12

Ref. A085/1329

PRIME MINISTER

Armed Forces and National Health Service
Pay Review Body Reports 1985

At your meeting on 8 May, I was asked to prepare a paper setting out the options for the Government in responding to the Review Body recommendations while, keeping, as far as possible, the costs within Departmental Budgets.

THE RECOMMENDATIONS

2. All these Review Bodies have recommended pay increases from 1 April 1985 in excess of the allowances for such increases in the 1985/86 public expenditure provisions. The average increases, and the excesses over the cash provisions are summarised in the following table:

United Kingdom Figures Throughout	Recommended increases averaging %		Total costs in 1985-86 £m	Excess over existing provision* £m
Armed Forces	7.3		216	127
Doctors and Dentists				
(i) Hospital and Community Health Services (including distinction awards)	6.4		76	22
(ii) Family Practitioner Services	6.2		92	22
Nurses, Midwives	8.6)	average		
Professions allied to Medicine	12.1)	8.96	370	182

*assumed to be 3 per cent in the case of the armed forces, and 4½ per cent for the NHS (ie providing for 1 per cent service improvement in the HCHS).

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3. The shape of the increases recommended for each group is summarised in the attached note (Appendix A).

THE PROBLEM

4. The Government has undertaken to accept the reports of the Review Bodies unless there are compelling reasons for overriding them. Implementing all the awards in full from 1 April would, however, create acute financing problems for the NHS; the Ministry of Defence (MOD) could absorb the additional cost, though only at the expense of other parts of the defence programme, in particular equipment. It would also have embarrassing implications in relation to other public sector groups (eg the teachers and non-Review Body staff in the NHS) who have settled for or been offered pay increases of under 5 per cent on the grounds that more cannot be afforded.

OPTIONS

5. In principle, the following broad options are open to the Government:

i. accept the recommendations in full from 1 April 1985, and either absorb the extra costs by corresponding expenditure reductions elsewhere in the programmes, or provide money from the Reserve;

ii. abate the awards, so as to bring the costs of pay increases within existing provision;

iii. accept the pay levels recommended and bring them into full effect before 31 March 1986, but stage the increases so as to bring the total expenditure within the financial provision.

6. Although option iii. would contain the financial problem during the current year, like i. it would have the effect of increasing the wage bill in 1986-87 and subsequent years by substantially more than has been allowed in the Government's public

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expenditure plans. These consequentials and the room for offsetting savings would need to be resolved in the forthcoming Public Expenditure Survey.

Payment in Full From 1 April 1985

7. The Secretary of State for Defence is prepared to accept this course for the armed services, whose pay award was staged last year. The excess represents some 0.7 per cent of the total defence budget and absorption within their provision for the current year would require savings in expenditure on equipment and supplies, with consequential effects on defence capability.

8. In the case of the NHSS, the Secretary of State for Social Services accepted a 5½ per cent increase in cash provision on the basis that except in exceptional circumstances he would make no claim on the 1985-86 Reserve in respect of the cash-limited Hospital and Community Health Services (HCHS) programme (the provision for the non-cash limited Family Practitioner Service (FPS) programme is 4½ per cent). The benefit of programmed efficiency improvements in the HCHS, together with the 1 per cent lead on then forecast inflation, were intended to provide for the growing number of old people and other severe pressures; even accepting a 5½ per cent increase in HCHS review body groups' pay would mean giving up most of the one per cent service improvement money. In South East England, where cash provision is being held back in order to make more resources available to other parts of the country, resources would be cut 1 per cent. Implementing the awards in full from 1 April would not only absorb the whole of the 5½ per cent provision but make it necessary to find a further £151 million from the HCHS or other programmes or from the Reserve. The excess on the non-cash limited FPS (£22 million for a full year) would fall to be met from the Reserve in due course.

