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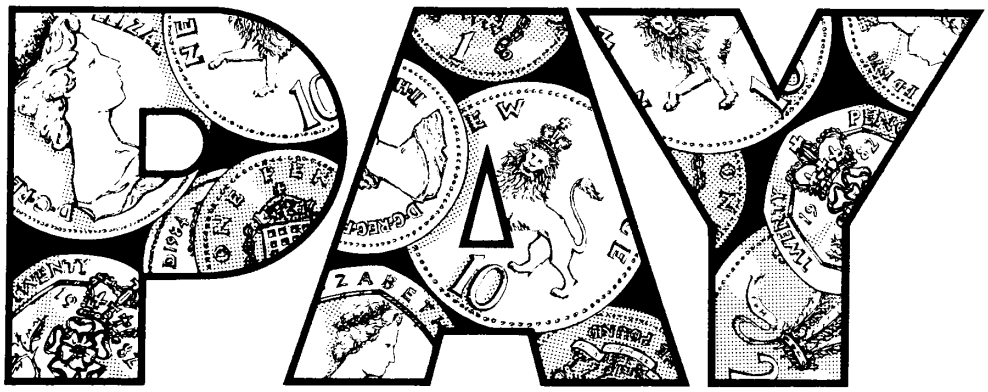

Achieving greater flexibility

The National Association of Health Authorities

King Edward's Hospital Fund for London

NHS PAY

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SECTION ONE

INTRODUCTION

This is the fourth paper[1] which has been published by the King's Fund and NAHA on the need to change the way in which pay is determined in the NHS.

We are pleased that a number of encouraging moves have taken place since the publication of our last paper. These include the development of the Regional Chairmen's Pay Group as a vehicle for evolving an NHS management pay strategy and the emergence of a more responsive Whitley System through better briefed and more professional management sides. Nevertheless, there are a number of problems concerning NHS pay which we believe need to be tackled effectively. These centre around a system that is still widely perceived to be too rigid and centrally controlled. This makes it difficult for management at local level to have sufficient flexibility to recruit and retain staff and to use staff more effectively. As we discuss later in the report, some managers are using various devices to overcome the present rigidity. But we believe that the cumulative effect of this will be to undermine the integrity of the Whitley System and be very damaging to the NHS.

Although they have emphasised different aspects, each of our papers has been an attempt to respond to criticism levelled at the present system. In each of them, our guiding principle has been the need to produce recommendations which we believe will lead to a more flexible and equitable system, able to meet differing needs while maintaining stability.

We have recognised throughout that any pay system which aims to produce equity and stability must recognise and allow for two factors. First the establishment and maintenance of an internal structure where relativities must generally be seen to be fair and reasonable. Secondly the enterprise must find some 'felt-fair' comparison among its staff and to make sure that it is able to recruit and retain staff against competition from other organisations.

Reference

(1) Margaret McCarthy: A New System for Pay Determination for the NHS, King's Fund Project, Paper No. 39, 1983.

Pay Determination in the NHS: A System for the Future, NAHA, 1983.

NHS Pay: A Time for Change, NAHA/King's Fund, 1985.

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Background

Our first paper (published in 1983) focused on the national pay system partly because that is the level at which internal and external relativities need to be addressed. It was also thought that the distortions which had occurred both externally and internally, were the major cause not only of the instability which led to the major dispute of 1982, but also the reason why there were serious recruitment problems in some professions and areas of the NHS.

Our recommendations at that stage were influenced by the Megaw Committee which had recommended a revised system for the determination of Civil Service pay[1]. We put forward a scheme which depended on 'constrained collective bargaining' the phrase invented by Megaw. Essentially, this form of pay determination is based on the recognition of the need for external comparability to determine the appropriate level of pay for each occupation by reference to comparative jobs in the external market. Since a comparison of agreed like jobs inevitably produces a range of reward packages, the elements of constraint lies in reducing the range of figures, in the overall scale, within which the parties can bargain.

We were encouraged to follow Megaw by the evidence which the Government gave to that Committee at that time. They said that they believed in collective bargaining. We agreed then, and agree now, that collective bargaining is the best way in which to secure acceptable levels of pay. The Government also seemed to recognise that comparability would form at least an element in any pay determination system.

