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PRIME MINISTER

Review Body Reports 1985

The attached note summarises the 1985 recommendations of the armed forces and health services pay review bodies. (The Top Salaries Review Body (TSRB) is not expected to report until some time next month, because of the extra time needed to review the case for salary differentials to reflect differences in the responsibilities carried by different posts.) They raise the following main issues.

- i. Some of the annual increases recommended (7.06 per cent on average for the armed forces, 8.6 and 12.1 per cent on average for the nurses and professions allied to medicine, and 6.2 per cent for the doctors and dentists) are substantially above the current average level of settlements both in the private sector (average in the pay round so far 6 per cent) and in the public sector (average so far ~~just~~ about 5½ per cent).
- ii. There may well be repercussions for the public sector pay negotiations still pending and, in particular, those for the following groups:
 - NHS staff not covered by review bodies;
 - schoolteachers in England and Wales, and Scotland.
- iii. The increases are well in excess of the pay factor of 3 per cent on which the expenditure provision for 1985-86 has been based. If the recommendations are accepted in full, Departments will either have to absorb the excess or make a call on the contingency reserve.



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2. The purpose of your meeting is to take a preliminary view of how far the recommendations should be accepted, to discuss the timing of publication of the reports and of announcements of Government decisions, bearing in mind the possible impact on outstanding public sector negotiations; and to consider the arrangements for further Ministerial discussion of the reports.

AFPRB Report

3. It may be convenient to start with the AFPRB Report. The 1979 Manifesto contained the commitment: 'We will bring Servicemen's pay up to full comparability with their civilian counterparts and keep it there.' The 1983 Manifesto made no explicit reference to comparability or to future action and says: 'We have honoured our promise to give our regular and reserve forces proper pay and conditions'. Last year's recommendations were accepted in full, as in previous years since 1979, but only 3 per cent of the total increase of 7.6 per cent was paid from 1 April, with the remainder delayed until 1 November.

4. The 1985 average increases of 7.06 per cent are somewhat lower than those recommended last year, and also somewhat below the current underlying average annual rate of increase in earnings for the economy as a whole, estimated at about 7½ per cent. The increases recommended are not uniform, and range from 4 per cent for unskilled recruits through 7-7½ per cent for experienced NCOs to 8½ per cent for the most senior officers (up to the rank of Brigadier). The 7½ per cent recommended for skilled and experienced personnel reflects the Review Body's judgment on the pay levels required to retain sufficient numbers of such people in the armed forces.

5. The excess over the 3 per cent PESC provision for rising costs resulting from full implementation of the AFPRB recommendations would be about £120 million, or about 0.6 per cent of the total Defence Budget of £18.1 billion. However that Budget



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will also have to absorb the impact of pay increases of about 4.9 per cent for civilian staff (it appears likely that the civil service unions will reluctantly acquiesce in the Treasury's final offer of 4.9 per cent, given the Employment Secretary's refusal of their request for arbitration), as well as the full impact of last year's AFPRB increases. Now that the NATO pledge of a 3 per cent real increase each year in defence spending is coming to an end, the Defence Secretary has put down a marker in the context of plans for the 1985 Public Expenditure Survey about the difficulties he faces as a result of the allowance in cash planning made for rising costs falling short each year of actual inflation.

DDRB Report

6. The DDRB recommendations - 6.2 per cent for hospital doctors and the same for GPs and dentists - are a little lower than last year's (6.9 per cent), and imply a relatively modest excess over the PESC provision. The NHS has been allowed a 5½ per cent increase in cash expenditure between 1984-85 and 1985-86; this has been presented by Health Ministers since last autumn's economic statement as 4½ per cent for inflation plus 1 per cent for real improvement in services. For the cash limited hospital services the excess above 4½ per cent is about £22 million (for the whole UK); for the non-cash limited family practitioner services, the excess above the PESC baseline is estimated at £14½ million. (A settlement for the non-Review Body NHS groups at the same level as the civil service would imply an excess of about £12 million.)

Nurses Review Body Reports

7. The AFPRB and DDRB reports - both of them recommending lower increases than last year - could probably be accepted in full without significant adverse impact on pay negotiations elsewhere; and it may be that the squeeze on forces capability/ service levels implied by rejecting any consequent claim on the Contingency Reserve would not present intolerable difficulties. But the recommendations for nurses and the professions allied



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to medicine (PAMs) will cause much greater difficulties. Last year was this Review Body's first year of operation, and the increases recommended (7½-8 per cent) were avowedly on an interim basis until a full review could be completed of the appropriate level and structure of these salaries. The high average (8.6 per cent for nurses and 12.1 per cent for PAMs) increases now recommended conceal significant differences in the treatment of different groups, with relatively lower increases (4½-6 per cent) for unskilled nursing auxiliaries, etc and for the most senior nurses (5 per cent), but much larger increases for the middle ranks of qualified and experienced people (9-14 per cent for staff nurses and nursing sisters, and 12-16½ per cent for members of the PAMs).

