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cc: J. Vereker BK

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10 DOWNING STREET

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From the Private Secretary

15 June 1982

NHS PAY

The Prime Minister held a meeting this afternoon to discuss NHS pay, and in particular the proposals in the Secretary of State for Health and Social Security's minute of 10 June. Apart from the Chancellor and Mr. Fowler, there were present the Secretary of State for Wales, the Chief Secretary, the Secretary of State for Employment and Mr. Kenneth Clarke, Minister for Health. The Prime Minister had to leave the meeting before it was concluded, and the Chancellor remained in the chair.

Mr. Fowler explained that the unions had called a further day of industrial action for 23 June; and that the TUC Health Services Committee would be meeting again on 24 June. No major escalation of the industrial action was expected, but in the aftermath of the rejection by the Royal College of Nurses of their pay offer, some general increase in the pay offer to NHS groups was necessary. He suggested that there should be two elements in the package, both of which were discussed.

(i) An increased pay offer for this year

Mr. Fowler said that the maximum offer that he envisaged encompassed 7½% for the nurses, 6½% for the ambulancemen, and 6% for the ancillaries. He would of course endeavour to settle for less. The cost would be up to £90 million (for Great Britain). The extent to which the proposed extra £90 million could be accommodated within the existing NHS cash limit by the imposition of a manpower ceiling was discussed. It was left that this would have to be further discussed with the Prime Minister present, but that the Treasury would be prepared to meet up to £45 million from the Contingency Reserve, whereas Mr. Fowler could not undertake to find more than £30 million from manpower savings. In further discussion, it was suggested that there could be no certainty of a settlement at these levels, and that there was therefore a risk of offers being made, rejected, and subsequently having to be increased.

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(ii) The longer term

Mr. Fowler suggested that an essential ingredient in a settlement on the basis he proposed would be better arrangements in the longer term for settling NHS pay. For the nurses, the arrangements now under negotiation might be in place by 1 April 1983; no such arrangements could be made by that time for other NHS groups, and in order to reach a settlement it would be necessary to offer the NHS access to arbitration, subject to override by Parliament, next year. Mr. Fowler thought that Mr. John Wood, Chairman of the Central Arbitration Committee, would be suitable. In discussion it was noted that this proposal could be expensive in terms of next year's pay settlement and ran counter to the Government's preference for avoiding unilateral access to arbitration.

In further discussion, it was noted that the climate of opinion among the unions was worsening. Initially they had not been expected to be able to make much of an issue of NHS pay, but the rejection by the nurses of their offer had given the unions a cause. As the dispute lengthened, militants could be expected to support it. Furthermore, the unions would be resistant to a settlement which was clearly at the cost of resources elsewhere in the NHS. These arguments might point towards the advantage of an early settlement. As against this, it was recognised that even the increases suggested by Mr. Fowler, if they would produce a settlement, would be damaging to the credibility of the Government's approach to pay, and that the damage would be considerably worse were the ultimate settlement to be at a higher level.

Concluding the discussion, the Chancellor said that Ministers should meet again tomorrow, under the Prime Minister's chairmanship, to discuss these issues further. I have now arranged this meeting for 1915 today.

I am sending a copy of this letter to David Clark (DHSS) Adam Peat (Welsh Office), Terry Mathews (Chief Secretary's Office), Barnaby Shaw (Department of Employment), Muir Russell (Scottish Office), Craig Muir (Minister for Health's Office) and David Wright (Cabinet Office).

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HM Treasury

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