We believe that comparability is inevitable in the determination of pay. We said in our first report that all pay is determined by some form of comparison, and we still believe this to be the case. Even those who believe solely in market forces as the determinant of rates are implicitly acknowledging comparability, since there is no other way of determining the right rate. The only question to be decided is whether these comparisons should be haphazard and largely individual - as the market forces principle would produce - or whether a more formal system should be established as we recommended.

Reference

(1) Report of Committee of Inquiry into Civil Service Pay. 1982. (HMSO Cmnd. No. 8590).

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The recommendations of the first report provided a possible solution to the problem of external comparability. We believed that they would produce the necessary degree of flexibility, since 'trade offs' between factors such as productivity and efficiency could be matched by higher rates. We also thought that using the system of constrained collective bargaining would produce a solution to the much more difficult problem of internal relativities.

Internal Relativities

Internal relativities are a complex matter, but labour economists tell us that it is the internal comparison which workers make between their own reward and that of others in the enterprise which is the single most important element in producing satisfaction among the workforce, and as a consequence a more efficient and effective workforce. These comparisons are described as 'felt-fair'. If workers feel that the relation between their own reward and others is 'right' and 'fair', their motivation and productivity are likely to be higher. We do not, of course, believe that pay is the only factor to produce such a felicitous state, but it is a necessary condition. Firms who have a sophisticated pay system pay great attention to monitoring 'felt-fair' comparisons.

But a need to produce feelings of equity among the workforce is only one of the values which internal relativities need to address. They should also reflect the comparitive value of the occupation or work to the employer, measured in the need of the enterprise for particular skills, with the qualifications, expertise, experience and knowledge required to do a job. It follows from this that managers can reward such factors by enhanced pay, without the necessity for people to move in a hierarchical way in order to achieve higher pay and status. The enterprise can consequently use such factors as experience and skill at the point where they are of maximum benefit to the organisation.

The overall parameters of any wage system are set by external comparison, since this governs entry to and exit from the organisation. When workers decide where they want to work, they make a comparison between different firms to obtain the highest rate for their particular skills or experience. They tend to leave because the reward package being offered by their firm is not as high as that offered by another. Any firm, therefore, needs to know comparative rates when setting its own, in order to recruit and retain.

But once inside the firm, the need to meet the other requirements which we have outlined previously, modifies the market force effect of external comparisons. There is, in principle, a point at which the price which the employer needs to pay for a particular skill, as determined by the external market, is higher than the value of the skill to the organisation. However, this is comparatively rare. Much more commonly, the price which the employer needs to pay for a necessary skill seriously distorts internal relativities and consequently offends against other competing values.

The NHS has always found the problem of creating a satisfactory system of internal relativities difficult, because half its workforce has no satisfactory external like jobs which can be used to create the primary parameters within which jobs can be priced. The traditional way of pricing these jobs - eg nurses, professions supplementary to medicine and ambulancemen - was by reference to the pay of those jobs where external comparison could be made by use of recognized links. The 'going rate' established by such comparisons was then automatically applied to these groups. When this method of indirect comparison led to resentment, or labour shortage, the system was modified by the use of 'ad hoc' enquiries. From time to time such enquiries gave large increases to the professions in order to restore their position to the 'right' level. (The last example of this approach was the Clegg Commission of 1979). But this method of dealing with the problem has never been regarded as completely satisfactory. Large increases of this nature were often an embarassment to the Government, and were usually granted as a response to public complaint. They also upset internal relativities.

The Spine

Inside the NHS, a frequently canvassed solution to the problem has been to propose the creation of a simple 'spine' or system of job ranking. All NHS occupations could then be fitted into such a spine, making automatic adjustments possible through reference to some overall comparison exercise.

Although we did not specifically advocate a 'spine' we thought that our first system would provide the same sort of automatic increase through the formal system of comparability which we suggested. The Government, however, preferred to solve the problem by removing most of the professions from the collective bargaining machinery, and placing them under a system of pay review.

