

cc to Vencha

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PRIME MINISTER

Min. Minister

*David Armstrong suggests that
his share should be taken by
Cabinet along with other public
service pay issues after Easter.*

*But he advises that you should
now ask Lt. Plowden for advice
on how a figure below 12%
should be distributed (Plan A). Are*

TSRB Report No. 16: Handling *you contact with this? Yes no*

You have now received the 16th Report of the TSRB dealing with the pay of senior civil servants, Members of the Armed Forces and the Judiciary. The Report is as we expected: it makes no new salary recommendations but strongly urges the Government to implement the recommendations made last year "in full and as soon as possible"; and states an intention to report next year with "full recommendations on the salary levels which are appropriate at 1st April 1982". We also know that the Review Body are ready, on request, to advise on the most appropriate distribution of whatever sum of money the Government feel able to allocate to salary increases for these groups this year (assuming that the Government does not decide to implement last year's recommendations in full).

2. The immediate problem we face is one of handling. The background situation is complex: the Civil Service pay dispute rumbles on; the nurses' pay negotiations open soon; the Doctors and Dentists Review Body Report is expected just before Easter; the Armed Forces Pay Review Body Report is expected just after Easter; and the Cabinet will, ^{this} ~~next~~ week, be taking a first look at the problems of determining MPs' and Ministers' pay this year.

3. There are a number of different cross-linkages to have in mind:

- (a) Assuming that the Cabinet decide that you should ask the TSRB to produce the same sort of Report on the pay of MPs and Ministers as that they have just produced on their other client groups, we shall face a uniform recommendation across the whole TSRB field that the rates they recommended as appropriate for pay last year should be implemented in full as soon as possible. Assuming that MPs get their already-agreed third stage increase on 13th June (£13,150), they will only be 4½ per cent short of the full recommended

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rate of £13,750. If the Cabinet agree with the proposal by the Lord President and the Chancellor of the Duchy to increase that by 6 per cent to £13,950, MPs will have overtaken the TSRB's 1980 recommendation, and their pay will be nearly 19 per cent higher in 1981-82 than in 1980-81. The other TSRB groups, in contrast, are at present on average 12 per cent behind the TSRB 1980 recommendations, and will still be 5 per cent behind if they are given an increase of 7 per cent.

- (b) Unless the Government were to decide to pay the full TSRB recommendations for the groups other than MPs and Ministers it will need to decide on a sum of money to be allocated by the TSRB. It may be difficult to decide the average level of increase inherent in this sum before the Civil Service dispute is settled. At the meeting with Lord Plowden some weeks ago, the Chancellor of the Exchequer seemed to be ready to contemplate something over the odds for the TSRB groups this year, because they were held back last year. It will be difficult to go for a figure of less than the 7 per cent already on offer to the rest of the Civil Service, and, if the AFPRB recommends increases considerably larger than that for the Armed Forces, there may be a case for a slightly higher figure for the TSRB groups in order to preserve differentials between senior officers and others in the Services.
- (c) The nurses are holding back, awaiting the Government's reaction to the DDR B Report. No one yet knows what level of increase the DDR B will recommend though there are rumours that the average will be in the neighbourhood of 8 or 9 per cent. Either the doctors must be held back to some lesser figure (and they did get full implementation of last year's DDR B Report) or the nurses will want parity of treatment: it will not be possible to settle with them for the 6 per cent which is all that is possible within the cash limit. The decisions taken here will read across to the attitude of the Civil Service unions in their current dispute and to the negotiations later in the summer for the great mass of local authority white collar employees.

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(d) The Report of the AFPRB can perhaps be treated as sui generis. There are no indications as yet of the recommendations which the AFPRB may make. It is, however, known that this year they are taking a particular interest in Armed Forces' pensions, and it could be that increased contributions for these will square the circle. We shall not know for several weeks; and the AFPRB's work, based as it is on a very structured form of comparability, could give further ammunition to the public service unions generally.

