

Prime Minister

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It is a great pity that you need to decide on this tonight, before discussion with colleagues on Thursday (there wasn't time this morning at MISC 66).

MR. SCHOLAR

If you postpone a decision DHSS officials c. Mr. Hoskyns

will have to stick to 4%, since they can hardly say the government hasn't made up its mind when giving their main evidence to DDRB.

We had a word about the need for the Prime Minister to decide, before DHSS officials give evidence to the DDRB tomorrow, whether it would be right to indicate to the Review Body that there is some flexibility in the Government's position on the pay of doctors and dentists, as recommended in the Chancellor's note of 1 February. Although Mr. Fowler suggested to Mr. Gregson after MISC 66 this morning that this was already agreed, it has in fact been clear all along that the agreement of the Ministerial Committee on Pay is subject to the approval of the Prime Minister. The Prime Minister will recall that the written evidence to the DDRB says that Ministers have not yet decided the NHS cash limit, but that the Department would bring the Review Body up to date when giving oral evidence; tomorrow's meeting is the main occasion for giving evidence, and will last most of the day: it would be best not to delay the decision.

The DHSS proposal is to indicate to the DDRB a degree of flexibility up to about 6% - Mr. Fowler's paper to the Ministerial Committee proposed 6.1% as a working assumption. The proposal is based on the DHSS's firm view that the Review Body are more likely to make a recommendation we can afford if they are told that about 6% is the right area, than if officials indicate that the 4% cash limit is firm.

I think this is highly questionable:

- (i) Logically, it seems likely that the DDRB will make a higher recommendation on the basis of a higher cash limit;
- (ii) The proposal may leak, with highly adverse consequences for other public service groups;
- (iii) Ministers have already decided to let all the Review Bodies report without interference, and treating the DDRB in this way would raise the question of what to do about the TSRB and the AFPR; and

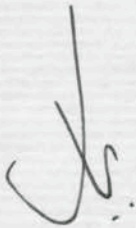
/ (iv)

I agree with this... in view of the... to the... for the... already... would... would do... damage

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(iv) A statement of this importance would need to be very carefully formulated and controlled, and the proposal at present is distinctly vague.

I conclude that it would be much better for DHSS officials to tell the DDRB tomorrow that the cash limit has been set on the basis of a 4% pay factor, and that the Government will decide how to treat the doctors and dentists when the Review Body reports. It ought not to be necessary to give the impression that the 4% is an immutable limit, any more than it is necessary to indicate willingness to go to 6%.



J.M.M. VEREKER

2 February 1982

FILE
SECRET



B/C J. Verker

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10 DOWNING STREET

From the Private Secretary

3 February, 1982

Dear John,

NHS Pay

Ministers were to have discussed the issues raised in the Chancellor's minute of 1 February to the Prime Minister in the course of their MISC 66 meeting yesterday morning. Time ran out, but it was necessary to arrive at a decision on the question as to what the Government's evidence to the Doctors and Dentists Review Body should be (paragraphs 6 and 7 of the Chancellor's minute); the time constraint here was that the DHSS were giving their oral evidence to the DDRB today.

The Prime Minister's view is that it would be a mistake for DHSS officials to indicate to the Review Body that there is flexibility in the Government's position on the pay of doctors and dentists up to about 6%; and that it would be better to say that the cash limit has been set on the basis of a 4% pay factor and that the Government will decide how to treat doctors and dentists when the Review Body reports. The Prime Minister considers that it ought not to be necessary to give the Review Body the impression that the 4% is an immutable limit, any more than it is necessary to indicate a willingness to go to 6%. She believes that if 6% were mentioned it would leak and would do very great damage elsewhere in the pay round. I have already passed these views on to the people concerned in the DHSS.

I am sending copies of this letter to the Private Secretaries to the members of E(PSP), Muir Russell (Scottish Office), David Omand (Ministry of Defence), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

John Kerr, Esq
HM Treasury

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