8. The difficulties here are two-fold; the impact on NHS finances, and the possible repercussions on other public sector pay negotiations. So far as NHS finances are concerned, the excess over the assumed 4½ per cent provision is put at about £180 million, which could not be absorbed without significant impact on the level of services. There is the added difficulty that the recommendations represent in effect a re-evaluation of the appropriate pay levels for trained and experienced nurses and members of the PAMs, as well as a substantial pay restructuring for nurses. If the Government were to accept these recommendations, the difficulty of holding teachers' pay in the 4-5 per cent range could well be greater. There could also be some impact on the NHS non-Review Body groups; but the facts that much lower increases are proposed for unskilled people by the NRB, and that the civil service seems likely to settle at 4.9 per cent, should reduce the repercussions in this area.

The Options

9. If Ministers decide not to accept all the recommendations in full, they have three options for reducing their cost and impact:



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(a) abate the awards, and impose lower increases (e.g. 4.9 per cent all round, in line with the civil service). This would be the best outcome from the public expenditure/counter-inflation standpoint; but there would be serious political difficulties, and the problem would be exacerbated next year by the resulting 'backlog' if the Review Bodies continued in operation;

(b) stage the awards, so that they do not come into full payment until later in the financial year, as was done last year for the AFPRB, DDRB and TSRB groups. Payment of 3 per cent on 1 April and the remainder on 1 November would reduce the cost of the increases for the armed forces and the doctors during the current year to 5 per cent or less. (In the case of the nurses and PAMs taken together, the comparable figure would be 5½-6 per cent.) This reduces the squeeze on service levels, etc during 1985-86, but the squeeze would be felt in full in 1986-87;

(c) extend the period of the settlement (i.e. the next review would not take effect until 1 July 1986). This could be represented as reducing the size of the increases at an annual rate, and might also marginally reduce aggregate expenditure in 1986-87; but it would not help this year's cash problems, and most of the advantage next year would be extinguished if the Review Bodies recommended larger increases in recognition of the longer period.

Timing and tactics

10. The Treasury's assessment is that the civil service will acquiesce in 4.9 per cent, before most of the unions hold their annual conferences during the next fortnight. It would seem sensible to delay publication of the Review Body reports until the civil service settlement is complete and these conferences over (and also the NUPE conference, of importance to the NHS non-Review Body groups). On this basis the reports might be



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published, and the Government's decisions announced, on Thursday 23 May, following Cabinet approval that morning. The longer an announcement is delayed thereafter, the greater the pressure Ministers will face, and the greater the risk of leaks. However, last year's experience suggests that the announcement could probably be delayed if necessary until the Thursday after the Whitsun Recess (6 June). Tactics are likely to depend on developments in relation to teachers.

Further Ministerial discussion

11. You will wish to consider, in the light of the views expressed at the meeting, how Ministerial discussion of the reports should be carried forward. Decisions on the reports are a matter ultimately for Cabinet. The Secretary of the Cabinet will stand ready to arrange the preparation of a paper reviewing the options for possible consideration at a further early meeting of the same group of Ministers. Thereafter he would prepare a paper for Cabinet reflecting the recommendations emerging from that meeting. You will also wish to consider whether and how the teachers/NRB interface should be taken into account in further discussions.

HANDLING

12. You will probably wish to invite comment first from the Secretaries of State for Social Services and Defence on the reports affecting the groups for which they are responsible. The Chancellor of the Exchequer will then wish to comment generally on the impact of the reports on the Government's economic policies, and the Secretary of State for Employment may wish to comment from the standpoint of wider developments on pay settlements and earnings.

CONCLUSIONS

15. You will wish:



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i. to establish how far there is a common view about the substance of the recommendations in each of the four reports, i.e.

- armed forces;
- doctors and dentists;
- nurses;
- professions allied to medicine;

ii. to consider the timing of publication of the reports, and announcement of the Government's decisions;

iii. to settle the arrangements for further Ministerial discussion.