4. The conclusion I draw is that we had better not tackle these issues piecemeal. Ideally we should not respond to the TSRB's 16th Report, nor decide upon a figure for the TSRB clients, at least until we have the DDRB and the AFPRB Reports also to hand. At its discussion of the pay of MPs and Ministers the Cabinet need decide only what response we give to Lord Plowden's approach to me about the shape of their Report on the pay of MPs and Ministers, though a second reading discussion on the options for dealing with MPs and Ministers would be useful to help clear minds.

5. This would point to a wide-ranging Cabinet discussion of public service pay issues after Easter. Suitable dates would be either 30th April or 7th May (whichever day the Cabinet does not discuss public expenditure survey guidelines). That discussion might be preceded by discussion in a smaller group, under your chairmanship, for which officials could produce a paper to form an annotated agenda for such a discussion and later consideration by Cabinet.

6. There is, however, one point on which I think we need an immediate decision, though not from Cabinet: whether to take advantage of the Review Body's readiness to advise on the distribution of whatever sum is available for these groups. In theory it is difficult to take a decision on this until the Government has decided what that sum is to be. In practice, I believe that it is already clear that that sum cannot be less than the 7 per cent already offered to the Civil Service and can be very little if any more than that. It would be convenient to get the Review Body's advice sooner rather than later, so that we

would
you
like this?

Yes



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are not held up for the lack of that advice later on, when it may be desirable to be able to make an announcement at about the same time as announcements are being made on doctors and dentists and on the Armed Forces. I therefore recommend that we should not wait, but seek the Review Body's advice directly.

— You do not need to wait for a Cabinet decision to do this. I attach a draft of a letter which you might send to Lord Plowden; if you agree, I will clear this with the Lord Chancellor, the Chancellor of the Exchequer, the Lord President and the Secretary of State for Defence.

ROBERT ARMSTRONG

6th April, 1981

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DRAFT LETTER FROM THE PRIME MINISTER TO
THE LORD PLOWDEN, KCB, KBE

I am writing to thank you for the 16th Report of the Top Salaries Review Body, which I received last week. My colleagues and I shall of course be considering it; but I note that the Review Body is in the process of a comprehensive review, with a view to a full report by 1st April 1982 on the salary levels appropriate at that date, and that in the meantime has reached the conclusion that no useful purpose would be served by recommending now interim salary levels beyond those which still remain to be implemented from the 14th Report, which it urges the Government to implement in full and as soon as possible.

As your report points out, an increase of about 12 per cent overall in the current cost of three groups within your remit would be needed to bring the salaries concerned up to the levels recommended last year. I cannot yet say how far towards that the Government will think it right to move as from 1st April 1981. It is clear, however, that an increase of that order would be in excess of the increases allowed for in the provisions made for public service pay in the Government's public expenditure plans for 1981-82, and in excess also of the rate at which earnings increases are running in much of the private sector. The Government is likely, therefore, to be obliged to propose an overall increase for the groups covered by your remit from 1st April 1981 which falls short of the 12 per cent required to implement the salary levels which the Review Body recommended last year.

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In that event the Government would want to distribute the total in a manner which was not inconsistent either with the shape of the Review Body's past recommendations or with the directions in which the Review Body's thinking is moving for the future, some indications of which are given in the second chapter of the 16th Report.

It would therefore be a considerable help to me if the Review Body were able to advise how best to distribute the sum which the Government decides to make available from 1st April 1981. As I say, I cannot yet say with certainty what that will be; but I believe that, for the purposes of advising on distribution, it would make sense to think in terms of a sum equivalent to 7 per cent overall. Even if the overall sum available eventually turned out to be a little less or a little more than 7 per cent, advice from the Review Body on how such a sum should be distributed would set a pattern of distribution which would be extremely useful to the Government as a guide.

I should accordingly be very grateful if the Review Body felt able to advise how an overall increase of 7 per cent could best be distributed among the groups covered by its remit.

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