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10 DOWNING STREET

From the Private Secretary

10 September, 1982

Subject

Master

see 8/2/82

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Dear David,

National Health Service Pay

The Prime Minister held a meeting yesterday morning to discuss the National Health Service pay dispute. Apart from your Secretary of State, the Chancellor of the Exchequer, the Secretary of State for Employment, Sir Kenneth Stowe, Sir Robert Armstrong and Mr. Gregson (Cabinet Office) were present.

Your Secretary of State said the dispute had clearly had an effect on patients. In England out of 269 district general hospitals, 13 were reduced to emergencies only; a further 102 were admitting emergency and urgent cases; and 154 were admitting non-urgent cases. The effect of the dispute had been greatly exaggerated in the media. Nevertheless, some of the union leaders now wanted to see the dispute ended and were prepared to accept that no more money was available this year, provided that they could achieve some advantages to present to their members. From the Government's point of view there were also powerful reasons why we should seek an end to the dispute, provided that we could maintain our essential interests. The unions were showing interest in seeking agreement on long term arrangements for pay determination in the NHS. Mr. Fowler would be circulating a paper to E (PSP); what was in issue was the possibility of talks under Ministerial chairmanship with an April 1, 1984 deadline. This suggested the possibility of a two-year settlement, as a bridge between the present and April, 1984. There were broadly two possibilities: a flat increase of 10.3 per cent from September 1, 1982 (or 12 per cent from October, 1982); or a staged increase of 4 per cent on 1 April, 1982, 1 October, 1982 and 1 April, 1983. The staged proposal amounted to a 6 per cent pay factor in 1983-84. The 10.3 per cent proposal was compatible with a 4 per cent pay factor for 1983-84. In both options it was assumed that a 1½% differential in favour of nurses should be paid as a lump sum for 1982-83 but that there should be no differential for 1983-84.

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In discussion, it was argued that the Government must take no action which would give grounds for saying that the strike had caused an improvement in the Government's offer. What was under discussion was a different and not an improved offer. It should be noted that both of the new proposals would involve loss of the accumulated back pay which was implicit in the present offer; it might be that the effect of this would be to bring home to NHS workers the attractions of the existing offer. There was no merit in the idea of offering arbitration for 1983-84, and this should not be further pursued.

In further discussion, it was argued that the merit of the staged approach was that it gave a clear signal of a 4% going rate for the beginning of 1983-84 pay round. Against that, this approach would in fact be seen to imply a 6% pay factor for next year, which was too high. The same objection applied to the proposal for a 12% flat increase from October 1982. If a staged settlement were to be contemplated, it would have to be for a 3% increase on 1 April 1982, with 4% increases subsequently on 1 October 1982 and 1 April 1983 (this suggested a 5% pay factor for 1983-84). On balance, the flat rate approach, starting in September 1982 and running until April 1984 had much to commend it. But the risk was that it might be taken, coming as it would at the beginning of this pay round, as a 10% signal. Careful presentation of the offer should overcome this problem. A further risk was that the offer would be reopened during the course of 1983. The remedy here would be the Government's manifest determination to make the settlement run until April 1984.

The Prime Minister, summing up the discussion, said that your Secretary of State could conduct discussions with the union leaders designed to secure a settlement of a flat increase of 10.3% from September 1982 to run until 1 April 1984. Clearly, it would be necessary in his discussions to start well below 10.3%. It was likely that the union side would be very conscious that a settlement reached now might look very favourable next year, as the rate of inflation fell. It would be important to avoid a situation in which the unions could publicly begin a negotiation starting from 10.3%, and argue that a settlement was achievable if only a few percentage points could be added to this base. Anything beyond a 10.3% settlement would create very severe difficulties for the Government, not least in the public expenditure survey. It might be, however, that as a last resort, and at the final point in the negotiation, the Government could agree a staged settlement of 3% on 1 April 1982, 4% on 1 October 1982 and 4% on 1 October ^{APRIL} 1983; this would be for further consideration by Ministers later.

There followed a discussion of ways of improving the Government's presentation of the present offer. The upshot of this was the briefing note attached to your letter to me of 9 September with which the Prime Minister was well content.

I am sending copies of this letter to Peter Jenkins (Treasury), Barnaby Shaw (Department of Employment) and Richard Hatfield (Cabinet Office). I would be grateful if you and they would give it the most limited circulation.

Yours sincerely,

Michael Schuler

D.J. Clark, Esq.,
Department of Health and Social Security.