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31/10/81

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PRIME MINISTER

## THE PAY REVIEW BODIES

The Sub-Committee on Public Service Pay (E(PSP)) discussed on 27 October what the Government's attitude should be to the pay review bodies in the present pay round. All three review bodies - the Armed Forces Pay Review Body (AFPRB), Top Salaries Review Body (TSRB) and the Doctors and Dentists Review Body (DDR) - are due to report in April and are likely to recommend increases above 4 per cent perhaps substantially so. The Sub-Committee therefore considered whether there was any way in which, by action now, we could reduce the likelihood of having to take embarrassing or contentious decisions in April.

2. In principle we have four options:

(a) To amend the review bodies' terms of reference to require them to take explicit account of general economic and financial considerations or try in some other way to influence their recommendations.

(b) To suspend their operation.

(c) To invite the review bodies to advise on how a given sum of money should be distributed.

(d) To let them report normally and consider their recommendations in the light of circumstances prevailing at the time.



3. E(PSP) concluded that the best course would be to let all three bodies report in the usual way. Changing terms of reference to oblige the review bodies to take into account economic and financial considerations would make it more difficult to reject their recommendations on wider economic grounds. So far as the distribution of a pre-determined cash sum is concerned, it is clear that, this year at least, the review bodies either could not or would not be prepared to operate on this basis. Suspension of the AFPRB would be very difficult in view of our manifesto commitment to keep "full comparability [of servicemen's pay] with their civilian counterparts", which you reaffirmed in May of this year. Suspending the other two review bodies might, if we were certain that we would reject their recommendations, have the advantage of saving unnecessary work and preventing the publication of embarrassing recommendations. It would however be difficult to suspend the TSRB and DDRB without some idea of what might replace them. Both bodies provide specialised advice which is not readily available elsewhere: for example on the more technical aspects of doctors' remuneration and about the relationship between judges salaries and earnings at the bar, about which the Lord Chancellor has expressed his concern. Moreover suspension would be at variance with the statement which you made last May about the Review Bodies' continuing role and independence, and the understanding with the TSRB that it would not recommend new salary levels in its 1981 report but would completely reappraise the salaries of the groups covered by it in its 1982 Report.

4. We shall as usual need to submit evidence to the review bodies stressing the general economic and financial background against which their reports will have to be considered; and those colleagues most directly concerned will meet the TSRB, DDRB and AFPRB to reinforce what is said in our formal evidence. E(PSP) also took the view that there would be advantage in your and my meeting the chairmen of the review



bodies, as we did before they produced their 1981 reports.

The Sub-Committee felt that in any Ministerial contacts with the review bodies, they should be urged to take account of the likely level of pay settlements in the economy over the coming months and of the ease with which those on whom they report can be recruited and retained.

5. E(PSP) also considered the longer term implications of continuing fully to implement AFPRB reports based largely on a form of indexation. We have a clear commitment to maintaining comparability between service and civilian pay. But circumstances have changed significantly since that commitment was first made. The effective indexation of armed forces' pay is likely to cause increasingly serious problems with differentials between the more senior officers on whom it reports and those within the remit of the TSRB. Similar problems arise with medical ranks, whose pay follows the DDRB's recommendations. There is a continuing possibility that AFPRB recommendations will exceed cash limit factors, with significant implications for public expenditure. Most important, the services now have very little difficulty in recruiting and retaining most types of staff. The Sub-Committee therefore concluded that officials should be asked to report on the scope for modifying our commitments on armed forces pay to take more account than at present of the ease with which the services can recruit and retain staff in line with our general approach on public service pay. The Secretary of State for Defence will be reporting on officials' conclusions in time to give us the chance to review the policy we should adopt on armed forces' pay following the 1982 settlement. I would hope that he could do so by around the end of February next year, so that we shall be able to consider the AFPRB's 1982 recommendations in the light of officials' advice for the longer term.



6. I am copying this minute to other members of E; to the Lord Chancellor and the Secretaries of State for Scotland and Wales; and to Sir Robert Armstrong.

(G.H.)

30 October 1981

CONQUEROR

