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Ref. A084/1493

PRIME MINISTER

Handling of Review Body Reports 1984

--- As requested at your meeting of Ministers on 3 May about the handling of the Review Body reports for 1984 I attach a note, prepared with the help of the Permanent Secretaries primarily concerned, which sets out:

- i. alternative ways of reducing the effective increases over 12 months;
  - ii. managerial changes to improve efficiency which might offset the cost of, or justify, higher than average increases for these groups.
2. The figures in paragraph 4 of the paper about the financing of the NRB and DDRB recommendations, if they were to be implemented in full, relate to Great Britain and not just to England. They reflect the understanding reached earlier this week between the Secretary of State for Social Services and the Chief Secretary, Treasury. The agreement of the Secretaries of State for Scotland and Wales will however need to be obtained in due course in respect of their figures and their share of the savings to be found. At present neither they nor their Departments have seen the reports or been involved in the discussion.
3. I am sending copies of this minute and the attached note to the Lord President, the Lord Chancellor, the Chancellor of the Exchequer, the Secretaries of State for Defence, Social Services and Employment and the Minister of State, Privy Council Office.

REA

ROBERT ARMSTRONG

18 May 1984





## HANDLING OF PAY REVIEW BODY REPORTS 1984

Note by the Secretary of the Cabinet

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At the Prime Minister's meeting on 3 May I was asked to develop proposals for the handling of the 1984 Pay Review Body reports in consultation with Permanent Secretaries of the Departments mainly concerned.

## NATURE OF THE PROBLEM

2. The annual increases recommended in the 1984 reports are: by the Armed Forces Pay Review Body (AFPRB) for the armed forces up to and including the rank of Brigadier and equivalent 7.6 per cent; by the Nurses Review Body (NRB) for nurses and midwives 7.5 per cent and for the professions allied to medicine 7.8 per cent; by the Doctors and Dentists Review Body (DDRB) 6.9 per cent; by the Top Salaries Review Body (TSRB) for senior civil servants of the rank of Under Secretary and above, Major-Generals and the equivalent and above, and the judiciary just under 6.5 per cent. There are two main difficulties:

i. the increases recommended are well in excess of the 4.5 to 5 per cent level of settlement established in the public sector in the pay round so far and being sought for other groups where settlements have not yet been reached (notably the non-industrial Civil Service, schoolteachers in England and Wales, National Health Service staff not covered by Review Bodies, and the miners);

ii. additional costs have to be met in excess of the existing expenditure provision based on a 3 per cent pay factor; in so far as these cannot be absorbed by Departments, they will add to the pressures, already considerable, on the 1984-85 Reserve.





3. The cost of implementing the AFPRB recommendations would be some £133 million in excess of the cash limit provision. The Ministry of Defence consider that, although it will not be easy to absorb this, it will be possible to do so.

4. For the NRB and DDRB health departments would be faced with costs over and above existing provision of around £340 million (All figures Great Britain). Of this, £220 million is for the cash limited services and £120 million is for the non-cash limited Family Practitioner Services, including £80 million contractual payments for doctors' and dentists' back expenses. It is in addition assumed that the cash limited NHS will have to meet an excess over 3 per cent for the eventual settlement for non-Review Body staff; if this comes out at 4.5 per cent the excess would be about £45 million, giving a total for the cash limited services of £265 million. The Secretary of State for Social Services and the Chief Secretary, Treasury have discussed what offsetting savings could be made in the current financial year without damaging patient services and without prejudicing important longer-term elements, including implementation of the Griffiths management reforms and the review of the FPS. They agreed that no savings were feasible on the FPS and that the full excess of £120 million would be charged to the Reserve. They noted that health authorities were being required to make increased efficiency savings (of over £100 million), but that these were substantially committed to developments necessary to secure adequate standards of patient care. They agreed that the share of savings to be used for funding agreed pay settlements in the cash limited services should be £54 million; health authorities would thus find from within their cash limits 20 per cent of the settlements affecting their staff and £211 million would be met from the Reserve. These figures cover both Review Body and non-Review Body settlements; in some respects these have different characteristics and the timing and form of announcements would need to be carefully considered, as would the situation if the non-Review Body staff settlement was substantially different from 4.5 per cent.





