

SUBJECT CC MASTER

SECRET

REVIEW BODY REPORTS

Note of a Meeting at 10 Downing Street
on Tuesday 13 May 1986 at 4.00pm

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

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

Rt Hon Sir Keith Joseph
Secretary of State for
Education & Science

Rt Hon George Younger MP
Secretary of State for
Defence

Rt Hon. Norman Fowler MP
Secretary of State for
Social Service

Rt Hon Norman Tebbit MP
Chancellor of the Duchy of
Lancaster

Rt Hon Kenneth Clarke QC MP
Paymaster General

Rt Hon John Wakeham MP
Parliamentary Secretary,
Treasury

Rt Hon Richard Luce MP
Minister of State
Privy Council Office

SECRETARIAT

Sir Robert Armstrong
Mr A J Wiggins

The Meeting had before it Minutes of 12 May to the Prime Minister from the Chancellor of the Exchequer and the Secretary of the Cabinet.

THE CHANCELLOR OF THE EXCHEQUER said that the pay increases proposed by the Review Bodies were unacceptably high from the standpoint both of the control of public expenditure and of the Government's stance towards pay. In addition the political problems created last year by the pay restructuring for the groups covered by the Top Salaries Review Body (TSRB) had been such that it would be

necessary to treat these groups markedly less generously than the other groups covered by review bodies. He proposed two alternative packages which would reduce the costs of the Review Body recommendations, and would give appropriate signals about the Government's attitude towards pay. The first approach would be to defer implementation of the Review Body recommendations until 1 July; this would reduce the overall increases within the current financial year to 5.85 per cent for nurses, 6.15 per cent for the professions allied to medicine, 5.7 per cent for doctors and dentists, and 5.6 per cent for the armed forces. In the case of the Top Salaries groups his proposal was that the average increases should be held to the increase in the Retail Prices Index during the financial year 1985/86 i.e. 4.2 per cent; deferment of the increases in the same way as the other groups would reduce the overall cost in the current financial year to 3.15 per cent. His alternative approach was to give 4 per cent to all groups on 1 April, and pay the remainder of the recommendations for the nurses and professions allied to medicine on 1 September, and for doctors and dentists and the armed forces on 1 October; there would be no further increases for the TSRB groups. He attached great importance to absorbing all the increases within the current year's cash and running costs limits, although he reluctantly accepted that it might be necessary to make some small exception for nurses.

In discussion the following main points were made;

- a. Payment of the awards in full to health service employees on 1 July would cost £72 million more than the English hospital service had available within the current year's cash limit; the short fall for Great Britain as a whole was expected to be about £88 million. The increase in cash terms for the hospital service between 1985/86 and the current financial year had to absorb a carry forward of 1.2 per cent from the 1985 Review Body recommendations, and provide for a 1 per cent increase in the number of old people, as well as meet all the pay and price increases with which the service would be faced. The Department of Health and Social Security would be obliged to debate half the £150 million available from the cost improvement programme, which it had been intended to use for service development, to meeting the costs of pay settlements with the non-review body groups; further reductions in planned service provision would present great difficulties. On the other hand, the health service should derive some benefit from the faster than expected reduction in

inflation. Great efforts would need to be made to absorb the knock-on costs in 1987/88 within the existing public expenditure provision; the Health Authorities would not yet have committed themselves to arrangements which made savings impossible.

b. It was appropriate to give the TSRB groups substantially less than the Review Body had recommended. One approach would be to give no increases to the most senior grades, who had been the major beneficiaries in 1986. But it seemed better on balance to provide for increases on the same pattern as those recommended by the TSRB, i.e. with the smallest increases for the most senior people, while scaling down the overall size of the increases. At the same time there was a case for implementing the 1985 proposal to introduce a system of additional discretionary increments for Grades 2 and 3. This would represent a very desirable extension of the principle of performance-related pay, and provide a precedent for its subsequent extension much more widely. The cost, which would in any event be very modest, would depend on the precise arrangements made, and much of it would be offset if Grade 3 were withdrawn from eligibility for merit bonuses under the scheme currently in operation.

c. The Review Body rewards, which were for the most part broadly in line with the increase in average earnings throughout the economy, were far above the rate of inflation, and were well above the settlements made or in prospect with a number of other groups in the public sector, notably the non-industrial civil service. This reflected the review bodies' attachment to the principle of comparability rather than market factors as the primary influence on the pay scales recommended. But the Government could not easily seek to constrain in advance the recommendations of the review bodies, who would see this as calling their independence into question. In the case of the armed forces the principle of comparability was explicitly recognised, and the Government were committed to maintaining it; there could be no question of withdrawing from the assurances on pay long since given to both the armed forces and the police.

d. Very great care would be needed in the presentation of the Government's decisions. That increases were not being given with effect from 1 April would be widely resented in the health service and the armed forces, although the fact that the recommendations were being accepted in full should help to damp down criticism. The message for the rest of the economy would be that the Government had staged the payment of the awards in order to bring the costs more nearly into line with available finance, and to bring the increase in pay during the current financial year down to the levels in prospect for other public service groups. But for the armed forces and the medical professions, the message would be that increases of 7.5-8 per cent were being accepted. The main emphasis in the Prime Minister's Statement announcing the Government's decisions should probably be on the in-year pay bill costs of the awards, but the Department of Health and Social Security and the Ministry of Defence, in promulgating the awards would need to make clear the size of the full-year increases awarded to individuals. Full briefing should be prepared in advance to be given to the Government's supporters in Parliament; this might conveniently take the form of a letter from the Chancellor of the Exchequer.

THE PRIME MINISTER, summing up the discussion, said that the Group were generally agreed on the implementation of the Review Body recommendations in full on 1 July 1986. The TSRB groups should receive increases averaging 4.2 per cent on the same date; this should be achieved by giving to each grade about 65 per cent of the increase recommended by the Review Body. At the same time a system of additional discretionary increments - range pay - as recommended by the Review Body in 1985 should be introduced for grades 2 and 3. There should be no increase in the current year's cash limits, with the possible exception of the Hospital Service, where the Secretary of State for Social Services should explore urgently with the Chief Secretary, Treasury how any possible call on the Reserve could be minimised, if not entirely avoided. The presumption should be that the cost of the awards in 1987/88 would be absorbed within existing provision, although attention would need to be given to the political difficulties this might cause. The Chancellor of the Duchy of Lancaster should be associated with the preparation of careful briefing on the Government's decisions, so that the Government's supporters would be in a position to present those decisions in the most satisfactory way. A number of other Ministers - notably those with territorial responsibilities - would need

to be brought into the discussions before the matter was taken to Cabinet: she would therefore arrange for a further meeting of the present Group, suitably expanded, on Tuesday 20 May, prior to a Cabinet discussion on Thursday 22 May. Detailed proposals for the TSRB groups and a draft of the Written Answer announcing the Government's decisions should be circulated before the week-end.

The Group -

- i. Took note, with approval, of the Prime Minister's summing up of their discussion.
- ii. Invited the Chancellor of the Exchequer, in consultation with the Chancellor of the Duchy of Lancaster, to arrange for the production of suitable briefing to accompany the Government's announcement.
- iii. Invited the Secretary of State for Social Services to discuss with the Chief Secretary, Treasury how the cost of the awards to the medical professions during the current year could best be met.
- iv. Instructed the Secretary of the Cabinet to arrange for circulation of a draft Statement announcing the Government's decisions, including the detailed arrangements for the TSRB groups, to be circulated before 16 May.

14.V.