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MR. LANKESTER

12. 27/1

NHS CASH LIMIT

We had a word about Mr. Jenkin's letter of today to the Chancellor about his negotiating difficulties following Cabinet's decision last week on the NHS cash limit. I understand that Mr. Jenkin will be having further discussions with NHS management tomorrow, and I think the Prime Minister should see his letter and be aware that Mr. Jenkin may end up raising the whole question again in Cabinet on Thursday.

There are in my view three questionable points in Mr. Jenkin's letter:

- (i) That he is not in a position to let the negotiators know that a cash limit has been fixed for the NHS. Cabinet clearly decided that there was a 6 per cent pay factor in the NHS cash limit, that Mr. Jenkin and the Chancellor should discuss how pay negotiations in the NHS should be handled, and that if NHS pay could not be settled within the cash limit, after allowing for flexibility as between pay and non-pay elements of expenditure and for the possibilities of reducing numbers, Mr. Jenkin could come back to Cabinet. This does not seem to entitle him to come back to Cabinet before the negotiations have even started. I understand that there are some reservations in the Treasury about letting the NHS negotiators know the cash limit when Parliament has not been told, but I should have thought that the "broadly the same financial disciplines" formula used by the Prime Minister in November was adequate notice to Parliament.

- (ii) That a settlement of 7 per cent is more likely to be achieved on the basis of a 7 per cent cash limit than on the basis of a 6 per cent cash limit. It is indeed

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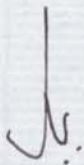
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possible to imagine that industrial action would follow a 6 per cent, but not a 7 per cent offer, but I think the proposition is at least highly questionable.

- (iii) That all NHS groups will have to be offered the same. This is the basis for Mr. Jenkin's conviction that there will be enormous difficulty if he cannot offer the NHS ancillaries something close to the 7½ per cent achieved by the local authority manuals; but again it is not proven that other NHS groups cannot be offered less.

The Chancellor will be advised to write to Mr. Jenkin and ask him to take negotiations forward on the basis of the 6 per cent cash limit; even if Mr. Jenkin does not come back in Cabinet, there can be little doubt that he will be coming back in correspondence before long. When he does so, it may be necessary for the Prime Minister to intervene in the correspondence.



27 January 1981

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