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PRIME MINISTER

PAY AND CASH PLANNING IN THE NATIONAL HEALTH SERVICE

You will recall that, when on 15 September the Cabinet discussed the pay and price cash factors for public expenditure in 1982/83, the previous Secretary of State for Social Services submitted a paper (C(81)(44)) arguing in general terms the need for an element of special treatment for a limited number of staff groups in the NHS; and that Cabinet (CC(81)31st Conclusions, Item 4) agreed to defer consideration of this and of any other similar proposals until the current round of public expenditure discussions. The Chief Secretary's paper on public expenditure (C(81)51) suggested that the implications for pay policy should be considered by the Ministerial Sub-Committee on Public Service Pay, before Cabinet took a view on whether to allow extra, and if so at what stage. He provisionally allowed £100 million in the totals.

2. At its meeting on 27 October the Ministerial Sub-Committee on Public Service Pay reviewed the detailed proposals (E(PSP)(81)25) which the Secretary of State for Social Services is now making on NHS pay. He proposed that three groups (nurses, doctors and dentists, and professions supplementary to medicine) should have an extra provision of something over 2 per cent, and that two groups (ambulancemen and hospital pharmacists) should have an extra 1 per cent. These groups amount to about 60 per cent of total NHS staff. This would cost £118 million next year.

3. The Sub-Committee looked at these proposals from the point of view of policy on public service pay. We recognised that since nurses form just less than half of total NHS manpower, it



would be impracticable to seek to provide for an element of special treatment for them within a 4 per cent cash limit pay factor for the NHS generally, without either unacceptable cuts in service levels or the need for unrealistically low pay settlements for other NHS groups. Similarly, in the case of the doctors and dentists, colleagues agreed that the Review Body system is likely to continue to be acceptable to the professions only if we are prepared to make available some money in excess of the general NHS cash limit pay factor for these groups this year. Unless we provide for extra pay increases for these two groups in particular, we are likely to provoke a damaging confrontation in which it would be hard for the Government to win public support.

4. The Secretary of State's proposals are not without difficulty. The decision to provide for extra pay increases for certain key groups will have to be presented to the relevant Whitley Councils as firm Ministerial decisions, to avoid any possibility that part of the extra money might be diverted to other groups. This is bound to give rise to complaints not only from other groups in the NHS but also from other groups of employees in the public services. We shall need to lay as much stress as possible on recruitment and other operational considerations. The timing of any announcement will also be important, particularly because of its potential impact on the course of the pay negotiations with the local authority manual workers and the non-industrial Civil Service. The latest that any announcement could be made is mid-February, but the Secretary of State for Social Services will be keeping in close touch about this with the other Ministers concerned.

5. The Sub-Committee decided that, despite the wider repercussions for public service pay, it should endorse in principle extra provision for certain NHS groups on the lines proposed by the Secretary of State for Social Services. It would be for Cabinet to decide on the amount of any extra provision, and on

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the groups to which it should be directed as part of our overall decisions on public expenditure. I presume that you will wish MISC 62 to cover this as part of their report on health and other programmes.

6. I am sending a copy of this minute to the other Members of the Cabinet, to Sir Robert Armstrong and to Mr. Ibbs.

(G.H.)

30 October 1981

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