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MR HATFIELD

cc Mr E P Kemp (H M Treasury)
Mr A Turnbull (for information)



PAY REVIEW BODY REPORTS 1985.

I attach a first draft of the paper for Sir Robert Armstrong to circulate to the Cabinet on Tuesday 4 June. This reflects the conclusions so far reached by Ministers, and is largely modelled on the corresponding paper prepared by Mr Gregson last year. I also attach a first draft of a Written Answer for the Prime Minister announcing the Government's decisions.

2. At the Prime Minister's meeting on 23 May, it was recognised that there was a finely balanced choice between a staging for nurses and PAMs providing for a 5 per cent increase on 1 April 1985, with the remaining 4 per cent paid from 1 February 1986, and an alternative staging under which the first 5 per cent would be paid from 1 June 1985, with the remainder from 1 December 1985. The Social Services Secretary was inclined to attach greater importance to giving a substantial increase from the due date (which would put money in nurses' pockets in time for the summer holiday), but others were worried that the consequential delay of 10 months in implementing the remainder of the recommendations would be unfavourably regarded. A possible compromise was canvassed of paying 4½ per cent from 1 April 1985, and the remainder from 1 January 1986. It was noted that Sir John Greenborough, the Chairman of the Review Body, had indicated his recognition of the need for staging; the Social Services Secretary undertook to arrange for Sir Kenneth Stowe to consult him on the method of staging he would prefer.

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3. Mr Fowler's Office tell me that they expect him to minute the Prime Minister in the light of the consultations with Sir John Greenborough on 30 or 31 May. The attached draft therefore has a number of square brackets, and will need to be amended in the light of Mr Fowler's further recommendations.

4. Once we have Mr Fowler's recommendations, and subject to the Prime Minister's views, we shall need to circulate the paper very quickly for comment by the Permanent Secretaries concerned. I shall stand ready to arrange this on Monday 3 June. Mr Kēmp may wish in the meanwhile to begin thinking about the press briefing, for which I take it the Treasury will be responsible. It would be helpful if he and Mr Turnbull could let me know of any points they wish to raise at this stage in time for me to take them into account first thing on 3 June.

JW

A J WIGGINS
Cabinet Office.
24 May 1985

Attachment:

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CABINET

PAY REVIEW BODY REPORTS 1985

Note by the Secretary of the Cabinet

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 (PAMs);
- iii. Doctors and Dentists Review Body (DDRB).

Their recommendations in all cases relate to 1 April 1985. 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.

Policy and recent practice in relation to review body reports

2. There is a long-standing commitment (re-affirmed when the NRB 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. The DDRB's recommendations were abated in 1981 and 1982 but in 1983 the abatement was restored with effect

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from 1 January 1984. Last year the NRB's recommendations (7.5 per cent for nurses and 7.8 per cent for PAMs) were accepted in full from 1 April; the remaining review body groups all received 3 per cent on 1 April, with the balance of the recommendations (3.9 per cent for doctors and dentists, 4.6 per cent for the armed forces and 3.5 per cent for the TSRB groups) paid on 1 November.

AFPRB recommendations for 1985

3. The AFPRB estimate that the net cost of their recommendations will add 7.3 per cent (£216.2 million) to the estimated pay bill for the regular and reserve forces for 1985-86. The number affected is 330,000.

4. The increases for selected ranks are:

| | <u>Now being</u> <u>paid</u> | £ <u>proposed</u> | % <u>percentage</u> <u>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 | 4,807-7490 | 5,000- 8,026 | 4.0-7.2 |

The report also makes detailed proposals on charges for food and accommodation.

NRB recommendations for nursing staff, midwives and health

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.

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6. The increases for selected grades are:

| | <u>Now being</u> <u>paid</u> | £ | <u>proposed</u> | £ | <u>percentage</u> <u>increase</u> |
|--|---------------------------------|---|-----------------|---|--------------------------------------|
| Regional Nursing Officer(RI) | 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 |

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</u> <u>paid</u> | £ | <u>proposed</u> | £ | <u>percentage</u> <u>increase</u> |
|-----------------------|---------------------------------|---|-----------------|---|--------------------------------------|
| District Senior Chief | 12,100-13,566 | | 13,485-14,880 | | 11.4- 9.7 |
| Senior 1 | 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 |

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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 |

* Increases in distinction awards bring the total for hospital doctors and dentists to 6.4 per cent.

