had to consider their likely repercussions on other pay groups - principally the nurses and other NHS staffs. They also had to ensure that the public expenditure sums added up. Over the previous two years, the Review Body's recommendations had been implemented in full, and the increases had been extremely generous. The nurses had taken a good deal less than the doctors in 1980, and they and the other NHS groups were now watching the doctors' settlement closely. The nurses had in fact refused to enter into negotiations pending the doctors' settlement. If the Government were now to implement the Review Body's recommendations, there would be no prospect of holding the nurses and other NHS groups to 6%. The extra cost of their settling at around 9% - that is, the figure recommended by the Review Body for the doctors - would be approximately £200 million. There was no chance of finding this amount from the contingency reserve; the only alternative would be to cut the health provision, but this would be unacceptable. Against this background, the Government had decided that it had no alternative but to reduce the increases recommended by the Review Body so as to produce a 6% increase in the doctors' and dentists' pay bill. In contrast to the non-industrial Civil Service, which had been offered 7% against a 6% pay cash limit, there did not seem any scope for manpower reductions; therefore, the average pay increase would have to be about 6%. The Government proposed to implement the suggested pattern of increases; thus, their recommendations would be scaled down proportionately. If the Review Body were agreeable, the Government would like the Office of Manpower Economics to provide revised calculations on the gross pay of general medical practitioners, taking into account their expenses and consistent with a 6% increase in net pay. As regards the dentists, the Government believed that it would be difficult - in the circumstances of a reduced settlement - to recover the past over-payments of expenses on the lines the Review Body had recommended.

/The Prime Minister

CONFIDENTIAL

The Prime Minister said that she knew that the Review Body members would be disappointed by the Government's decision. But just as the members of the Top Salaries Review Body had accepted that the Government had had to turn down their recommendations in 1980 (and it would not be possible to implement them this year either), she hoped that they would understand the reasons for it.

Sir Robert Clark said that he could only speak for himself, but he, for his part, understood that the Government had had to take a rather wider view than the Review Body had been able to. Nonetheless, he could not hide his disappointment that the Government felt obliged to go back on the principle that doctors' and dentists' pay should maintain a proper relationship with that of other groups. It had taken three years from 1977 to bring their pay up to par - and incidentally, roughly half of the settlement in 1980 had been to complete previous years' staging. Even on the Review Body's latest recommendations, doctors' and dentists' pay would be somewhat lower in relation to other groups': given the Government's decision, there would now be a risk of their falling behind too far. While he believed the Review Body would accept the Government's decision, it was important the professions should continue to see them as independent. Over the last year or two, the Review Body had tried hard to keep them "on-side"; it was essential that they should continue to have confidence in the Review Body. He did not believe the Government's decision would do any great harm to their relationship with the professions; but damage would certainly be done if it were thought that the Government had influenced their recommendations. (Mr. Jenkin interjected at this point that there was no question of the Government asking them to change their recommendations).

Sir Robert Clark went on to say that he did not altogether go along with the proposal that the recommended rates should be scaled down proportionately. If the net cost had to be kept to an extra six per cent, he believed there might be a case for re-scaling the Review Body's recommendations in favour of the junior doctors at the expense of the consultants. It was important to retain the junior doctors' confidence in the Review Body arrangements; and a re-scaling in their favour would help this. Their concern for the junior doctors' position was reflected in their proposal that the Office of Manpower Economics could conduct a survey of the junior doctors' workload. It would be sensible for the OME, in consultation with the Review Body, to make new recommendations on the pay scale for all the groups within the profession consistent with the six per cent limit. He also believed it would be wrong to be too generous to the dentists in terms of reducing the clawback of over-payment of expenses. The Review Body had a duty to protect the taxpayer, and there was no doubt that the dentists had been over-paid. Rather than postpone the clawback altogether for 1981/82, the clawback could be reduced proportionately to the reduction in the overall settlement. Finally, he was concerned that the Review Body's recommendations in future years might be pre-empted, as they appeared to have been this year, by an earlier decision on cash limits. He hoped that the Government would be able to offer greater flexibility in the operation of the cash limit system.

/The Prime Minister said

CONFIDENTIAL

- 3 -

The Prime Minister said that it was intended that the Review Body's report should be published probably at the end of the following week along with the other Review Body reports; and that the Government's decisions on each of them should be announced simultaneously. She had noted Sir Robert's points about the re-scaling of the Review Body's recommendations and clawback for the dentists. It would be helpful if the OME, in consultation with the Review Body, could make recommendations on both of these. She assumed that it would not be possible to complete this further work before the announcement of the Government's decision, but it would be helpful, nonetheless, if it could be completed as soon as possible. As regards the future, the Government was currently considering the relationship between the cash limit system as it had worked hitherto and the whole range of pay issues in the public services.

Sir Robert Clark said that he would be holding a meeting of the Review Body this Friday at which he would discuss with the other members the points that the Prime Minister had made, and in particular the suggestions for further work to be done by the OME. In the light of the discussion, he would advise Mr. Jenkin whether, and if so in what form, they would like to receive formal instructions from the Government.

I am sending copies of this letter to John Wiggins (H.M. Treasury) and David Wright (Cabinet Office).

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Department of Health and Social Security.

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