Abatement of the Awards

9. This would overcome the public expenditure problem for the current year, but the Review Bodies, if they remained in operation, would almost certainly increase their recommendations next year by

whatever amounts had been withheld this year. There would be very substantial political difficulties with this course, and it is doubtful whether the members of the Review Bodies would be willing to continue their service, or whether the professions concerned (British Medical Association, Royal College of Nursing) would stay with the system.

Staged Payment

10. There are three possible approaches to staging, thus:

a. Common dates. Under this arrangement a common percentage would be given from 1 April 1985 and the balance of the award from a common further date later in the year. The table below sets out one possibility. The essential point is that it would give different cash percentage increases for the various groups for the year 1985-86: the HCHS groups as a whole would get 5½ per cent more cash in 1985-86, but the doctors and the armed forces would get smaller increases in percentage terms. For all groups the rates recommended by the Review Bodies would be in effect from 1 December 1985. Other possibilities could give more (or less) from 1 April and the balance from later (or earlier) than 1 December.* This example has been chosen as the one that gives the maximum immediate payment that would be consistent with paying the balance with effect from 1 December.

	4 per cent	Balance	Pay Bill
Nurses etc	1 April	1 December	5.7
Doctors	1 April	1 December	4.8
HCHS combined	1 April	1 December	5.5
Armed Forces	1 April	1 December	5.1

* You will need to consider whether a 5 per cent first stage and later payment of the balance would be better. The advantage of this alternative is that those with low pay and increases of only 5 per cent[4] eg some training grades would not get caught up in staging.

b. Common pay bill increases for the year 1985-86. Under this arrangement a given amount would go to each group from 1 April, and the balance would go from whatever date later in the year would give the percentage increase on the pay bill for each group looked for. The following table shows the possibilities here. It assumes a 5½ per cent constraint on the pay bill for each group:

	4 per cent	Balance
Nurses etc	April	mid-December (5%)
Doctors	April	mid-August (2.4%)
Armed Forces	April	mid-October (3.3%)

c. No particular pattern. Under this arrangement different groups could be treated differently.

11. Patterns of dates and rates other than those shown in a. and b. --- are possible; further details are in Appendix B. To the extent that the April pay increase is more than 4 per cent, either later dates are required for the balance, or the total costs are increased.

12. Approach a. was that adopted (except for the Nurses, Midwives and PAMs) last year. The different amounts that would be received by the different groups in the course of 1985-86 reflect the differing sizes of the recommendations made.

13. Approach b. subjects each of the groups to the same cost contraint of 5½ per cent. The Nurses, Midwives, and PAMs would receive full implementation substantially later than the other groups, because the total increase recommended by the Review Body is larger than the totals for other groups.

14. If there were not to be consistent treatment for all groups, and the Armed Forces report were implemented in full from 1 April, there could be some advantage in treating the Doctors as much like the Armed Forces as possible, and sharply distinguishing the other groups. The AFPRB and DDRB awards would then be presented as uplifts under an established system, while the Nurses, Midwives and PAMs would be presented as the consequence of a fundamental review of their levels of pay. On this approach, and within the 5½ per cent ceiling, the DDRB award could be implemented in full on 1 June, only two months after the AFPRB, while the Nurses, Midwives and PAMs would have an initial payment of, say, 4 per cent on 1 April, with those grades concerned then getting the benefit of the restructuring increases from 9 December 1985.

IMPLICATIONS FOR PUBLIC EXPENDITURE PLANS

15. Even if the AFPRB award is given in full, the Ministry of Defence would absorb it by reducing expenditure elsewhere within the current budget for 1985-86; to the extent that it was staged the reduction in money available for other defence purposes would be smaller. For the National Health HCHS programme, an overall 5½ per cent pay bill cost could be absorbed for 1985-86 at the costs of removing practically all the intended service improvements save through efficiency savings that it might be possible to achieve. There would, however, be an inevitable addition to public expenditure by way of increase in the non-cash limited NHS FPS expenditure, which would be £22 million if the DDRB recommendations were given in full, and less if staged. The consequences for later years would be for consideration in the forthcoming Survey, as indicated above.

