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cc:- Mr Walters  
Mr Ingham  
Mr Duguid

PRIME MINISTER

E, 14 JANUARY: NHS AND CIVIL

SERVICE CASH LIMITS

In E(81)5 the Chancellor argues for a 6% pay factor in the cash limits for the NHS, the Civil Service and the Armed Forces. But Mr Jenkin, in E(81)3, says the NHS pay factor should be 7½%, and that all NHS groups should be offered the same; and Lord Soames, in his letter of 9 January, says that if the NHS get 7½%, the Civil Servants should get the same.

The case for 6% in the NHS is overwhelming. Even if Mr Jenkin is right in assessing that 6% would "certainly" involve industrial action, it would be far better to be forced to concede a higher pay settlement within the same cash limit, so that services have to be cut, than to go for a pay factor of 7½% which:-

(i) might not hold anyway: there is a risk of being forced up from any starting point; and

(ii) would make a 6% settlement with other groups - notably Civil Servants and teachers - much harder to achieve.

The feasibility of 6% for the NHS rests on whether cuts in services could be made if the outcome was a 7½% settlement. Mr Jenkin says there would be "extremely damaging cuts"; you may want to press him on that, and to weigh the damage against the other costs of going for 7½%.

Lord Soames does not argue for 7½% for the Civil Servants if the NHS get 6%, and no one else is likely to.

The 6% cash limit for the Armed Forces should be uncontroversial, since Ministers have already decided to revise it if necessary to accommodate the Armed Forces Pay Review Board award: meanwhile a 6% figure may bring some downward pressure to bear on the AFPRB.

*J.M.*

13 January, 1981

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*Exp. J.B. Sr. A.D. Mr. Ingham*