

PRIME MINISTER

REVIEW BODY REPORTS

The first discussion among Ministers of the Government's response to this year's Review Body Reports made clear the particular financial difficulties the Reports present for the National Health Service (NHS).

2. The main elements in the picture are:

a. the provision for NHS pay increases in the current year's cash limits (the Family Practitioner Services (FPS) are not cash limited, but the provision so far agreed is the same) is sufficient to finance increases averaging 4.5 per cent for all NHS staff, including both those covered by review bodies and those whose pay is negotiated collectively (the Whitley groups), without prejudicing planned improvements in services. Diversion of a proportion of efficiency savings to finance higher pay, avoiding any unacceptable reductions in services, increases this figure to about 5.6 per cent.

b. In recent years the Whitley groups have had significantly smaller increases in pay than the review body groups, and have settled below the rate of inflation. Given a civil service settlement at 6 per cent, it is not very likely to be possible to secure a smaller increase this year for the Whitley groups. In addition the Health Departments have to find a further £37 million for pay restructuring arrangements for ambulance men and NHS electricians.

c. DHSS estimate that given the position on the Whitley groups and settlements at 6 per cent for the review body groups would lead to a £77 million overspend on the cash limit for the English Hospitals and Community Health Services (HCHS), which could only be avoided through easing the funding position or severe reductions in services. Grossing this up to allow roughly for the Scotland and

Wales elements takes the overspend to about £94 million. In addition there would be a claim on the Reserve of £17 million on account of the FPS. If the awards were to be paid in full to nurses and PAMs on 1 April, while the doctors, dentists and Whitley groups received settlements costing 6 per cent within the financial year, the overspend would increase by a further £85 million.

d. To keep within the cash limits without reductions in services, DHSS calculate that they could either:

i. implement the review body awards on 9 September, or

ii. pay a first stage of 4 per cent on 1 April, and the remainder on 22 February.

e. Deferment or staging can in principle bring the cost of the awards within the finance available for 1986/87. But unless the salary levels recommended are cut back - which means in effect rejecting the recommendations - there will be serious financial problems in 1987/88.

3. The Secretary of State for Social Services will wish to advise his colleagues of the implications of the various options, including their impact on levels of service and on different groups of NHS staff and their possible reactions.

4. In the light of the NHS difficulties, it may be useful to illustrate some further measures to contain the costs of the review body awards. Only Option B (implementation from 1 September) is sufficiently stringent substantially to overcome the NHS financial problems in 1986/87; given the position on the Whitley groups, insufficient money is available for a first stage of 5 per cent for the review body groups, even if payment of the remainder were delayed to 31 March 1987 (i.e. so as effectively to eliminate the costs of the balance of the award within the current financial year). Option B could also have the effect of bringing the percentage increase in the 1986/87 paybill for the TSRB groups below the 4.2 per cent proposed by the Chancellor of the Exchequer.

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Option	<u>Nurses</u>	<u>PAMs</u>	<u>DDRB</u>	<u>NHS Total</u>	<u>AFPRB</u>	<u>TSRB</u>	<u>Total</u>
A. Defer: Implement from 1 August 1986	217	20	119	356	156	3.25	515
Implying percent- age increases for 1986/87 (averaged over the year)	5.2	5.5	5.0	5.2	5.0	4.3	-
B. Defer: Implement from 1 September 1986,	190	18	104	312	136	3	451
Implying percent- age increases for 1986/87 (averaged over the year)	4.55	4.8	4.4	4.5	4.35	3.8	-
C. Stage: 5 per cent from 1 April 1986, remainder from 1 February 1987	229	20	129	378	170	4	552
Implying percent- age increases for 1986/87 (averaged over the year)	5.5	5.5	5.4	5.45	5.4	5.2	-

Note: These figures have been derived by the Cabinet Office from the material previously circulated, and may be subject to some minor amendments when reworked in detail.

5. I am copying this minute to the other Ministers who will be attending your meeting on 13 May.

RA

ROBERT ARMSTRONG

12 May 1986

6.72
(1.22) s.s.
4.5%
150. $\frac{72}{88m}$
75