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PRIME MINISTER

2 May 1984

PAY REVIEW BODY REPORTS

This year's recommendations are a setback for our public sector pay policy. If they were accepted, roughly half the 2 million public sector employees would receive about 7% this year, the other half, around 4½%. The Bodies have done little more than conduct the comparability exercise, matching private sector earnings (not pay rates which have risen more slowly). The Government's philosophy on pay - concern for affordability and recruitment/retention considerations - has been disregarded.

The options facing us are:

- (i) accept all recommendations;
- (ii) reject all, on the grounds that they are unconvincingly argued and incompatible with the Government's approach to pay;
- (iii) pick and choose, and possibly box clever on staging.

Option 1 is unacceptable. This pay round is going quite well so far. Major groups (local authority manuals, electricity and gas workers) have settled at less than 5% on an annualised basis. We can still hope to secure similar settlements for teachers, in British Rail and the Civil Service. But now that the nurses are within the special Review Body category, the latter accounts for about one half of public sector employees. It will be difficult to convince the rest that all this group is "special". It would be difficult to conclude this pay round as successfully as it has begun, let alone repeat it next year if the recommendations are accepted.

Option 2 - reject all recommendations - would question the Government's commitment to the Review Body principle. It would be difficult to reject the NRB's very first recommendation. The establishment of the Body was part of the 1982 settlement with the nurses; to establish the Body and disregard its recommendation would be widely seen as a cynical and ethically dubious device.

Option 3 seems the only course. We suggest something along the following lines:

Nurses: accept recommendation, but try to reduce the impact of this on the negotiation with the non-medical NHS staff by making it clear that managerial initiatives will be essential to absorb the cost of this settlement without damaging the NHS. In particular we suggest:

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- Work measurement for nurses, leading to more productive use of their time (we have heard of overlaps between nursing shifts of 4 hours);
- less indulgent nursing accommodation and disposal of some of the £1 billion worth of properties involved. Norman Fowler should publish the Rayner Study which has revealed how extravagant the existing NHS accommodation policy is. There are too many empty houses and flats; these can be sold. The NHS is subsidising each of its 95,000 staff in residential accommodation by £5 week on average, disregarding any of the capital costs involved. Could we not raise the rents for those enjoying this cheap accommodation, to recoup a little of the pay increase?

Nurses will be encouraged to accept these changes by your own condition that the continued existence of the NRB depends on a no-strike record.

The remaining groups: scale down awards to the level of the eventual Civil Service settlement (4½-5%), and delay announcement. The scaling down could be achieved either by the lower percentage, paid from 1 April 1984, or by extending the period for which the awards would run, eg to 18 months. The decision would be defended on the grounds that the Pay Review Boards are only advisory and that they have not taken sufficient account of the very satisfactory state of recruitment and retention and the generally lower trend in public and private sector wage rate settlements.

Scaling down these awards to, say, 4½% would save around £150 million a year, on a continuing basis.

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