PENSIONS EFFECT

16. Any delay or staging of the awards will have the effect of reducing permanently the pensions of people who retire during the relevant period and whose salary of reference for pension purposes is therefore reduced. This effect would be particularly marked and particularly resented in the case of the Armed Forces, whose pensions are based on pay rates at time of retirement. NHS pensions are based

on the final year's pay, and the problems would be similar if less acute. Ministers have held firmly to the decision announced in April 1984 not to base pensions on notional rather than actual salary at the time of retirement, and any different course now taken would precipitate numerous awkward demands to reopen that decision, and to reopen it retrospectively.

OTHER CONSIDERATIONS

17. There are a number of other points Ministers may wish to bear in mind:

a. Regulations require that before pay awards for the Nurses and Doctors are implemented a process of negotiation take place (this can be and normally is a formality). It would be possible, if staging were being adopted within a cost envelope of say 5½ per cent, to offer a particular arrangement (for instance, that outlined in para 10(a) above) but to indicate readiness to discuss with staff representatives other patterns of staging within this cost envelope. But the Government has never before offered to negotiate on the pattern of staging Review Body awards.

b. As well as recommendations on pay increases the AFPRB also make recommendations for increased charges for accommodation and food etc. The Ministry of Defence would wish the introduction of at least some of the increased accommodation changes to be staged in any case, even if the awards were implemented in full from 1 April.

c. In giving any or all of the awards in full, or even in keeping the 1985-86 pay bill to say 5½ per cent, Ministers would wish to bear in mind the implications for other public service groups. Teachers are stuck at 4 per cent. Some NHS non-Review Body staff have rejected 4.45 per cent. A number of public service negotiations are outstanding. It is to be hoped that they can all be restrained within the benchmark of 4.9 per cent

now being set by the non-industrial Civil Service. Higher awards than this to the Review Body groups would give rise to increased pressures elsewhere, including the NHS non-Review Body staff. An announcement on 23 May of decisions on the Review Body reports would be against the background of an RPI increase to be published on 17 May almost certainly exceeding 6½ per cent.

18. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Defence and the Secretary of State for Social Services.

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ROBERT ARMSTRONG

13 May 1985

APPENDIX A

Pay Review Body Reports 1985

This note summaries the recommendations in the following review body reports:

i. Armed Forces Pay Review Body (AFPRB);

ii. Review Body for Nursing Staff, Midwives, Health Visitors and professions allied to medicine (NRB):

a. on nursing staff, midwives and health visitors;

b. on professions allied to medicine;

iii. Doctors and Dentists Review Body (DDRB).

Their recommendations in all cases take effect from 1 April 1984. Because the Top Salaries Review Body (TSRB) on higher civil service, senior service officers, and the judiciary is undertaking a special review of the case for pay differentials reflecting differences in the responsibilities carried by different posts, that Report is not expected until June.

AFRRB recommendations for 1985.

2. The AFPRB estimate that the net cost of their recommendations will add 7.06 per cent (£190.6 million) to the estimated pay bill for the regular forces for 1985-86. The number affected is 330,000. A further £14.6 million increases are proposed for reservists, making an overall increase of 7.3 per cent in the armed forces pay bill.

3. The increases for selected ranks are:

	£ Now being paid	£ proposed	% percentage increase
Brigadier and equivalent	27,101	29,401	8.5
Captain(Army) and equivalent	11,330-13,160	12,217-14,188	7.7
Sergeant and equivalent	8,472-10,184	9,088-10,939	7.3-7.5
Private and equivalent	4,807- 7,490	5,000- 8,026	4.0-7.2

NRB recommendations for nursing staff, midwives and health visitors.

4. The NRB estimate that the cost of their recommendations will add 8.6 per cent (£282 million) to the estimated 1985-86 pay bill for nursing staff etc. The number affected is some 483,000 in 'whole-time equivalent' terms.

