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Yes Mr!

I am not sure that a meeting will achieve very much, but it will no doubt make the Jenkins (and Lord James) feel better. Are you ready to see them?

BEW 13::

Prime Minister

So well
wt.

I was dismayed at the reports in this morning's Times, Financial Times and Guardian, which the outside world will see as resulting from some kind of official guidance, about the Government's proposals for dealing with NHS and Civil Service pay. The decisions reached at yesterday's meeting of E Committee left me with some difficult handling problems; but the press reports make them immeasurably worse.

My provisional intention had been to inform both Sides of the Ancillary Staffs and Ambulancemen's Whitley Councils that the Government had now decided to announce a cash limit for the NHS based on a pay factor of 6 per cent. At the same time, I should have explained privately to the Management Sides that the limited flexibility presented by a prices factor of 11 per cent gave some scope for a settlement slightly in excess of 6 per cent, and that, if satisfied beyond reasonable doubt that it would be impossible to secure settlements at 6 per cent, they would be justified in moving somewhat above that figure. But I should have pressed them to aim for the lowest possible increase (ie something as near to 6 per cent as possible); and I should have kept in close touch with the progress being made. Had there been any signs of something in excess of 7 per cent being contemplated - a highly unwelcome development which I should have done my utmost to avoid - I should at once have reported back to colleagues.

These tactics have now become unrealistic. The Staff Sides will see them as no more than a charade, because they will assume that a 7 per cent increase is there for the asking, and 7½ per cent if they exert a modest amount of pressure. It thus seems most improbable that negotiations could be reopened on the basis of a straight 6 per cent offer; and even if the Management Sides were

willing to try to do this - and I should not blame them if they were not - they would almost inevitably quickly be pushed to 7 per cent, and strongly pressed to go further. The prospects of securing pay settlements on terms which do not involve an unintended and politically damaging squeeze on health services are thus substantially worse than colleagues supposed them to be at the time of the meeting of E Committee.

I should greatly welcome an early opportunity of discussion with you and other Ministerial colleagues how we can best deal with these embarrassing developments. I am sending copies of this letter to Geoffrey Howe, Christopher Soames, Jim Prior George Younger, Nicholas Edwards, Leon Brittain and to Sir Robert Armstrong.

13.2.81

DB

(Dictated by the Secretary
of State and signed in his
absence)