CONFIDENTIAL

SUBJECT

copied to Master
Econ Pol, Public Sector Pay
Civil Service Pay.

File LPO/DS

bc Wolfson
Vereker
Hoskyns.

10 DOWNING STREET

From the Private Secretary

17 February 1981

The Prime Minister held a meeting this morning to discuss further the National Health Service and Civil Service cash limits and pay negotiations. In addition to your Secretary of State, the following were present: the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Employment, Scotland, Wales, the Chief Secretary and Sir Robert Armstrong. They had before them Mr. Jenkin's minute of 13 February.

Mr. Jenkin said that he had been dismayed at the reports in last Friday's newspapers about the Government's proposals for dealing with NHS and Civil Service pay. These reports had cut the ground from under the NHS negotiators. In reaching their decision on the six per cent pay factor, Ministers had assumed that if a settlement was reached at seven per cent, the volume of spending would be protected to some extent by savings on account of the 11 per cent price factor. But in fact, volume was unlikely to be unaffected unless the pay settlement could be held to six and one-third per cent. NHS management were taking the view that once they began to offer money from the non-pay cash limit towards the settlement, it would be very hard to avoid further concessions. They did not wish to see volume cut, and accordingly they seemed prepared to stick at a six per cent pay offer even though this would almost certainly result in industrial action. If they did decide to move to 7%, the consequent volume squeeze would cause considerable political difficulties for the Government. For it would fly in the face of the pre-election commitment to maintain the growth of volume spending. He would be seeing the TUC Health Services Committee later that day at one of his regular meetings with them. He would put to them all the arguments about the need for restraint on pay if volume spending was not to be affected. But he thought it most unlikely that they would listen to these arguments. Because of the link with the local authority manuals, it seemed improbable that the unions would accept an offer of less than 7½%.

Lord Soames said that there was bound to be industrial trouble on a major scale if the Government tried to stick to 6% in either the NHS or the Civil Service negotiations. By offering 7%, there was some prospect of avoiding this.

/In view

CONFIDENTIAL

JP

In view of the reports in last Friday's press, it was necessary for the management sides to put the 7% figure on the table rightaway. Given the fact that it had been decided to set the pay factor at 6%, it ought in his view to be possible to finance 7% settlements by a slight manpower squeeze (though in the case of the Civil Service this would be on top of the reductions already agreed) and possibly by some transfer of funds from non-pay expenditure.

In discussion the following points were made:

I Given that manpower in the NHS had risen by some 25,000 since the election, the squeeze consequent on a 7% settlement should not cause too much difficulty. When other programmes were being cut back, many people would be surprised to know that the health service was still expanding. Moreover, the recent report by the Controller and Auditor General seemed to indicate that there was scope for manpower savings.

II On the other hand, it was pointed out that the pre-election commitment had been quite clear, and hitherto Ministers had taken it fully into account in their public expenditure deliberations. The 25,000 manpower increase was an automatic consequence of allowing the volume of spending to increase, and most of the additional posts were medical staff rather than ancillaries or administrators. The increase in spending was itself justified by the UK's ageing population and the resultant increase in the number of patients that the NHS had to cater for. As regards the C&AG's report, DHSS officials were confident that most of its criticisms could be effectively rebutted: for example, the report failed to distinguish the staffing requirements of teaching hospitals from the staffing requirements of ordinary hospitals.

III Whatever the difficulties, the Government could not afford to increase the pay factor above 6%. If the unions insisted on taking out more than 6% in pay, they should be made to take the responsibility for any consequent volume squeeze. The argument should be turned against them to make it clear that they - and not the Government - were cutting volume and causing unemployment.

IV If the pay factor was to be held at 6%, the sooner it and the 11% prices factor were announced the better.

Summing up, the Prime Minister said that there could be no going back on the decision to set the pay factor for cash

/limits

limits at 6% and the prices factor at 11%. Pay settlements for the NHS and Civil Service would have to be negotiated within the cash limits thus set. In both cases, it seemed likely that the management sides would have to offer 7%; and if so, there would have to be some minor volume savings. The cash limit factors should be announced by Written Answer by the Chancellor of the Exchequer tomorrow (Wednesday).

I am sending copies of this letter to John Wiggins (HM Treasury), Jim Buckley (Lord President's Office), Richard Dykes (Department of Employment), Godfrey Robson (Scottish Office), John Craig (Welsh Office), Terry Mathews (Chief Secretary's Office) and David Wright (Cabinet Office).

I would be grateful if you and copy recipients could ensure that this letter has the same limited circulation within departments as the relevant minute of last Thursday's E Committee meeting.

T. P. LANKESTER

Don Brereton, Esq.,
Department of Health and Social Security.