5. So far as the TSRB is concerned, Departments would be expected to absorb the cost of senior civil servants' increases (up to about £0.7 million above the 3 per cent provision already in plans) marginally adding to the pressures already brought about by the prospect that the Civil Service pay settlement is likely to be higher than 3 per cent. The Ministry of Defence would absorb the excess cost of the senior armed forces officers' increase, put at £0.2 million. The Lord Chancellor's Department would, however, have problems in relation to the judiciary, where the full award would cost them about £1.15 million above existing provision for England and Wales. The Lord Chancellor's Department has agreed to absorb £0.5 million. The Treasury accepts that the balance, and the full excess over 3 per cent for Scotland and Northern Ireland (£0.25 million at most), may need to be met from the Reserve.

#### POSSIBLE APPROACHES

6. It was agreed at the Prime Minister's meeting on 3 May that two possible approaches should be explored either as alternatives or in combination for each of the Review Body groups:

- i. a reduction in the effective increase over the 12 months period, say to around 4½ per cent;
- ii. managerial changes designed to improve efficiency, which might offset the cost of, or justify, higher than average increases.

#### Reduction in Cost

7. There are two main ways of reducing the 1984-85 cost to around 4½ per cent:

- a. a straight across-the-board reduction in the recommended increases to this figure with effect from 1 April 1984;
- b. giving the award in full but from later dates in the year, so as to lead to an effective increase of around 4½ per cent over the year, by either:





- i. deferring implementation of the recommended increases from 1 April to 1 August; or
- ii. staging, so that 3 per cent would take effect from 1 April and the balance from 1 November.

--- The table at Annex A shows how the two approaches at b.i. and b.ii. would reduce the 1984-85 costs for the various groups.

8. An alternative approach would be to give the recommended awards with effect from 1 April 1984 but make it clear that they run up to say 30 June 1985. This would have the advantage of allowing the increase to be presented as a lower number (it would annualise at 4/5ths of the actual increase given so that - for example - the nurses would be presented at 6 per cent); and it could have longer-term value in moving the effective dates for these potentially embarrassing reports towards the back end of the pay round. It would also reduce costs in 1985-86 provided "catching up" was resisted. It would not however reduce the costs in the current year.

9. At the meeting on 3 May Ministers discussed the arguments in favour of a reduction in the recommended increases for the various Review Body groups. In deciding whether to pursue the options discussed in paragraphs 7 and 8 above they will need to bear in mind the following considerations:

- i. the need, in accordance with past pledges, to find "clear and compelling reasons" for rejecting Review Body recommendations; this would be particularly relevant to a straight across-the-board reduction in the recommended increases, rather than deferring implementation or staging;
- ii. expectations of particular groups, notably the armed forces in the light of the Government's policy since 1979 of implementing AFPRB reports in full, and the nurses in the light of the fact that this is the first year of operation of the NRB, and that, as part of the agreement





which brought the NHS dispute to an end in 1982, the Government made it clear that the NRB's first report should relate to the period beginning 1 April 1984.

(Statement by the Secretary of State for Social Services on 9 November 1982 OR Co1 428);

iii. the difficulty of rejecting or abating the recommended increases for some of these groups (notably the armed forces) without giving similar treatment to increases at a similar level which may emerge from the pay machinery for the police (in July) and the fire service (in the autumn);

iv. the effect on the pension entitlements of individuals; this is particularly relevant to any deferment of implementation or staging; the special nature of the Armed Forces pension arrangements would entail additional complications and difficulties in that area;

v. the reaction of Review Body members, and the possible effect on the continuation of the Review Body arrangements.

#### Improvements in Efficiency

10. The remainder of this paper considers how far managerial changes designed to improve efficiency, which are already in train or might be introduced in the future, could be held to offset the cost of the Review Body recommendations or to justify increases somewhat higher than the average in the public services.

11. So far as the armed forces are concerned (both those covered by the AFPRB and the senior officers covered by the TSRB) the Ministry of Defence is, as the latest Defence White Paper makes clear, in the process of intensifying its measures to improve efficiency. They range from the reorganisation of Defence Headquarters and the MINIS scrutinies through major reviews like 'Lean Look' (studies of Army support areas) and 'Slimtrain' (streamlining Naval shore training) to detailed improvements in things like stores handling and maintenance. The control of manpower numbers - both military and civilian - is fundamental





to these studies; it is augmented by a programme of contractorisation and privatisation and, in the equipment field, intensification of competition. The central objective of all this is the same - to get better value from the defence budget by moving resources from the "tail" to the "teeth". But effective "teeth" require above all well-motivated Servicemen in all three of the Armed Services, and it would be illogical to require more of Servicemen (eg in terms of longer sea time or more intensive training) while curtailing what the Government has hitherto represented to be the appropriate reward for their work. The Ministry of Defence believes that it would be consistent with its broad objectives to help finance the AFPRB recommendations by using some of the savings which will flow from its intensive programme of improvements in efficiency.