Proposals for handling the reports

11. Ministers directly concerned meeting under the Prime Minister's chairmanship have considered these recommendations. Their proposals to the Cabinet are as follows:

i. The report of the AFPRB should be implemented in full from 1 April 1985. Although the average increase is significantly higher than the 'going rate' (for pay increases in the public services (e.g. the settlement for civil servants), it is slightly below the current annual rate of increase in earnings. The pattern of

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the increases (which vary from 4.0 to 8.5 per cent) reflects the intention to offer most to the skilled and trained people the armed forces need to recruit and retain. The staging of last year's recommendations caused a good deal of resentment in the armed forces, who have also been disappointed recently by the effect of adjustments in some real overseas allowances consequent upon appreciation of the £ sterling against certain other currencies. Since the defence budget contains an allowance of only 3 per cent for pay increases, full implementation of the report will result in some reduction in spending on equipment, etc. for the armed forces.

Non sequitur

(X)

}

ii. Doctors and dentists should, so far as possible, be treated in the same way as the armed forces. Since, however, the provision for the cash-limited hospitals and community health services (HCHS) programmes contains an allowance of 5½ per cent to cover both inflation and desired service improvement, it is not possible to finance the whole award from 1 April without either cutting services or drawing on the Reserve. In these circumstances it is proposed that the DDRB increases be paid in full with effect from 1 June 1985.

J

iii. The NRB reports propose a substantial salary restructuring for nurses and PAMs; this is the first time the Review Body has been able to make considered

with 5-10% increase to young nurses and to be higher than most, involving largely in administrative
the aim has been to give the largest increase to the main career grades to paragonise them alone. This particular increase is to be welcomed

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(X) judgments about salary structure across all these professions - because the NRB was only established in mid-1983, there was not time last year for the necessary detailed work to be undertaken. The average increases proposed (8.6 per cent for nurses and 12.1 per cent for PAMs) are substantially in excess of the NHS cash provision, and staging is required to bring them within that provision for the current year. It is proposed that these groups should receive [5] per cent (or the full amount of the award, where this is less) on [1 June], with the remainder being paid on [1 December]. The Chairman of the NRB has indicated that he would be content with this staging. *acknowledged staging might be necessary though he would have preferred a structure which exceeded existing provision.*

In all cases pensions would be based on the salaries actually in payment in accordance with the principle set out in the Prime Minister's Written Answer on 13 April 1984 (OR Col.383).

Costs

12. All the proposed increases would be met from within existing cash limits for 1985-86. In the case of the non-cash limited Family Practitioner Services, the excess of [£9 million] over the 4½ per cent baseline would fall to be met in due course from the Reserve. In the case of the armed forces, the excess over the 3 per cent provision represents 0.7 per cent of the defence budget and could be absorbed through reduced purchases of equipment, with consequential effects on defence capability. In the case of the NHS, accepting a 5½ per cent

Minister considering these proposals felt it important to hold a meeting to discuss the principle in order to meet the Committee with Government stance on further pay.

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increase in the paybill for the review body groups would mean giving up most of the previously planned one per cent improvement in services. The awards would result in a substantial increase in programme costs in 1986-87 and subsequent years, for which the Government's current public expenditure plans do not provide; the implications of these additional costs, and the scope for efficiency and other savings to offset them, will need to be considered in the 1985 Public Expenditure Survey.

Timing and form of announcement

13. It is generally understood that the reports are delivered to the Prime Minister in the course of April each year. Prolonged delay in their consideration would lead to undesirable speculation about their contents, and the Government's attitude to them. Moreover, from the standpoint of the services concerned, there is clear advantage in announcing and implementing decisions on pay increases as soon as possible. The Ministers who met under the Prime Minister's chairmanship therefore recommend that, if the Cabinet are able to reach decisions on 6 June, all the four reports so far submitted (on the armed forces, doctors and dentists, nurses and midwives, and professions allied to medicine) should be published that afternoon, and that the Prime Minister should simultaneously announce the Government's decisions on them by Written Answer, as in recent years. A draft Written Answer, in line with the recommendations in paragraph 11 above, is attached in the Annex to this paper.

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ISSUES FOR THE CABINET

14. The Cabinet is invited to consider:

i. the proposals for handling the 1985 Pay Review
Body reports set out in paragraph 11 above;

ii. depending on the decisions reached on those
proposals, the draft Written Answer in the Annex
for issue on the afternoon of Thursday 6 June.

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Q. To ask the Prime Minister if she will make a statement on the reports of the Pay Review Bodies.

A. The 1985 reports of the Armed Forces Pay Review Body, the Doctors and Dentists Review Body, and the Review Body for Nursing Staff, Midwives, Health Visitors and Professions allied to Medicine have been published today. Copies are now available in the Vote Office. The Government are grateful to the members of the review bodies for these reports and for the time and care which they have put into their preparation. The report of the Top Salaries Review Body has not yet been submitted to the Government.

The Government consider it essential that decisions on the recommendations in the reports should not involve any increases in the cash provisions for the current year for the cash limited defence and health service programmes.

The report of the Armed Forces Pay Review Body recommends increases which would add 7.3 per cent to the armed forces 1985-86 pay bill. These recommendations will be implemented in full from 1 April 1985. The additional costs in excess of the 3 per cent allowance in the defence budget for increases in pay and prices will be offset by reduced defence purchases of equipment and supplies.

