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Copied to Nat Health Nurses Pay

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PRIME MINISTER

NHS PAY

The Ministerial Sub-Committee on Public Service Pay (E(PSP)) discussed two papers by the Secretary of State for Social Services at its meeting last Wednesday, one on the prospects for pay in the National Health Service (NHS) in the current pay round (E(PSP)(82)2) and the other on long term arrangements for settling nurses' pay (E(PSP)(82)1). You will want to consider the important issues concerning both pay and public expenditure which these papers raise.

Current pay round

2. You will recall that the Secretary of State first put forward proposals for increases above 4 per cent for certain key NHS groups last October, when E(PSP) approved them in principle. It was subsequently decided in the context of the Cabinet's public expenditure discussions that these proposals should not be pursued, although the Secretary of State warned that he might need to come back to colleagues, depending on developments.

3. The Secretary of State argued in E(PSP)(82)2 that the already appreciable risk of industrial trouble in the NHS this year had been exacerbated by the pay settlement of 6.9 per cent for the local government manuals and roughly 10 per cent for the electrical contracting industry, with whom NHS electricians (and through them other NHS craftsmen) have a firm link. The danger of widespread industrial trouble would be avoided only by offering increases of broadly 2-2½ per cent above the 4 per cent limit to certain key NHS groups -

principally nurses, doctors and dentists - whose support in the face of industrial action by others would be essential. He would seek to hold other NHS groups to pay increases of 4 per cent, although this would be far from easy; there was no prospect of their accepting less.

4. The cost of the Secretary of State's proposals would be £118 million in 1982-83, which the Secretary of State argued could not be offset by savings on other NHS expenditure or by increased productivity or manpower reductions on the part of the groups concerned. The proposals are therefore conditional on a satisfactory understanding being reached in bilateral discussions between the Secretary of State for Social Services and the Chief Secretary, Treasury on how the additional expenditure can be met.

5. The Secretary of State argued, and the Sub-Committee agreed, that an early announcement was desirable; to delay could well lead eventually to higher settlements and also create the impression that the Government had given in to pressure from the nurses' pay campaign. It is clear however that the timing will need to take account of the timing and nature of the Government's offer to the non-industrial civil service. This is something which you will no doubt wish to discuss at the meeting which we are to have on 2 February.

Doctors and Dentists Review Body

6. There is a related issue concerning the Doctors and Dentists Review Body to whom DHSS are giving oral evidence on 3 February. The Secretary of State argued that it was important that his officials should be able to indicate then at least in general terms that there was some flexibility in the Government's position on the pay of doctors and dentists. His view was that if the DDRB were given assurances of this sort they would make recommendations broadly acceptable to the

Government and in which the professions would be prepared at least to acquiesce; but that if the DDRB was led to believe that the Government intended the 4 per cent cash limit pay factor to apply equally to the doctors and dentists as to other NHS groups the result would probably be unacceptably high recommendations, the subsequent rejection of which could well undermine the review body system. There was, in his view, no danger that this information would become public prematurely.

7. The Sub-Committee agreed on balance with the Secretary of State, that provided that the public expenditure issues could be resolved in time, DHSS officials should indicate a degree of flexibility on the Government's part about the pay of doctors and dentists, but in such a way that the Government's position was fully reserved if, in the event, the DDRB were to produce unacceptably high recommendations. This is of course a modification of the policy of letting all three Review Bodies report in the normal way, which was set out in my minute to you of 30 October 1981, following an earlier discussion in E(PSP) and approved by you in your Private Secretary's letter of 11 November.

Long term arrangements for nurses pay

8. As for the long term arrangements for settling nurses' pay, you will recall that it was agreed at your meeting with the Nurses and Midwives Whitley Council on 18 December that the Secretary of State for Social Services should chair a further meeting of the Whitley Council early in the New Year with the aim of identifying a programme of work which could usefully be pursued by the Staff Side between now and the autumn, by which time we should have received and reached broad conclusions on the Megaw Report, and that the Secretary of State would circulate in advance of this meeting a paper suggesting the fields in which work might most usefully be pursued. A draft was annexed to E(PSP)(82)1.

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9. The Sub-Committee endorsed the tactic of commissioning a study by management consultants of the main technical questions which arise. But if felt that the paper as drafted did not adopt a sufficiently neutral tone in describing the various options for the comparability aspect of a new system and that it did not adequately emphasise the importance of taking full account of market factors and affordability in whatever pay system is finally devised. Officials are now revising the draft to reflect the Sub-Committee's view and the Secretary of State will clear the revised version in correspondence with E(PSP) before it is circulated to the Whitley Council. The Secretary of State will also consult the Sub-Committee about the terms of reference for the proposed study by management consultants following the meeting of the Whitley Council.

10. I am sending a copy of this minute to the members of E(PSP), the Secretaries of State for Scotland and for Defence, Mr Ibbs and Sir Robert Armstrong.

(G.H.)
1 February 1982