



*Prime Minister.*

*Agree with Mr Jenkin's  
should go ahead with the  
New Towns terms?*

*Yes no*

*KH*

*10/2*

PRIME MINISTER

NATIONAL HEALTH SERVICE REORGANISATION: COMPENSATION TERMS

As requested in your Private Secretary's minute of 27 January, I held a meeting last Thursday with Michael Heseltine, Patrick Jenkin and Leon Brittan.

Leon Brittan and myself were agreed - as were colleagues on H Committee earlier - that Patrick Jenkin should be allowed to go forward and apply the New Towns redundancy terms to National Health Service staff in his reorganisation. Patrick is perfectly clear that without this the reorganisation could not be achieved. Michael Heseltine felt unable to agree because of the potential repercussions for local authority staff. I think Michael puts too much weight on this: after all, the precedent of the New Towns terms has been before them for some time without apparently causing difficulties.

... Michael said he would go away and think over the issues and write me a letter. This he has done and I attach a copy. After a further talk, he told me that he did not want to exercise his right to bring this to Cabinet, but he did want you and Geoffrey Howe to be aware of his feelings. I told him I would send you a copy of his letter and that I would ask Leon Brittan, who knows the arguments, to speak to the Chancellor. We left it that if you agreed Patrick, who feels a sense of urgency, could go ahead with the New Towns terms.

I am copying this to Willie Whitelaw, Jim Prior, Patrick Jenkin, Michael Heseltine, Mark Carlisle, Leon Brittan and Sir Robert Armstrong.

*S*

SOAMES

9 February 1981



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10 DOWNING STREET

*From the Principal Private Secretary*

cc: HO Nad  
DLEmp  
DHSS Health  
DOE  
DES  
CSO, Hmi  
11 February 1981  
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National Health Service Reorganisation: Compensation Terms

The Prime Minister has seen the Lord President's minute of 9 February 1981 about NHS compensation terms and she agrees that the Secretary of State for Social Services should go ahead with the New Towns terms.

I am sending copies of this letter to John Halliday (Home Office), Richard Dykes (Department of Employment), Don Brereton (Department of Health and Social Security), David Edmonds (Department of the Environment), Peter Shaw (Department of Education and Science), Terry Matthews (Chief Secretary's Office) and David Wright (Cabinet Office).

C. A. WHITMORE

Jim Buckley, Esq.,  
Lord President's Office.

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2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

5 February 1981

*J. C. [Signature]*

#### NHS COMPENSATION TERMS

I listened very carefully to the arguments advanced this morning for proceeding with Patrick Jenkin's proposal and I have considered the matter further since then. I am afraid that I have no choice but to come back to you without being able to change my position.

The basic situation as I see it is as follows. The 1974 reorganisation of the National Health Service and the coincidental reorganisation of local government were conducted on the basis of terms called the Crombie Code. Following this period, local government negotiated its own terms for dealing with redundancies with the unions. At about that time, central government offered local government a set of terms which were also on offer to new towns. Local government rejected these proposals as being far too generous and central government therefore applied them only to new towns.

As I understand it, the NHS has not yet completed the negotiation of general management terms which could apply to the new reorganisation, although the terms at present on offer to the staff are parallel to those applying to local government.

I am fully sympathetic to Patrick Jenkin's objective in trying to secure the early reorganisation of the NHS in order to produce the savings which should accrue. But I feel that if we now offer to improve the NHS terms by bringing them into line with those for new towns the consequences would be a very immediate reopening by the unions concerned of the terms currently in existence for local government. Indeed I understand that the local government unions have already made noises in this direction. One only has to look at the very marked differences between the benefits of new towns terms against those existing in local government to prove the point. The attached note shows that the number of weeks' compensation pay would be increased from 22 to 48 for pensionable and from 17 to 38 for non-pensionable staff. It must be realised that, broadly speaking, local government staff are comparable with NHS staff in terms of the types of job that they do, the amount of money they get paid, the geographical locations in which they work, and the unions which represent them.

