

SECRET

REVIEW BODY REPORTS

Note of a Meeting at 10 Downing Street
on Thursday 8 May 1986 at 12 noon.

PRESENT

Rt Hon Margaret Thatcher MP
Prime Minister.

Rt Hon Viscount Whitelaw Lord President of the Council	Rt Hon Lord Hailsham of St Marylebone Lord Chancellor
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Rt Hon Nigel Lawson MP Chancellor of the Exchequer	Rt Hon Sir Keith Joseph MP Secretary of State for Education & Science
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Rt Hon George Younger MP Secretary of State for Defence	Rt Hon Norman Tebbit MP Chancellor of the Duchy of Lancaster
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Rt Hon Kenneth Clarke QC MP Paymaster General	Rt Hon John MacGregor MP Chief Secretary, Treasury
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Rt Hon John Wakeham MP Parliamentary Secretary, Treasury	Rt Hon Richard Luce MP Minister of State Privy Council Office
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Rt Hon Barney Hayhoe MP
Minister of State
Department of Health and Social Security
(Minister for Health)

SECRETARIAT

Sir Robert Armstrong
Mr J B Unwin
Mr A J Wiggins

The Meeting had before it a minute of 7 May from the Secretary of the Cabinet to the Prime Minister, to which was attached a paper summarising the five review body reports (on the armed forces, doctors and dentists, nurses, the professions allied to medicine, and top salaries), and suggesting a number of options for Ministers to consider.

2. The Prime Minister said she was disappointed with the reports. Once again they proposed pay increases for the groups concerned well above the rate of inflation, substantially higher than the Government were offering to those of its employees whose pay was collectively bargained, and apparently with little regard to market factors. For example the increase proposed for nurses, where there remained some difficulties of recruitment, was practically the same as that recommended for doctors and dentists, where there were signs of over-supply. Moreover the doctors and dentists report proposed larger increases for consultants, of whom there were probably too many, than for junior hospital doctors for whom promotion prospects were now poor. It was by no means clear that a common approach needed to be adopted towards all the reports. She invited the views of her colleagues.

3. The following main points were made in discussion:

a. the Government should not accept the recommendations in full from 1 April 1986 both because of the problems this would create for the control of public expenditure and because of the very undesirable signal it would give to pay negotiations elsewhere in the public sector. Generous treatment of the review body groups could have an impact in particular on the forthcoming negotiations for local authority manual workers' pay which would be the first settlement of the next pay round; there was already danger that a high settlement for this group would seriously prejudice the prospects of securing a much lower level of settlements throughout the economy consistent with the sharp fall in inflation which was now taking effect.

b. The different groups attracted differing degrees of public sympathy. Public opinion would favour acceptance of the recommendations for nurses, but would question whether other groups deserved similarly generous treatment. If a common approach were adopted, there were bound to be political difficulties to be overcome in its presentation.

c. On the other hand there were difficulties for the Government in picking and choosing between and within review body reports. The review bodies had been established to advise Ministers in a difficult area where direct negotiations with the groups concerned were inappropriate and arbitrary decisions by the Government could equally give rise to problems. Moreover unless the review bodies were abolished, they were likely to restore in subsequent years any sums abated from their recommendations, and this would add to the difficulties the Government would face in considering future reports.

d. The increases recommended for the top salary groups, some of which were very large in absolute terms, presented particular difficulties. The Government had been very heavily criticised for accepting the 1985 salary recommendations, and it would be reasonable this year to do no more than maintain the value of those salaries in real terms. On the basis of the March RPI figure, this would point to an increase of 4.2 per cent; a later announcement, based on the April figure, would point to a somewhat lower increase. There were, however, arguments for some differentiation within the TSRB groups; whereas Permanent Secretaries had received substantial increases in 1985, recently promoted Under Secretaries had received practically no increase at all, and the Under and Deputy Secretary grades had not received the benefit of the proposed system of discretionary performance-based increments. One possible approach might be to treat these groups more generously than Permanent Secretaries, (where there might perhaps be no increase at all), but insist that in future all increments for new entrants to these grades should be performance-based, rather than having some automatic increments as at present.

e. Although there might not be much of a case on recruitment and retention grounds for significant increases for senior civil servants and armed forces

officers, the position of the judiciary was different. There was particular difficulty in persuading successful barristers in middle life to accept appointment as High Court Judges, even at the enhanced rates of pay established in 1985; a number of individuals whom the Lord Chancellor had wished to appoint had either declined appointment or asked for it to be postponed. The Lord Chancellor was personally willing to forego any increase in his own salary, whatever decisions were reached about those of other members of the judiciary, if that would help with the Parliamentary presentation of the Government's decisions; it had to be remembered that this would also affect the pensions of retired Lord Chancellors.

f. The review body recommendations presented particular difficulties for the National Health Service. The hospitals service cash limit contained an allowance of 4 1/2 per cent for pay increases for both the review body and the collectively-bargained groups; in practice, given the example of the civil service, it would not be possible to settle the collectively-bargained groups at less than 6 per cent. On this basis accepting an in-year paybill cost of more than 4 1/2 per cent for the review body groups would involve a significant adverse impact on services unless the cash limit were relaxed. It was disappointing that the professional managers introduced into the hospital service were finding it very difficult to achieve efficiency savings, despite the extensive scope for such savings - the Hospital Authorities preferred ward closures, etc for which they could blame the Government, and Ministers had no effective means of obliging them to grasp the nettle.

g. Generally the review bodies seem to regard Government evidence about affordability as a threat to their independence. The Government had to make clear to them that there were limits to available funds, and the only means of doing this was to insist that cash

limits should not be increased to accommodate the recommendations. But failure to implement the recommended pay scales in full by the end of the current financial year would add to the difficulties created by the 1987 reports. These considerations pointed towards deferment or staging of the recommendations.

THE PRIME MINISTER, summing up the discussion, said that the Group were not yet ready to decide on the recommendations to be put to the Cabinet for the Government's response to the review body reports. Once decisions were reached, it was essential that their presentation should be carefully prepared. This pointed to the need for fully considered briefing to be available to the Government's supporters immediately the Government's decisions were announced. She would not, however, wish to deviate from the well established practice of making the announcement by Written Answer. The full text of all the reports should be circulated to all members of the Group, and she would arrange for them to resume their discussion on 13 May. It might be necessary to postpone the Cabinet discussion, and the subsequent announcement of the Government's decisions, until 22 May.

