



CONFIDENTIAL

P 03307

PRIME MINISTER


NHS REVIEW
PAY AND CONDITIONS OF NHS STAFF

[HC64: joint paper by the Secretary of State for Health and the Chief Secretary to the Treasury]

1. This joint paper reviews the scope for introducing greater flexibility into pay arrangements across the NHS generally. It includes the important proposal that self-governing hospitals should be relieved of any obligation to observe centrally determined pay and conditions (paragraph 20). You may wish to run through the following points:

i. pay of main-stream NHS staff: Review Body groups (paragraph 8). The paper says little about the Review Body groups except that it seems unrealistic politically to do anything other than retain the Review Bodies for doctors and nurses. You may wish to check that the Group agrees. A pilot experiment to give greater flexibility on nurses and midwives is described in Annex 2.

ii. pay of main-stream NHS staff: non-Review Body groups (paragraphs 8, 9, 10 and 18 and Annex 2). The paper says that the Department of Health will be bringing forward in due course proposals for the administrative and clerical grades which, while retaining central negotiation of basic rates, would allow local managers to vary these rates by up to a given percentage. The Department of Health also seem likely to propose abolishing a number of central controls (paragraphs 10 and 18). You may wish to ask whether anything can be said in the White Paper about these plans for greater flexibility.



iii. self-governing hospitals (paragraphs 11 to 17 and 19 to 20). The proposal is that self-governing hospitals should have removed from them any obligation to observe centrally determined pay and conditions. The paper draws attention however to a number of practical constraints. Ability to handle this degree of freedom will be one of the tests for self-governing status. You may wish to endorse the proposal and discuss how it is likely to work in practice.

MAIN ISSUES

General approach

2. Of all the issues discussed by the group, pay is the one where the big money lies. It accounts for three-quarters of NHS costs; nurses alone account for one-third; drugs by comparison account for 3 per cent. Present arrangements for negotiating pay in the NHS are highly centralised. Recruitment and retention problems, particularly with skilled staff, are increasing in some areas. The extent to which individual health authorities have freedom to vary pay and conditions without central approval is still limited. The paper therefore sets out the general thrust of policy towards pay as being greater flexibility, accompanied by greater delegation of responsibility within tight financial controls where management are competent to take it on. You may wish to confirm this general approach.

Main-stream NHS: Review Body Groups

3. The paper indicates that it would be unrealistic politically to do anything other than to retain the Review Bodies for doctors and nurses. You may wish to raise the following:

i. nurses. At the meeting on 12 October the Chancellor commented that it was unsatisfactory that nurses benefited from being covered both by a Review Body and by a Whitley Council. You may wish to ask whether he sees any way of changing that, in the long term at least;



ii. greater flexibility within the Review Body arrangements. The Department of Health have proposed to the Review Body a pilot experiment costing £5m for nurses and midwives aimed at recruitment and retention. You may wish to ask how far and how fast they see the introduction of greater flexibility for Review Body groups proceeding. Could anything be said in the White Paper?

Main-stream NHS: Non-Review Body Groups

4. The paper refers to work which the Department of Health has in hand on the feasibility of introducing further flexibilities into the pay of non-Review Body staff, in particular in administrative and clerical grades. They expect to bring forward proposals in due course. Basic rates would still be negotiated centrally but local managers would be allowed to vary the rates by up to a given percentage to meet proven market difficulties. Annex 2 gives more details, which seems to suggest that some of the flexibility could be considerable: up to 30 per cent in Thames Regions, 20 per cent elsewhere up to middle management level, 10 per cent in higher grades. You may wish to raise the following points:

i. delegation to hospitals. The Annex makes no mention of delegation to those hospitals which continue to be managed by District Health Authorities and do not become self-governing. But the group has emphasised the importance of maximum devolution to them as well. You may wish to ask whether these hospitals are to have any role or flexibility on pay;

ii. what is said in the White Paper. The ability to get value for money from staff costs and pay increases is a key element in running the NHS efficiently. You may wish to ask whether some broad indication of Government thinking on pay flexibility can be included in the White Paper.



Self-governing hospitals

5. The proposal that self-governing hospitals should have removed from them any obligation to observe centrally determined pay and conditions is an important and radical step. They would still be free to follow central arrangements if they wished. But, "by agreement with their staff", they could introduce entirely different arrangements or adopt an intermediate position. Demonstrating that they had the capacity to handle this degree of freedom would be one of the tests of self-governing status. You may wish to welcome the proposal, and discuss the following:

i. The ability of hospitals to manage this freedom. The paper emphasises the lack of management capacity to handle this pace of change and the need for hospitals almost certainly to buy in the necessary management experience. You may wish to ask whether this is seen as a constraint on the rate at which self-governing hospitals can be introduced.

ii. The risks of a pay spiral. The paper draws attention to the risk that the new freedom could lead to a pay spiral. The defences against this will be competition, cash-limiting of DHAs and ultimately the sacking of managers if they concede pay rises which make a hospital's services uncompetitive. You may wish to confirm that pay freedom must be accomplished by effective financial and managerial disciplines.

iii. Political implications. The paper indicates that taking the staff of a hospital out of national pay bargaining processes - which presumably includes the Review bodies - would be politically contentious and would create pressure for a commitment not to pay less than Review Body or Whitley Council rates. You may wish to say that this would be a matter for the hospitals to decide and that Ministers would not be responsible for the outcome of pay negotiations within a hospital.

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