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In our report, in 1983, we said that we believed that placing 50% of the staff under a different system for determining wages, using different principles and having regard to other factors, would be divisive and worsen the problems of internal relativities. We still believe this, and it is a belief shared by many people in the NHS. The Review Body system may have largely satisfied the 'felt-fair' feelings of the staff which it covers - at least vis-a-vis other groups of workers inside the health service - but it has done nothing to correct scarcity where this occurs. The Review Bodies are themselves concerned about what has happened both to the relativities of the groups of staff for which they are responsible and the wider internal relativities of the staff as a whole.

The creation of the Review Bodies with the attendant problems which this has caused was one of the reasons which led us to produce our third report[1]. There were two other reasons: the Government's changed attitude to the principles which should be used to determine pay, and the changed environment of the health service after the publication of the NHS Management Inquiry Report and the introduction of general management.

The Government has moved from its position in 1982 when, in evidence to the Megaw Committee, it acknowledged the need for a system which took account of external comparability, to one in which it believes that the ability to recruit and retain, together with affordability are the only indices to which regard should be paid in determining the level of wages. Indeed, in the DHSS's evidence to the Review Bodies in 1986 they said that 'they could see no case for any mechanistic system of pay comparability of restoration to a given place in a national earnings league'.

Impact of General Management

We recognised that these changes alone would have made it necessary at least to produce refinements in the system which we proposed in 1983. But for us, the most significant change was the introduction of general management and the move from consensus to personal accountability of managers for the performance of their districts and regions. Managers are now encouraged to be innovative

Reference

(1) NHS Pay: A Time for Change: The King's Fund/NAHA. 1986.

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in bringing about changes, and in responding to both local and national pressures. But they perceive that their ability to respond in this way is hampered by a rigidly controlled pay system which does not allow for individual decisions in creating new posts and using the workforce more flexibly in order to meet changing circumstances.

Some managers have found ways round the present constraints, but usually at the cost of disproportionate time and energy and with the constant risk of being unable, finally, to produce the desired solution. There is also a growing fear that the short-term expedients to which some managers have resorted in order to solve immediate problems, are producing, or will produce, distortions in the system. These could well lead to tensions and confusions between different groups of staff and between authorities who are being forced into a spiral for certain jobs, sometimes against their wishes.

A number of managers, recognising the dangers of this growing incoherence, have responded by demanding a totally local system of pay bargaining with no national constraints. The argument has been advanced that only by having complete control over pay levels locally can managers influence the shape and size of their workforce. Such a system would also enable them to pay additions to encourage and reward individual performance.

Our third report tried to take into account these factors and aspirations. We examined the arguments for and against a totally local system for pay is some detail. We came to the conclusion that although there were many factors which made the prospect of a locally determined scheme very attractive, there were a number of overwhelming arguments for retaining a national framework within which there could be local discretion. The arguments against local pay centred round the problem of accommodating staff in the Pay Review system, the loss of control by the Government and the inability of local management to handle local pay systems. We were also aware that definitions of 'local' become very difficult in a national service which is so interlinked.

Our solution was to propose a national framework within which there should be a banding system with a series of what we called 'mini-spines'. Within these broad bands, we suggested, local management would be free to put individual posts, or in some cases

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whole occupations, at a level which would enable them to recruit and retain staff and to reward effort.

Our 'contribution to the debate' as we described this set of proposals seems to have been favourably received, with many health authorities supporting the principles which we had outlined. Our proposals were broad and left a number of questions still to be resolved. We have now been asked to make more specific suggestions about a new scheme, based on these principles.

SECTION TWO

THE PROPOSED SYSTEM

In making these proposals we have identified a number of elements which we think ought to be accommodated in a new system. These are:

a) the continuing need to establish a coherent set of internal and external relativities;

b) the degree and location of the locally determined element of pay;

c) some element of performance related pay;

d) the accommodation of new and changing roles and the ability to reward new skill mixes;

e) the opportunity to facilitate necessary change between roles to match service needs;

f) the ability of the present pay bargaining structure to handle any proposed new structure.

We know that any pay system cannot produce total compatability between all these elements, because pay systems have to meet different expectations, both between groups of staff and between differing managerial and Governmental requirements. But every system ought to be able to accommodate to the changing emphasis of demand without disruption and major upheaval. We have tried to build in each of the elements we have outlined, so that these conditions can be satisfied.