5. The increases for selected grades are:

	£ Now being paid	£ proposed	% percentage increase
Regional Nursing Officer(RI)	20,491-26,235	21,520-27,550	5.0
District Nursing Officer (England)(DHA(T))	19,002-24,882	19,955-26,135	5.0
Senior Nurse 4	10,423-12,147	11,650-13,370	11.8-10.1
Nursing Sister II	6,827- 8,751	7,480-10,000	9.6-14.3
Staff Nurse (SRN)	5,398- 6,582	6,000- 7,175	11.2- 9.0
Enrolled Nurse	4,861- 5,864	5,270- 6,500	8.4-10.8
Nursing Auxiliary/Assistant (aged 18 or over)	3,777- 4,828	3,950- 5,120	4.6- 6.0

NRB recommendations for professions allied to medicine 1985

6. The NRB estimate that the cost of their recommendations will add 12.1 per cent (£31.8 million) to the estimated 1985-86 pay bill for professions allied to medicine (physiotherapists, radiographers, chiropodists, dietitians etc). The number affected is 34,980 in 'whole-time equivalent' terms.

7. The increases for selected grades are:

	£ Now being paid	£ proposed	% percentage increase
District Senior Chief	12,100-13,566	13,485-14,880	11.4- 9.7
Senior 1	7,727- 8,747	8,910-10,200	15.3-16.6
Basic grade	5,796- 6,560	6,505- 7,450	12.2-13.6

DDRB recommendations for 1985.

8. The DDRB estimate that their recommendations will add 6.3 per cent (£122 million) to the annual pay bill for doctors and dentists. The number affected is 111,600.

9. The increases for selected grades are:

	£ Now being paid	£ proposed	% percentage increase
Consultant†	20,200-26,080	21,460-27,700	6.2
General medical practitioner (intended average net remuneration)	22,070	23,440	6.2
General dental practitioner (target average net income)	19,100	20,280	6.2
Registrar	10,130-12,270	10,760-13,030	6.2

† increases in distinction awards bring the total for hospital doctors and dentists to 6.4 per cent.

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OPTIONS FOR STAGING

APPENDIX B

	Cost to HCHS of full implementation 1 month earlier UK £m
a. Common dates (HCHS* paybill held to 5½%)	
1. 3% April, balance mid October. Paybill: nurses etc 5.7%) ≠ doctors 4.6%) armed forces 5.0%	24
2. ø4% April, balance 1 December. Paybill: nurses etc 5.7%) ≠ doctors 4.8%) armed forces 5.1%	19
3. 5% April, balance mid February. Paybill: nurses etc 5.5%) ≠ doctors 5.2%) armed forces 5.3%	15
b. Common paybill (5½%)	
1. 3% April, balance: nurses etc 1 November (6%)	21
≠ doctors mid July (3.4%)	3
armed forces 1 September (4.3%)	
2. ø4% April, balance: nurses etc mid December (5%)	17
≠ doctors mid August (2.4%)	2
armed forces mid October (3.3%)	
3. 5% April, balance: nurses etc mid February (4%)	14
≠ doctors mid November (1.4%)	1
armed forces mid January (2.3%)	

≠ Note: figure for hospital doctors. Family practitioner doctors and dentists award is slightly lower (6.2%).

ø As in main paper para 10.

* HCHS: hospital and community health services.

ADDITIONAL COST 1985-86 ASSUMING SAME STAGING AS HOSPITAL DOCTORS
(ie Cost in Excess of 4½% Provision)

	UK £m
Option a1.	3
Option a2.	6
Option a3.	11
Option b1.	12½
Option b2.	13½
Option b3.	13½

Note: GMP expenses recommendations would be implemented in full from 1 April. The DDRB would need to recalculate the fees and allowances for the first stage. This is not a difficult job.