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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

THE NHS CASH LIMITS

Memorandum by the Secretary of State for Social Services

It is now necessary to settle the pay factor in the NHS cash limit in order that negotiations can proceed for the ancillary staff, ambulancemen and maintenance craftsmen whose settlement dates are mid December or 1 January. (For nursing and other NHS staff 1 April is the settlement date and these negotiations will not begin for a month or two.)

The settlement for LA manuals

2. The pay of NHS ancillary staff has traditionally kept in step with that of LA manuals. The interruption caused by the pay freeze in November 1972 led to widespread industrial action and the link was subsequently re-established. An offer fully matching that made to the LA manuals would cost about 8 per cent. The Management Side of the Ancillary Staff Council consider that they must match the pay offer (£4.60 a week) at a cost of  $7\frac{1}{2}$  per cent, but need not match the improvement in leave.

3. The local authority employers have justified an offer in excess of 6 per cent on two main grounds:

i. a substantial reduction in manpower has occurred and is expected to continue.

ii. The settlement straddles two financial years and 14 per cent was included for the period up to 31 March 1981.

4 These grounds would not permit a  $7\frac{1}{2}$  per cent offer to be made to the NHS staff within a 6 per cent pay factor. The NHS manual workforce has been able for some years and the NHS employers were encouraged to remove restrictive practices by £25 million underfunding of the Clegg award to ancillary staff in 1979/80. Savings of £25 million through improved efficiency have already been discounted in the provision for 1981/82 and additional savings are not feasible without cutting services. Secondly, health authorities have been expecting pay settlements at considerably less than 14 per cent and funds have been needed this financial year to meet eg the excess cost of the settlements for nurses and for doctors and dentists. And, of course, the NHS relies on Exchequer funds and has no access to rates.

5. I also feel bound to endorse the view of the NHS employers that a  $7\frac{1}{2}$  per cent settlement for ancillary staff would imply  $7\frac{1}{2}$  per cent for all NHS staff (at an additional cost of £90 million over a 6 per cent pay factor). More specifically, although the ambulance staffs have an eye on the settlements for firemen and police, there is a prospect that they would settle at  $7\frac{1}{2}$  per cent but not less. The electricians seek a 20 per cent increase in order to regain their link with the Electrical Contracting Industry and it will be difficult to secure a settlement as low as  $7\frac{1}{2}$  per cent. The nurses and the professions supplementary to medicine are concerned to avoid losing ground to other groups, but could be expected to settle for  $7\frac{1}{2}$  per cent provided progress can be made towards devising longer term arrangements for settling their pay.

6 Speaking more generally, it must be recognised that the position of the NHS is very different from that of local government - it is indeed unique. Because of the problems involved in securing differential rates of pay increases, of the almost complete dependence on central finance and of the lack of scope for significant staff reductions or other economies, a level of pay settlements in the NHS which significantly exceeded the pay factor included in the cash limit would inevitably lead to reductions in the service. Cabinet has already decided the volume allocations for next year and it would seriously undermine confidence in the service if cuts were enforced through setting cash limits for pay lower than any likely prospect of settlements.

#### The options

7. There are therefore two main options:

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i. A pay factor of 6 per cent. All NHS staff, including the ancillaries and ambulancemen, would be offered 6 per cent. A strong reaction could be expected, certainly involving industrial action. Ancillaries, ambulancemen and electricians would be in the lead; but resentment would be general and other groups would probably be involved. I believe the storm would be severe and it is doubtful whether it could be ridden out without conceding more than 6 per cent.

ii. A pay factor of  $7\frac{1}{2}$  per cent. It seems reasonably likely that we could get through the pay round on this basis without widespread or severe trouble. All negotiating groups would be offered increases of  $7\frac{1}{2}$  per cent. There might still be difficulties with some groups eg electricians, but these could be more easily handled if major groups eg ancillaries and nurses had settled.

#### Conclusion

8 The 6 per cent pay factor in RSG has been very successful in moderating the level of offers in the public service eg  $7\frac{1}{2}$  per cent to the local authority manuals and 7.9 per cent to the water workers. It has not however produced settlements at 6 per cent and these cannot be expected in the NHS. If we nevertheless decided to adhere to it, we should have to be prepared to face the risk of a period of serious industrial confrontation, which we well might not win. If we lost, there would be a choice between imposing extremely damaging cuts in the level of service, and accepting that the cash limit could not be adhered to. There is however a fair prospect of settlements in the NHS with a pay factor of  $7\frac{1}{2}$  per cent. At half the current rate of inflation this would represent a major contribution to the control of inflation. Accordingly I invite colleagues to endorse option ii.

P J

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