We see the system as having three elements: a national framework which determines a minimum rate for each occupation; an added percentage for local premia and an additional percentage for performance related pay.

The National Framework

We have said in everything that we have published that any pay system for the NHS must be firmly rooted in national bargaining and that the largest single element of pay must be nationally determined. Our conviction is based on the belief that the whole problem of internal and external relativities can only be solved at a national level if the overall system is to provide coherence and stability.

THE PROPOSED SYSTEM

The question of relativities is very much in the front of peoples' minds. There is a desire to create a 'spine' which is seen as a way of ironing out the gross distortions in pay between different groups of staff which are still apparent. We use the word 'spine' as a convenient shorthand for a system of job ranking in which, eventually, all occupations in the health service will be placed in an acceptable 'pecking' order.

We know that this will be a complex and lengthy task. But some negotiating councils have already started to bring the posts within their own purview into some sort of ranked order. The Ancillary Staff Council (ASC) have, in fact, already completed the task. The Nurses and Midwives Council are conducting a detailed study of jobs within nursing and are being urged by the Review Body to complete this process with speed. The Professional and Technical (P & T) and Administrative and Clerical (A & C) Councils are actively considering the task of wholesale job reviews. Progress is being made. We believe that the work in these Councils should be completed urgently.

One of the problems of the present national system is that it is too restrictive and inflexible, largely because of the number of tightly defined grades which causes problems for managers seeking to use their workforce more flexibly or trying to introduce new posts with mixed duties.

We are pleased that the new re-graded structure of ASC posts has recognised this. The ASC have said that 'the pay structure continues to be based on the principle of broad banding in the interests of providing for flexibility in the use of staff both within and between occupational groups'. We hope, and believe, that our concept of 'broad banding' will be extended quickly to the work of the other Whitley Councils, so that the degree of flexibility for which we are arguing will be achieved.

It is clear that the present structure of Whitley is capable of carrying out these first, necessary steps towards re-structuring the pay system and making it more flexible. But these are only the first steps towards producing a coherent system. It is hoped that they will produce over a reasonable timespan the correct relativities between roughly related occupations. The important relativities, however, are between different occupations, so that when each Council has

produced its proposals, there must be a further exercise to examine the relativities across occupations. This exercise must inevitably include those professions covered by the Review Bodies, if an equitable, stable system is to be produced.

One of the weaknesses of the Whitley system has always been, however, that it largely works in self-contained blocks. We think that it is essential that there should be one body which will be responsible for conducting this exercise, and 'supervising' each individual Council, so that decisions made by one Council in pursuit of job evaluating its 'own' occupations will not adversely affect the final 'spine'. The General Whitley Council (GWC) seems to be the obvious forum in which to do this in consultation with the Regional Chairmen's Pay Group. If this is so then it should be charged with the formal responsibility quickly. If the GWC is not thought appropriate, then a new body should be created.

Comparability

We believe that the national framework should provide a minimum rate for the job, and that the only way in which such a rate can be decided is through the use of comparability. We are not alone in accepting that external comparisons have to be used in such decisions. The Pay Review bodies, for example, in their more recent reports both on Nurses and Midwives and on PAMs (Professions Allied to Medicine) say: 'consideration of pay and earnings in the economy as a whole is an important part of our work'. '.....we have compared movements in pay over a number of years, and current levels of pay for the professions with current levels in a range of other occupations[1]'. The Review Body for Doctors and Dentists[2] has long used the system. The degree to which comparability should be used, whether formally (ie stating and using agreed comparators constantly) or not, is a matter for debate. But nobody charged with determining rates believes other than that comparability must play a part.

Reference

(1) Review Body for Nursing Staff, Midwives and Health Visitors. 3rd Report, 1986. (HMSO Cmnd. 9782).

(2) Review Body on Doctors and Dentists. 15th Report, 1985 (see also, op cit, 1987, Cmnd. 127, Paras. 25, 26 & 27).