PL

P L GREGSON

Cabinet Office

7 May 1985



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To be handed round
and collected in
at meeting

Pay Review Body Reports 1985

Decisions are required on the following pay review body reports:

- i. Armed Forces Pay Review Body (AFPRB);
- ii. Review Body for Nursing Staff, Midwives,
Health Visitors and professions allied to medicine
(NRB):
 - a. on nursing staff, midwives and health
visitors;
 - b. on professions allied to medicine;
- iii. Doctors and Dentists Review Body (DDRB).

Their recommendations in all cases take effect from 1 April 1984. Because the Top Salaries Review Body (TSRB) on higher civil service, senior service officers, and the judiciary is undertaking a special review of the case for pay differentials reflecting differences in the responsibilities carried by different posts, that Report is not expected until June.

Policy and recent practice in relation to review body reports

2. There is a long-standing commitment (re-affirmed when the Nurses Review Body was set up in July 1983) that the Government will implement the recommendations of Review Bodies 'unless there are clear and compelling reasons for not doing so'. The AFPRB's recommendations have never been rejected by the Government although their implementation was staged in 1978 and 1984. The DDRB's recommendations were abated in 1981 and 1982 but in 1983 the abatement was restored with effect from 1 January 1984; last year their recommendations were accepted but staged as in the case of the AFPRB (with payment in full only from 1 November).



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AFPRB recommendations for 1985.

3. The AFPRB estimate that the net cost of their recommendations will add 7.06 per cent (£190.6 million) to the estimated pay bill for the regular forces for 1985-86. The number affected is 330,000. A further £14.6 million increases are proposed for reservists, making an overall increase of 7.3 per cent in the armed forces pay bill.

4. The increases for selected ranks are:

	£	£	%
	<u>Now being paid</u>	<u>proposed</u>	<u>percentage increase</u>
Brigadier and equivalent	27,101	29,401	8.5
Captain(Army) and equivalent	11,330-13,160	12,217-14,188	7.7
Sergeant and equivalent	8,472-10,184	9,088-10,939	7.3-7.5
Private and equivalent	4,807- 7,490	5,000- 8,026	4.0-7.2

NRB recommendations for nursing staff, midwives and health visitors.

5. The NRB estimate that the cost of their recommendations will add 8.6 per cent (£282 million) to the estimated 1985-86 pay bill for nursing staff etc. The number affected is some 483,000 in 'whole-time equivalent' terms.

6. The increases for selected grades are:

	£	£	%
	<u>Now being paid</u>	<u>proposed</u>	<u>percentage increase</u>
Regional Nursing Officer(R1)	20,491-26,235	21,520-27,550	5.0
District Nursing Officer (England) (DHA1(T))	19,002-24,882	19,955-26,135	5.0
Senior Nurse 4	10,423-12,147	11,650-13,370	11.8-10.1
Nursing Sister II	6,827- 8,751	7,480-10,000	9.6-14.3
Staff Nurse (SRN)	5,398- 6,582	6,000- 7,175	11.2- 9.0
Enrolled Nurse	4,861- 5,864	5,270- 6,500	8.4-10.8
Nursing Auxiliary/Assistant (aged 18 or over)	3,777- 4,828	3,950- 5,120	4.6- 6.0



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NRB recommendations for professions allied to medicine 1985

7. The NRB estimate that the cost of their recommendations will add 12.1 per cent (£31.8 million) to the estimated 1985-86 pay bill for professions allied to medicine (physiotherapists, radiographers, chiropodists, dietitians etc). The number affected is 34,980 in 'whole-time equivalent' terms.

8. The increases for selected grades are:

	£		%
	<u>Now being paid</u>	<u>proposed</u>	<u>percentage increase</u>
District Senior Chief	12,100-13,566	13,485-14,880	11.4- 9.7
Senior I	7,727- 8,747	8,910-10,200	15.3-16.6
Basic grade	5,796- 6,560	6,505- 7,450	12.2-13.6

DDRB recommendations for 1985.

9. The DDRB estimate that their recommendations will add 6.3 per cent (£122 million) to the annual pay bill for doctors and dentists. The number affected is 111,600.

10. The increases for selected grades are:

	£		%
	<u>Now being paid</u>	<u>proposed</u>	<u>percentage increase</u>
Consultant	20,200-26,080	21,460-27,700	6.2
General medical practitioner (intended average net remuneration)	22,070	23,440	6.2
General dental practitioner (target average net income)	19,100	20,280	6.2
Registrar	10,130-12,270	10,760-13,030	6.2