

DATE: 14 September 1983



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PRIME MINISTER

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C(83): PUBLIC SECTOR PAY - IMPLICATION FOR THE NHS

FLAFA Before my paper on the pay assumption for public service pay is discussed in Cabinet, I think you should be aware of a difficulty as regards its application to the NHS.

2. The paper proposes that the 3% assumption should apply to the NHS, and that the excess in the current provision should be clawed back. It may be argued, against this, that it will be politically difficult for us to reduce the total public expenditure provision for the NHS in this way in the light of our commitments (such as in your Edinburgh speech during the Election campaign) to maintain expenditure at the levels in this year's Public Expenditure White Paper. This kind of commitment was, I am sure, intended to provide a reassurance that we would not be reducing the level of services in the NHS; a cash reduction to reflect the changing prospects on pay settlements should not affect the level of service at all.

3. Although I am willing to discuss the issue in my bilateral with the Secretary of State for Social Services, I am sure that there is no basis for any other pay assumption than 3% for the NHS. If the total cash provision for the NHS is left at its current level there may appear to be funds for extra increases in services, and there will be the risk that the health authorities will commit themselves to such increases. Then if the eventual pay settlements were to turn out above 3% (the new nurses' pay review body is relevant here) we would have a difficult choice between either funding the extra cost from the Contingency Reserve or enforcing reductions in services on the health authorities, which would mean a re-run of the argument that is still going on about the 7 July reduction.

SECRET

4. By contrast, treating the NHS in line with the whole of the rest of the public service will be consistent and readily defensible. It would not give the health authorities an excuse to undertake commitments that they could not finance. There is of course still the question how to meet any overrun if NHS pay settlements go beyond 3%, and whether any provision for this needs to be made in advance; but I suggest that the right place to discuss this is in the bilateral on NHS spending which I am due to have with Norman Fowler shortly.

5. I am sending a copy of this minute to Sir Robert Armstrong.

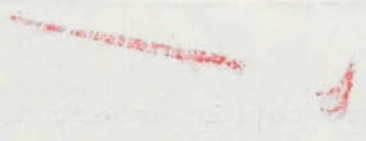


PETER REES

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MR SCHOLAR

Prime Minister

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Ms 14/9

PUBLIC SERVICE PAY AND PUBLIC EXPENDITURE: NHS ASPECTS

With reference to tomorrow's discussion of the public service pay factor, we have just heard that the Secretary of State for Social Services may argue that there is a difficulty in reducing the public expenditure provision for the NHS to reflect a 3 per cent pay factor, arising from what the Prime Minister said during the General Election campaign about maintaining the levels of expenditure on the Health Service set out in the Public Expenditure White Paper.

2. The Prime Minister may receive a minute from the Chief Secretary, Treasury warning her of this and saying that the Treasury view is that adjustment of the pay increase assumption from 5 per cent to 3 per cent is not inconsistent with maintaining planned levels of expenditure on the Health Service. The Treasury accept that particular difficulties could arise over applying the 3 per cent factor to NHS expenditure, and they would be prepared to pursue these as part of the Chief Secretary's bilateral discussions with the Secretary of State for Social Services.

3. If this point is raised in Cabinet, the Prime Minister may wish to take the line that any particular points arising over NHS expenditure should be pursued as part of the bilateral public expenditure discussions in the first instance.

Pg
P L GREGSON

14 September 1983

SECRET