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10 DOWNING STREET

From the Private Secretary

9 September 1982

Dear David,

Health Service pay dispute

The Prime Minister had a discussion yesterday evening with your Secretary of State about the latest position in the National Health Service pay dispute. Sir Kenneth Stowe was also present.

Your Secretary of State said that his aim was to try to bring the dispute to an end without offering any further money this year, and without prejudicing the Government's objectives as regards the next pay round. To that end he had been exploring a re-arrangement of the money currently on offer. He gave an account of the present position in the dispute on the lines of paragraphs 2-3 of the paper attached to your letter to me of 8 September.

The Prime Minister said that she was concerned that the Government's case was not getting over with sufficient force. While she was in Scotland she had restricted herself to a small number of key statistics - the rapid growth in manpower in the Scottish Health Service between 1961 and 1981, and the reduction in the number of beds over the same period, the growth in the nurses' wages bill since 1979 from £1½ billion to £2.6 billion, and the cost of health treatment of over £1,100 a year for every family of four in the country. Your Secretary of State indicated the extent of the press and broadcasting coverage which he and Mr. Clark had given to the Government's case. The unions were interested in concluding long-term arrangements for determining nurses' pay, but they were in no hurry to do so, and it was now inconceivable that the new arrangements would be in place before April 1984. This fitted in well with the interests of the Chancellor of the Exchequer in regard to the Megaw Report. The aim was to achieve a settlement by building a bridge between the present situation and the long-term arrangements, and this implied a two-year settlement. It was this approach which underlay the proposals he was putting forward in paragraph 7 of his paper.

The Prime Minister said she was concerned that this approach might provide a higher base line for future increases. It would be essential, too, to avoid a settlement which would give the

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SECRET

- 2 -

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wrong signal for the next pay round. What was the prospect for bringing about manpower reductions in the National Health Service? Mr. Fowler said that until now there had been no proper monitoring of manpower numbers, still less control. He was introducing manpower targets for each region. The Prime Minister said that the very large increase in NHS manpower merited an independent inquiry of some kind, as had been proposed to her by Mr. Ralph Howell, M.P. Your Secretary of State said that he would welcome such an inquiry. What was needed was a Derek Rayner figure with a small team of, say, four people, who could carry out a continuing inquiry into the NHS's use of manpower. This team should be enabled to call upon management consultants, and to make comparisons between regions and with other countries. There was a feeling about that NHS manpower was out of control, and that the Government should take a grip of the situation. The Prime Minister said that she agreed with this approach, and looked forward to seeing Mr. Fowler's proposals in detail.

There followed some discussion in detail of the options set out in the annex to your Secretary of State's paper. The Prime Minister said that she was clear that no more money could be made available this year. She would wish to consider further with colleagues whether one of these options should be pursued.

I am sending a copy of this letter to John Kerr (H.M. Treasury). I should be grateful if you and he would give it a limited circulation.

Yours sincerely,

Michael Silvester

David Clark, Esq.,  
Department of Health and Social Security.

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