THE PROPOSED SYSTEM

We support the principle contained in our first paper of 'constrained-bargaining' based on agreed comparitors, and think that it should form the basis of the national system. This method should produce a rate which is standard for each job and in most cases, should be the rate which authorities will pay to individuals. We also think that there should be no more than three or four incremental points for any occupation, but that these incremental points will not attach to jobs over £16,000 (at current rates).

The use of external comparisons as a basis for deciding the national rate will take some account of market forces. But we believe that this will need to be re-inforced in some areas by an additional element, which should be introduced at a local level.

Local Flexibility

There will be some local flexibility built in the national system because authorities will have discretion to place posts within the modified grading system which we have proposed. But we do not think that this will be sufficient, in some cases, to allow authorities to recruit and retain staff against local competition or to reward individual performance. These elements of pay must be decided locally in the light of prevailing local market forces.

There is, however, a major difficulty in talking about market forces in the NHS, because of the singular nature both of the labour force and of the market. In discussing a local premium to take account of local external market rates, one should divide the health service labour force into two halves. These two halves happen, conveniently, to coincide roughly with those staff covered by pay review and those covered by the remnants of the Whitley system. We shall first examine the 50% covered by Whitley.

Whitley Groups

For most of the staff in this group, there is clearly some external comparator against which the level of pay can be measured in order to establish the standard rate. What the standard rate is for each major group may vary according to a number of factors. The whole labour force may be affected by a general rate which is higher than any other in the country - London and the South East are the obvious examples of this. Aberdeen is said to be another.

In the case of London and the South East this phenomenon is already acknowledged by paying varying degrees of 'London Weighting'

which is supposed to take care of the difference. But simply to pay a local flat rate premium to every group may not meet the problem. In some cases the flat rate may be unnecessarily high - in other cases far too low. In the latter case this may be because there is an absolute shortage of a particular skill - or, for some reason, the skill may be in abnormally high demand. Accountants and computer programmers are often given as examples. For these groups the solution appears to have been to tinker with the national rate. It may, again, be the case that although such skill may be generally in high demand, and therefore command a high premium, that this is not the case in all parts of the country. Consequently, a high national rate may be unnecessary to meet a particular local requirement.

Pay Review Groups

A very real problem arises with those groups of staff for whom there is no external labour market. It is among these groups that the idea of 'local market forces' as a principle by which to set rates, becomes almost untenable. The only local market for these skills is, by and large, other health authorities, and to 'set authorities free' to determine their own rate, would simply mean that the rate for an entire group would become an increasing spiral.

The health service is, in fact, for these groups of workers, monopsonistic and monopolistic - the virtual sole supplier and buyer. The only point at which the external market intrudes is at the point of entry to training and at the absolute 'quit' point where staff decide to desert their profession. The Review Body has already noted this point. In their third Report they say 'In summary, we accept that market forces are relevant at entry point to nursing...[1]'. Market forces are also relevant to nursing auxiliaries and assistants, for whom equivalent employment elsewhere in the economy is more probable. We think, however, that different considerations must apply to the fully qualified nurse, for whom the NHS is a near monopoly employer.

Entitlement to Premia

It is clear that to allow authorities discretion to pay a local premium

Reference

(1) Review Body for Nursing Staff, Midwives and Health Visitors. 3rd Report, 1986. (HMSO Cmnd. 9782).

for the first group of staff - those covered by Whitley - would help to solve some of the recruitment and retention problems which are being experienced. Authorities could pay individuals, or in some cases a whole group, a higher rate, where they could show that this was necessary in order to recruit much needed skills.

We therefore recommend that up to 20% in addition to the national rate be added to the basic rate where this can be shown to be necessary to match competing local external rates. This premium could be paid either to individuals or whole groups of workers in occupations where there is a general shortage.

We also recommend that such premia should replace the present London Weighting system. But we recognise that abolishing London Weighting may very well lead to transitional problems. We think that a detailed study should be undertaken into the effects of our recommendations on London authorities.

It is much less clear that allowing authorities such discretion to pay local premia to groups without an external market will do anything to correct distortions. A market economist would argue that where shortage occurs in this situation, the solution lies in operating on the supply and not the demand side. Getting the right recruitment rate is a national not a local problem.

