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PRIME MINISTER

NHS and Civil Service Cash Limits
(E(81) 3 and 5)

BACKGROUND

In E(81) 3 the Secretary of State for Social Services recommends a pay factor of $7\frac{1}{2}$ per cent in the NHS cash limit. The Chancellor of the Exchequer in E(81) 5 recommends factors of 6 per cent both for the NHS and for the Civil Service. In his letter of 9th January to the Chancellor, the Lord President advises that, if the NHS provision is for $7\frac{1}{2}$ per cent then the Civil Service should get the same.

2. The Secretary of State for Social Services' main arguments for $7\frac{1}{2}$ per cent for the NHS are:-

- (i) NHS ancillaries have traditionally kept in step with local authority manuals who, it is hoped, will endorse by 27th January the $7\frac{1}{2}$ per cent offered to them.
- (ii) All NHS staff should get the same as the ancillaries - in his paragraph 5 he argues that the nurses would not accept less and that a settlement as low as $7\frac{1}{2}$ per cent for the ambulancemen and the electricians would be a good outcome.
- (iii) The NHS differs from local government in that it is not possible to settle for $7\frac{1}{2}$ per cent within a 6 per cent factor for pay without making cuts in services.

3. The Chancellor of the Exchequer argues strongly that the decision should be 6 per cent both for the NHS and the Civil Service. He points out that this is what the public have been led to believe by the statement that the factors will be broadly within the same financial disciplines as imposed in the Rate Support Grant and for the universities; and that anything more would prejudice other settlements, including those for the teachers. On the figures in paragraph 4 of his paper, the additional $1\frac{1}{2}$ per cent would cost around £180 million. He further recommends that for the purposes of the Defence



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Estimates the same figure should be used for Armed Forces pay as for the Civil Service on the understanding, agreed by Cabinet, that the cash limit will be revised if necessary to accommodate the Government's decision on the recommendations of the Armed Forces Pay Review Body.

4. It is necessary to take decisions on these cash limits now to comply with the timetable for the 1981-82 cash limits and votes which are to be published on Budget Day. There is a separate question over when the decisions should be announced - see paragraphs 10 and 11 below.

HANDLING

5. The decisions on these two cash limits are inter-related. You will first wish to invite the Secretary of State for Social Services, the Lord President and the Chancellor of the Exchequer each to state their case. The Secretary of State for Employment will wish to comment generally and the Secretaries of State for the Environment and for Education on the implications for negotiations by the local authorities and on teachers in particular. The Secretaries of State for Scotland and for Wales each have responsibilities as Health Ministers.

6. The main questions on the NHS cash limit seem to be:-

- (i) Is it accepted that there is a firm link between NHS ancillaries and local authority manuals?
- (ii) If so, does this mean 7½ per cent for all NHS groups, or could the rest get 6 per cent?
- (iii) Is it accepted that there is no scope for further savings in the NHS to enable 7½ per cent settlements to be accommodated within a 6 per cent increase in the pay bill?
- (You will recall that in the public expenditure discussions the cut on the Health cash limit was limited to £25 million compared with the £120 million which would have resulted from application of the 2 per cent cut applied to all other cash controlled programmes.)
- (vi) What is the likelihood, and what would be the consequences, of industrial action if the decision is for 6 per cent, and would the cash costs of such action outweigh those of giving 7½ per cent?



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7. For the Civil Service credit has already been taken for savings from manpower reductions and there is little or no scope for further offsetting savings. The main question is whether the Committee accepts the Lord President's argument that the factor for the Civil Service has to be the same for the NHS. There are no formal and recognised links similar to those between the local authority manuals and the NHS ancillaries - Civil Service clericals got more than NHS clericals last year. The Lord President's main argument for like treatment is that anything less for the Civil Service will increase the chances of costly industrial action. The Committee will wish to hear the Lord President's assessment of such action.

8. If it is accepted that the NHS and the Civil Service should be treated alike, the Committee will wish to consider whether, notwithstanding the arguments put forward by the Secretary of State for Social Services, this points to 6 per cent all round.

9. The proposed treatment of the Armed Forces in the estimates is acceptable to the Secretary of State for Defence, who will not be attending the meeting.

10. When the Committee has decided on the pay factors for each group, you will wish to turn to the question of the public presentation of this decision. The Secretary of State for Social Services will probably want to make an early announcement in advance of the next discussions of NHS ancillaries' pay at the end of the month. The Lord President will need to consider whether the decision on the Civil Service should best be announced before or after the special conferences on industrial action which the Civil Service unions are planning for the end of the month - since they are expecting 6 per cent, anything more could defuse these conferences.

11. The decision on timing and the problem of presentation will clearly turn very much on whether the factors are 6 per cent or 7½ per cent. If they are 6 per cent there is probably a good deal to be said for announcing them as soon as possible in order to influence other negotiations in train. If they are for 7½ per cent this will need very careful public presentation, though that is not a reason for deferring the announcements for too long. You may wish to invite



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the Chancellor of the Exchequer to consider this further in E(PSP). Either way the Committee will wish to hear the views of the Secretary of State for the Environment on the case for announcements before or after 27th January when the local authority unions are expected to react to the offer made to them.

CONCLUSIONS

12. In the light of the discussion you will wish to record conclusions on:-
- (a) the pay factors in the NHS and Civil Service cash limits and those to be used in the Defence Estimates for the Armed Forces;
 - (b) the timing of the public announcements of these decisions.

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(Robert Armstrong)

13th January 1981

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