The report of the Doctors and Dentists Review Body recommends increases which would in 1985-86 add 6.4 per cent

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(including increases in distinction awards to consultants) to the pay bill for hospitals and community health services and 6.2 per cent to the pay bill for the non-cash limited family practitioner services. In order to bring the cost of the pay increases within the total provision for hospital and community health services during the current year, which is 5½ per cent higher than the corresponding provision for 1984-85, the recommendations will be implemented with effect from 1 June 1985. In the case of the family practitioner services, where the provision hitherto made is 4½ per cent higher than in 1984-85, the additional cost of [£] million will be charged to the reserve.

The reports of the Review Body for Nursing Staff, Midwives, Health Visitors and Professions allied to Medicine incorporate the results of the review of the appropriate level and structure of the pay of these professions on which this Body has been working since its establishment in 1983. The report on nurses, midwives and health visitors recommends a range of salary increases for different grades which would add 8.6 per cent to the 1985-86 pay bill for these groups; that on the professions allied to medicine recommends increases which would add 12.1 per cent to the corresponding pay bill. In order to bring the cost within the provision available, the Government have decided that all members of these groups should receive an increase of [5] per cent (or the whole amount of the award where this is less) on [1 June] 1985,

*With the total
the increase to
be no longer
to remain a
[5] would
represent 4-11 per cent*

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with the balance of the recommended increases, which essentially embody the Review Body's proposals for salary restructuring, on [1 December 1985].

Pensions will be based on the salaries actually in payment in accordance with the principle set out in my written answer on 13 April 1984 at column 383.

The pay rates and scales resulting from these decisions will be promulgated as soon as possible. The Government will be considering separately certain recommendations on points of detail.

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SW1

Your reference

Our reference

Date 3/ May 1985

Dear Edin
PAY REVIEW BODY REPORTS 1985

Your minute of 24 May was copied to Peter Kemp who is now on leave. Treasury comments are as follows.

Draft Cabinet Paper

Paragraph 2. We suggest that the third sentence should read:

"The DDRB's recommendations were abated in 1981, and the abatement was carried through 1982 to be restored in 1983-84 with effect from 1 January 1984."

Paragraph 11(i). We suggest that the last two sentences should read:

"The staging of last year's recommendations caused a good deal of resentment in the armed forces, who have also suffered reductions recently in some overseas allowances (notably in Germany) as a result of new evidence and lower local inflation rates. Since the defence budget contains an allowance of only 3 per cent for pay increases, full implementation of the report will require some reductions elsewhere in the defence budget."

The reason for the first suggested amendment is that the calculations of the overseas allowances is based on convention about exchange rates which have not been affected by recent changes in Sterling's value against other currencies. The second amendment would leave open the logical possibility that some of the excess over 3 per cent might be absorbed by variations in planned manpower numbers.

Paragraph 11(ii). We suggest that the second sentence should read:

"Since, however, the provision for the cash-limited hospitals and community health services (HCHS) programme

contains a cash uplift of 5½ per cent to cover both inflation and some service improvement (the balance of service improvement coming from efficiency savings) it is not etc.

Paragraph 11(iii). Eight lines from the end and paragraph 12, line 9 read "HCHS" for "NHS".

Paragraph 12. We suggest that the second and third sentences should read:

"In the case of the non-cash limited Family Practitioner Services, the programme is due to be reviewed later in the year. In the event of offsetting savings not then being found, some part of the proposed increase would fall to be met in due course from the Reserve. In the case of the armed forces... through reduced spending elsewhere within the defence cash limit."

We suggest that the end of the fourth, and beginning of the fifth sentence be revised to read:

"...one per cent improvement in services, unless further efficiency savings can be found during the course of 1985-86. The balance of the full-year costs payable in 1986-87 and subsequent years would result in a substantial increase in programme costs, for which the Government's current public expenditure plans...etc."

Draft Statement

Third paragraph. We suggest that the paragraph ends:

"...will be offset by reduced spending elsewhere within the defence cash limit."

Fourth paragraph. We suggest replacing the second sentence onwards with:

"The cash increase in 1985-86 for pay and service improvements for the hospital and community health services is 5½ per cent. In order to bring the cost of the pay increases within this, the recommendations will be implemented with effect from 1 June 1985. In the case of the Family Practitioner Services, the additional cost of [£] million is within the estimating error on the programme which will be reviewed later in the year.

Last paragraph. We suggest an addition at the end of the paragraph, to read:

"...on points of detail, such as the position of armed forces personnel facing accommodation charge increases above 10 per cent."

I have copied this letter to Hatfield and Turnbull. I will write separately about general briefing, which we are happy to draft.

J F GILHOOLY

John
J.F.