In general, therefore, we do not think that those groups where the NHS is the monopsonistic employer should be entitled to receive this local premium precisely because to do so would lead to large-scale poaching of staff from one NHS employer to another, with no effect other than to raise the levels of pay.

There are, however, two circumstances in which, exceptionally, local premia might have to be paid. In some areas of the country, where alternative employment is available, professionals may be attracted into non-health service jobs. Paying a premium, here, might aid retention where pay is a factor in the decision to leave.

A further circumstance in which the payment of a local premium might be appropriate, would be where there is a local need to secure the transfer of existing staff between specialties (eg from general to theatre nursing). Great discretion would need to be exercised in paying premia to meet these circumstances and authorities would have to act in a co-ordinated way. Greatly improved information about local labour markets would be imperative before such discretion could be exercised.

THE PROPOSED SYSTEM

Performance Related Pay

The second additional element to the national rate which we believe should be decided locally attaches to performance related pay for those staff not yet covered by a national scheme.

We think that there should be an opportunity for managers to reward performance or to offer extra incentive. But we think that it should be small and given with discretion. We recommend that up to an additional 5% of the national rate should be able to be given as a reward for performance. This will of course normally be given to individuals, but there may be some groups for whom it is more appropriate to give a group reward.

However, we are aware that to seek to review everyone in the sort of depth which might be thought appropriate before granting such an award, would place an intolerable burden on the organisation, and would be inappropriate for learning grades.

We therefore recommend that the four incremental points which we mentioned as attaching to the national standard rate should not be automatic, but should be regarded as a means of paying for performance. The additional 5%, then, will only be paid to those who have reached the top of their grade, or to those who are being paid above £16,000 on the national standard rate, before a local premium is paid.

What is local?

It is difficult to give a precise definition of what is local in a nationwide enterprise like the NHS. In our third paper, we said that 'It seems that when 'local' bargaining has been discussed, many of its proponents talk as though 'local' means district. Certainly, if the spirit of devolution is to be carried through to pay, the district appears to be the natural management unit for autonomous bargaining. But is this a practical proposition? Health districts make little sense in pay bargaining terms....a very few of the larger districts might be able to establish something like a genuine local rate for unskilled manual or clerical staff - but most districts would have to establish a common rate between them'.

One of the criticisms which was levelled at our second report was that we were too imprecise about what we meant by local. Having looked again at the subject, we agree that 'local' would vary

according to differing circumstances. Where districts wanted to pay a premium to attract an individual this should be at the discretion of the health authority. However, we recognise that such decisions would probably have a 'knock-on' effect for the neighbouring districts, and so a health authority proposing to pay such premia should attempt to secure agreement from neighbouring authorities who may be affected. Where there is clearly a shortage of particular skills throughout, or in significant parts of a region, then the decision to pay premia in all or some of the districts should be made on a regional basis, after consultation with the affected districts.

Controlling the local system

The major anxiety about allowing local flexibility is that wage costs might soon spiral because of coercive comparisons or 'leapfrogging'. Districts it is said would be so anxious to recruit and retain that they would overspend budgets and, possibly, through their activities force other districts into overspending as well.

We feel that this problem can be exaggerated, and that the elements of control are already in place through the review system. However, we do not want to see a rigid national control replaced by a rigid regional one, so that managers have to go through the same time-consuming procedures albeit at a different level.

We would recommend that four criteria are applied in deciding whether local premia should be paid:

a) is a local premium the right solution to the problem?

b) is the amount suggested the correct figure?

c) will it distort the grading structure?

d) have locally agreed procedures been followed?

The region in reviewing the performance of the district should require two further questions to be answered;

e) was the decision effective?

f) what effect did it have on neighbouring districts?

These criteria should be applied where premia are proposed for the groups where external comparisons are available. For those groups where the NHS is the monopoly employer where we have

recommended that premia should only be paid in exceptional circumstances, permission should only be given by the NHS Management Board.

We think that the application of these criteria should produce the desired degree of control.

Collective Bargaining

Our proposed national rate should be arrived at through collective bargaining, as should the creation of a consistent 'spine'.