12. For the NHS groups, the aim must be to link increases in pay to co-operation in reducing unit costs. The Government would therefore make it clear in announcing its decision on the Review Body reports that co-operation with management in improving productivity is an essential part of any employee's job; that the Review Bodies' recommendations are being accepted only on the basis that this part of the job will in fact be vigorously performed; that performance will be monitored on behalf of the Department by health authorities; and that the outcome of this monitoring process will in future be regularly reported to the Review Bodies on the basis that failure in this part of the job should be seen as a factor relevant to the level of remuneration in future years. The Prime Minister would repeat this in a formal letter to the Chairmen of the Review Bodies concerned with the three NHS groups saying that the Government will in future be asking them to take this factor into account - in effect an open rider to each of their terms of reference. (It would be for consideration whether the staff organisations should simply be informed or formally consulted.) This approach should in principle apply to all the NHS staff groups concerned, though its application to independent contractors in the family practitioner services will inevitably be rather less precise.





13. It is not conceivable that the "efficiency" rider could pay for the excess costs to the NHS of the Review Body reports in 1984-85. But its long-term impact could be very big indeed, for improvement in productivity is a far-reaching concept in health care. In relation to nurses, it would include a rigorous review of the deployment of the work force to ensure that there was no duplication or inefficient patterns of working, covering, for example, a re-examination of shift overlaps, unsocial hours payments and staffing levels hitherto based on historical considerations rather than on current needs. In relation to medical services, examples are the re-examination of the quantum of out-of-hours stand-by duty, the greater use of cross-cover between Departments; and the acceptance of - and indeed medical leadership in - changes on the organisation of patient care aimed at improved productivity. More generally - and of immediate significance - the rider would require from the professions co-operation and, in many cases, leadership in securing the better management of the NHS now being demanded by the Secretary of State and endorsed by the Griffiths report. This extends from the early introduction of the general management function in the hospitals, and the changes in working methods that will require, to the development and application of clinical budgeting and the involvement of clinicians in the cost-effective running of their Departments. The opportunity of establishing a link between the professions' management performance and their pay, as an incentive and as a deterrent, should not be missed.

14. In the case of the senior Civil Service grades covered by the TSRB it is relevant that the Government is carrying through a major reconstruction of the role, and working methods, of central Government. Over 200 scrutinies and reviews have so far been conducted into the efficiency with which particular Government tasks are undertaken. These have so far saved the taxpayer over £200 million a year and pointed to possibilities for saving at least as much again. Major reform is in progress, under the general heading of the Financial Management Initiative, leading to the systematic analysis of objectives, achievements and costs





throughout the Service and designed to improve the future management of the resources deployed by Government; many tasks have been or are being privatised or hived off; a substantial effort is being made to devolve responsibility and authority over the use of resources to the operating units of Government Departments; information technology is being introduced on a substantial scale; and increasing resources are being devoted to professional training at all levels. Since 1979 the size of the Civil Service has been reduced by more than 108,000 (14.8 per cent) despite substantial increases in the demands made upon public services by the recession. Roughly one-eighth of the staff reductions have been brought about by hiving off or privatising particular functions. About a quarter have derived from the dropping or curtailing of particular tasks. The remainder and the increased demands on Government brought about by the recession have been met through increases in efficiency.

15. The senior Civil Service has been, and remains, the Government's prime instrument for carrying through these managerial changes, as well as other major changes in Departments' policies and programmes. Despite this, the number of civil servants at Under Secretary level and above (the senior Open Structure) has been reduced by 16 per cent over the period (from 814 on 1 April 1979 to 682 on 1 January 1984). This reduction has been achieved partly by natural wastage (about 400 normal retirements, etc), partly by a reduction in the number of promotions to the senior Open Structure (now running at about 60 a year compared with 90 a year from 1974-79) and partly by various early retirement measures (some 90 members of the senior Open Structure have retired early in the past five years). The net effect has been that about 55 per cent of the present senior Open Structure have been appointed to that Structure since April 1979.

16. In addition this year the Government have set aside funds which will by the end of 1984 enable about 100 senior staff over the age of 55 - mainly at Assistant Secretary level and above - to retire early with the express purpose of providing new promotion opportunities for talented younger staff whose promotion might





otherwise be held back by the contraction of the Civil Service as a whole. Finally, the Government is currently considering the introduction of merit pay to further encourage effort and reward achievement. On present plans Under Secretaries would be eligible for payments under this scheme.