I have tried to calculate what the possible costs to local government would be of applying new towns redundancy terms. If we make



the reasonable assumption that we could face 5% redundancies for pensionable local government staff in their 40s and 10% redundancies for those outside the pension scheme - there are several examples of redundancies of this order already this year - we could see a bill of some £67 million (see the note attached). These figures are for England and Wales only and take no account of teachers who are also local authority employees and whose unions would doubtless react in the same way. The clear point that emerges from all this is that, however desirable the NHS reorganisation may be - and I entirely accept the need for such reorganisation - the savings that it would achieve could easily be dwarfed by the possible consequential costs in local government.

So far I have concentrated on the spin-off effect that such leap-frogging would produce. We are not, of course, a party to local government negotiations. But the local authority employers would justifiably feel badly let down if by extending new towns' terms to a major part of the public sector (the NHS) we forced them to reverse their own earlier and entirely prudent decision to offer a less expensive package.

And here I would like to comment on the Treasury view on the NHS proposals to which I have perhaps not given as much attention as I should have done. Leon Brittan's position, as I understand it, is that the Treasury would be prepared to agree to Patrick's proposal provided a ring-fence was put round the NHS, and that it was secured by making it clear that there was no more money available to extend compensation terms in local government, should there be any weakening of local authorities' resolve in this respect. Frankly, I do not believe that this is a meaningful proposition. Firstly, because even if we took the line that no more taxpayers' money would be made available, we have no power to prevent the bills being passed on to ratepayers. Either way, the money spent would rank as public expenditure. But the technicalities are particularly difficult here. We have no legal way of differentiating for the purposes of rate support grant between redundancy costs based on one code rather than another. All staff costs rank for RSG purposes and to make any change in that system would require primary legislation.

In these circumstances, I simply do not feel able to agree to what is proposed. At a time when the public sector is already under criticism, any proposal for improving redundancy terms which is conspicuously more generous than that which is operating in the private sector would simply redouble this criticism. I cannot therefore believe that we should go forward as proposed.

I am copying this letter to Patrick Jenkin, Leon Brittan and Mark Carlisle.

  
MICHAEL HESELTINE



LOCAL GOVERNMENT

ESTIMATED ADDITIONAL COST OF APPLYING NEW TOWNS COMPENSATION  
TERMS ON REDUNDANCY OVER THOSE OF THE LOCAL GOVERNMENT SCHEME

1. Staff Affected - only those in the 41 to 49 age range and a small number aged 50 or more who would not qualify for premature retirement compensation.
2. Staff Numbers (a) pensionable employees - total 951,000  
(b) non-pensionable employees - total 865,000
3. Numbers Affected - proportion (in years) of 41 to 49 age range of total service range (say 20 to 65) = 18%. Adjust for larger proportion who may be expected to have stayed by this age and for those aged 50 or more who may be eligible for New Towns terms - say 22%.  
  
Pensionable employees - 22% of 951,000 = 209,220 with an assumed redundancy rate of 5% = 10,500  
Non-pensionable employees - 22% of £865,000 = 190,300 with an assumed redundancy rate of 10% = 19,000
4. Average Age - 45
5. Average Length of Service (a) pensionable employees - say 20 years  
(b) non-pensionable - say 15 years
6. Average Salary (a) for all pensionable employees this is £5,500. Assumed increase for fairly senior staff - say £7,000 (ie about the mid point of the HEO pay scale and comparable with NHS mid band)  
(b) for non-pensionable staff this is £3,250. Assumed increase for older, longer-serving staff - say £4,000.
7. Redundancy Entitlement (as a number of week's pay)

	Pensionable Staff	Non-Pensionable Staff
Under New Towns Scheme	48	38
Under Local Government Arrangements	<u>22</u>	<u>17</u>
New Towns Improvement over Local Govt.	26	21
8. Compensation (a) Pensionable Staff 10,500 x 26 x  $\frac{7}{365}$  x £7,000  
= £36.6 millions  
(b) Non-pensionable staff 19,000 x 21 x  $\frac{7}{365}$  x £4,000  
= £30.6 millions

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