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PRIME MINISTER

7 May 1986

PAY REVIEW BODY REPORTS

The recommended average pay increases are between 7.5% and 8%, with the total bill being approximately £700m+.

	%	£m*
Top Salaries	6.50	-
Nurses	7.80	280
Professions allied to Staff Medicine	8.20	30
Doctors & Dentists	7.69	160
Armed Services	7.46	220
	7.5-8.0%	+£700m

(* Rounded figures)

Comparability under Question

The basis of the recommendations continues to be comparability. Before accepting their conclusions, you need to answer three questions:

1. **Have they taken into account the recent rapid fall in inflation following the oil price fall?**

The answer must almost certainly be no, as the Reports were completed when the oil price was still falling. This suggests that the expected cost of living adjustment which has been included in all the Reports is slightly too high - by 1% or 1½%.

2. **Are low salaries and wages affecting recruitment and retention of staff?**

Again, the answer is no, with the exception of nurses. For example:

Dentists

"The Health Departments . . . considered that the projections on manpower made by the Dental Manpower Study Group were likely to be met if not exceeded."
(Chapter 6, paragraph 81)

General Medical Practitioners

"The Health Departments . . . saw no significant problems as to the supply of General Medical Practitioners. On the basis of the evidence we have received, we conclude that at present an adequate supply of suitably qualified doctors is being attracted into general practice."
(Chapter 5, paragraph 67)

Doctors and Dentists

"The Health Departments told us that recruitment and retention of doctors and dentists continued to be very satisfactory. In their view there was no evidence that pay levels inhibited the ability of authorities to recruit and retain staff or the willingness of practitioners to provide general medical and dental services. They believed that considerable weight should be given to this factor."
(Chapter 2, paragraph 18)

Nurses

But for nurses the position is different:

"We may . . . be moving to a situation where demand will outstrip supply. . . We do not believe there is any place for complacency."

(Page 21, para.48)

". . . the prospect of a future shortage of nurses, both qualified and in training, is a most serious matter."

(Committee of Public Accounts, Feb.1986, para.22)

On the basis of market conditions rather than comparability, this suggests that we should not treat all Reports in a broadly similar way - nurses seem far more deserving of the recommended increase than others.

3. **In view of a likely 6% settlement for civil servants, what knock-on effect will follow from acceptance of the Review Board Reports?**

This is the element of comparability which the Reports and even Robert Armstrong's paper have conveniently left out. Any announcement of higher rises for these special groups before the rest of the civil service is signed, sealed and settled will make that settlement very much harder to achieve.

Conclusion

1. Do not treat the Reports in a broadly similar way: there is a real prospect of shortages in the nursing profession, whereas there is not among doctors, dentists, armed forces and top civil servants.

2. Knock 1½% off all Reviews except nurses, because of the oil price fall and lower inflation. This would reduce the Doctors and Armed Forces to 6% (as for civil servants) and top salaries to 5%.

3. The suggestion that top salaries should rise by 6.5% - more than most civil servants will receive - following on from last year's award is a disgrace. A 5% award reverses the position (although it might be better to give them nothing). But then, at the time of the announcement, also go on and abolish the TSRB and initiate a review of the Armed Forces Review Board as a warning to other Review Boards. There is no reason why top civil servants should be treated any differently from others.

4. The Armed Forces pay increase can be absorbed from the current defence budget but only by shifting funds from equipment to people. The Health Authorities are more tricky. I attach a very clear note from the DHSS (Annex A).

They predict a shortfall of £130m which can be financed partly through lower inflation and partly through reducing the NHS employers' superannuation contribution which has already been

proposed by the Government Actuary's Department. This means that the DHSS would not raid the Reserve nor cut services in the first quarter of next year.

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Annex A

1. .E ON HEALTH AUTHORITIES' PAY*

For 1986-87 HCHS received an increase of £650m (6.7 per cent) in their allocations on the basis of

4.5 per cent forecast general inflation
1 per cent for the costs of the growing numbers of elderly
1.2 per cent for the cost of the 1985 Review Body awards.

In addition Health Authorities plan £150m (1.5 per cent) of cash-releasing Cost Improvement Programmes. From within the total additional resources (£800m or 8.2 per cent) they were expected to meet all pay and price increases, to cope with the increased numbers of elderly and achieve (minimum politically defensible) specific service priorities (such as more hip replacements, kidney treatments, heart surgery and coping with AIDS).

2. The table below shows our present assessment of the demands upon the £800m.

		m
(Actual)	Cost of the 1985 Review Body Awards (which were staged)	120
(But see 4.2)	Cost of inflation at 4.5 per cent for goods and services othan than pay	115
(Speculative)	Cost of 1986 Review Body Awards at 7.5 per cent	350
(Highly probable)	Ancillaries at 6 per cent	55
(Probable)	Other NHS Staff at 6 per cent	95
(Actual)	Cost (already incurred) from ambulancemen's 1985 award	10
(Actual)	Similar overhang from maintenance award	10
	Total pay and prices	755
	Demography (1 per cent extra needed for same level of service)	100
	Services	75
	Total Requirement	930
	Shortfall	130

3. The figure of £75m for services is consciously half the cash released through Cost Improvement Programmes, on the basis that it is wrong in principle (and would cause a row) to pre-empt more than half for pay. Declared service priorities require at least £75m.

4. At this stage our preferred route for meeting the shortfall is:-

1. Reduce NHS employers' superannuation contribution by 2 per cent saving £100m a year (£80m if not implemented till June). The Fund (notional) is in surplus and the GAD has recommended the reduction in contributions. Treasury seem now to accept that this has to happen, but want to reduce the cash limit by the full amount.

2. NHS (in additional to £75m already identified from Cost Improvement) to fund the balance from the expected savings through lower inflation. General inflation (GDP deflator) is now forecast to rise only 3 3/4 per cent, saving the NHS £20m. Our first tentative calculations of their specific costs suggest substantially greater savings - perhaps £50m.

Together these two items would meet the shortfall and avoid cutting too deeply into provision for services. They would leave no slack in the system, but would of course entail Treasury the giving up the £100m reduction in the cash limit.

* This note only covers hospitals.

If we cannot achieve that outcome, the alternatives are:-

1. Abating Review Body awards, but the abatement would have to be very substantial to dent the shortfall. Cutting the 1986-87 cost by 1 per cent to 6½ per cent would save only £47m. The nurses in particular are already mounting a campaign against any abatement.

2. Hold out for lower settlements in Whitley for other groups. But a 1 per cent reduction to 5 per cent would save only £25m and would probably provoke a strike. For ancillaries we already accept that 6 per cent is the lowest possible settlement figure. A higher figure for the Civil Service than 6.0 per cent will make any settlement harder to achieve.

3. An increase in the cash limit, financed from the Reserve. Treasury are naturally hostile. Politically the superannuation route at 4.2 is more attractive.

4. A greater contribution from health authorities. There are already serious complaints about levels of service and cuts. To pre-empt a higher proportion of Cost Improvement savings would have a damaging effect on morale and undermine our changes of continuing the programme in later years. Closures and higher waiting lists would be inevitable.