17. All of these measures and developments have led to a tauter and more purposefully directed senior Civil Service whose efforts are increasingly devoted to the pursuit of efficiency and value for money in the conduct of the Government's operations. They have led not only to a significant increase in the workload on individuals but to an appreciable improvement in the quality of the managerial input.

18. The Civil Service being a career service, the effects of remuneration of the higher Civil Service upon recruitment and retention are indirect and impossible to measure. Effects of today's recruitment will not be felt in the higher Civil Service until the generation being recruited today reaches the higher Civil Service in 15 to 20 years' time; but by that time it will be too late to remedy any damage that may have been done. The impression of those concerned with the recruitment of the graduates who would be expected in due course to become higher civil servants is that potential recruits to the Civil Service are affected by the image of public standing of the senior Civil Service, and look at compatible earnings later in the career (as well as at the beginning) as one yardstick of that standing. Recent experience in recruitment and retention gives some cause for concern:

- i. In 1982 and 1983 the Civil Service Commission were unable to recruit enough graduate "high flyers" even for the relatively small number of vacancies on offer (24 recruits for 44 vacancies in 1982, 47 recruits for 60 vacancies in 1983).





ii. When the direct entry Principal scheme was revived in 1983 36 posts were offered but, despite nearly 1,000 applicants, only 19 recommendations for appointment were made. That was an indication of a severe failure to attract a field of adequate quality. Of the successful candidates 4 subsequently withdrew for reasons including insufficient salary; in the end, only 15 posts were filled and, even here, one-third of the candidates had to be given an increase in the recommended starting salary while, for a number, accepting a Principal appointment entailed a loss of earnings.

iii. Certain Departments (notably the Treasury) have suffered significant and increasing outflow of high quality Principals (who would if they had stayed have become tomorrow's senior civil servants), some of whom are known to have been attracted by better pay and prospects outside Government Service;

iv. Experience in recruiting outside candidates for very senior posts suggests that it is impossible to recruit adequate candidates of comparable quality with the civil servants in the appropriate grade can well be in receipt of remuneration packages twice or even more as large than the comparable civil servants.

19. In the case of the judiciary there are no managerial changes of the kind referred to in respect of other Review Body groups which could be cited as leading to improvements in efficiency offsetting the costs of the increases or justifying a higher level of increase. The main development in this area is that, as the Lord Chancellor told the Home Affairs Committee when giving evidence to them on 4 April 1984, he would like to appoint 10 per cent more circuit judges in order to reduce the backlog of criminal cases awaiting trial in the Crown Courts. This increases the difficulty, which exists already, of recruiting circuit judges of adequate quality from the best practising barristers who, in mid-career, are well remunerated. The justification for the increases for the judiciary would therefore need to lean heavily on the special recruitment arguments.





## ISSUES FOR MINISTERS

20. Ministers are invited to consider:

i. in the light of paragraphs 7 to 9, how far they wish to reduce the effective increases for the various Review Body groups to around 4½ per cent by:

a. straight reduction of the increase due from 1 April;

b. deferring implementation (say until 1 August) or staging (say 3 per cent from 1 April and the balance from 1 November);

c. making the awards run until 30 June 1985 rather than 31 March 1985; *or a combination of*

ii. in the light of paragraphs 10 to 18, to what extent they wish to implement the recommended increases in full on the grounds that there are improvements in efficiency which will offset the cost of, or justify, higher than average increases for these groups. *(a) and (c).*

*RA*

ROBERT ARMSTRONG

18 May 1984



SECRET

REVIEW BODIES - EFFECTS OF DIFFERENT IMPLEMENTATION DATES

<u>Body</u>	<u>Number Involved</u>	<u>** Award Recommended from 1 April</u> %	<u>Effect if full increase given from 1 August</u> %	<u>Effect if 3 per cent given from 1 April and balance from 1 Nov</u> %
AFPRB	321,000	7.6	5.07 ✓	4.92 ✓
NRB *	518,000	7.5	5.00	4.88
DDRFB	98,000	6.9	4.60 ✓	4.63 ✓
TSRB	1,800	6.5 //	4.33 ✓	4.46 4.52 //

\* NRB - comprise nurses, award 7.5 per cent: and professions ancillary, award 7.8 per cent.

\*\* Bodies' Estimates.

ANNEX A

SECRET