We also think that our local market premia can be bargained over, given that we have imposed a ceiling of 20%, particularly where group premia are proposed. But such bargaining should only be conducted, and resolved, at the organisational level where the rate applies.

The Cost of Local Flexibility

We think that the cost of all local premia should be bourne by the districts, and that in order to meet them districts must be prepared to make savings or produce increased efficient working in order to produce the extra money. We recognise that this will place great demands on local managers, and will involve them taking a greater interest in acquiring much more knowledge of the principles governing pay than they have, hitherto, been required to demonstrate. We said in our third report that we wondered whether NHS management has the competence to handle a radically changed system. We went on to say 'The whole culture of the NHS has never been towards detailed technical knowledge and understanding of suitable and acceptable payment systems and of how these systems are organised to match the purpose of the enterprise'.

If our system is to succeed, managers will have to acquire this detailed knowledge quickly. Some advances have been made, but understanding detailed movement in the local labour market in order to apply our criteria, for example, will require much greater knowledge and interest in the external environment than many managers possess at present. Managers will also be required to negotiate the level and application of these premia in collective bargaining fora of which they have little experience.

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Most importantly, they will need to have a strategic view of future use and costs of manpower which will be longer-term than most of the decisions which they are at present asked to take. We recognise that there are difficulties in preserving the right balance between short and long term aims, but effective manpower decisions can only be shown to be successful in the longer term, so managers must preserve this balance.

SECTION THREE

SUMMARY AND CONCLUSION

We propose that changes should be made to the present system in the following ways:

- The standard 'rate for the job' should still be determined through national collective bargaining. Inside the national framework, the present negotiating councils covering all staff should continue the work of job evaluation which has begun, and should follow the example of the ASC council in producing a grading structure based on broad bands, rather than tightly defined grades. Responsibility should be given to a single body (probably the General Whitley Council) first to supervise the work of the individual councils, and then to produce a structure, which is acceptable to both sides, which will rank jobs in terms of internal relativities. The councils will remain responsible for movements in the national rate. These movements should have regard to external comparability.

- Local flexibility should be given to authorities to decide within the broad bands agreed nationally where particular occupations or individuals should be placed. Authorities should also be given discretion to pay up to a 20% local premium in addition to the national rate where it can be shown by certain criteria that this is necessary to recruit or retain certain individuals or skills. This local premium should be primarily reserved for those groups whose pay is decided by Whitley, but in very exceptional circumstances, certain premia may be paid to professional groups covered by pay review, where this can be shown to be necessary.

- For posts which attract a salary of over £16,000, or where employees have reached the top of the scale, an additional premium may be paid to reward or encourage performance. This should be no more than 5% of the rate, and will normally be paid to individuals. Where performance is dependent on group work, the 5% may be paid as a group reward. For those staff whose salaries are below £16,000, the four incremental points attaching to the national rate should be awarded as a reward or encouragement for performance, and not automatically as at present.

SUMMARY AND CONCLUSION

- The decision to pay individual local premia should be that of the health authority in consultation with other appropriate authorities in the region. The decision to pay group premia should be that of the region, in consultation with the district.

- Local premia should not, save in the most exceptional local circumstances, be paid to groups where the NHS is the monopoly (or near monopoly) employer. Discretion to pay such premia should be given only by the NHS Management Board.

- Local premia should be the subject of collective bargaining. Premia for performance should be at the discretion of local management.

- Local premia should eventually replace the present system of London Weighting. Possible transitional problems should be the subject of a detailed study.

In concluding our report we would like to emphasise two points. The local elements in our report crucially depend on close collaboration between districts at all levels if it is to succeed. Non-cooperation and secrecy will produce the sort of wage-spiralling which we are determined to avoid. Such spiralling is in nobody's interest.

Finally, we realise that pay is only one element in motivating and rewarding the workforce. It is generally accepted to be a necessary but not a sufficient condition. If staff are demotivated, and morale is low, then it is unlikely that performance will improve simply by throwing money at the workforce. However, if pay is badly out of line with expectation, pay can be a great demotivator. The most that we would wish for our system is that it might provide the necessary basis from which other non-pay problems can be tackled.