



10 DOWNING STREET

THE PRIME MINISTER

23 May, 1986.

Dear Lord Plowden.

As you know, because I asked Robert Armstrong to tell you, I announced the Government's decisions on the Top Salaries Review Body's recommendations yesterday afternoon.

On this occasion, we were considering the report from the TSRB at the same time as the reports from the other review bodies. In each case the recommendations were for increases well above what would have been required to set the levels of remuneration broadly in line with inflation, and indeed above the current levels of wage settlements, though they were not out of line with the increase in average earnings. As you know, we take the view that settlements ought not to be based solely or primarily on comparability; and the levels of remuneration recommended presented severe financing problems this year, particularly for the National Health Service groups. After much consideration, therefore, we decided to implement the other review bodies' recommendations as recommended, but with effect from 1 July 1984. That will bring the cost of the increase in the pay bills this year down to an average of just under 6 per cent. Even so, the Treasury has had to find £60 million from the Reserve as a contribution towards financing the increases for the NHS groups.

For the groups covered by the Top Salaries Review Body, we came to the conclusion that, having implemented your Review Body's recommendations in full last year (even though on a staged basis), this year we should do no more than keep

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the level of salaries thus established broadly in line with the rate of inflation since April last year. Accordingly we have decided to increase the salaries of the TSRB groups by an average 4 per cent with effect from 1 July 1986: the cost of the increases in 1986-87 will thus be about 3 per cent, which is the amount by which the Retail Prices Index rose from April 1985 to April 1986. The increase will be distributed on the pattern of the Review Body's recommendations. We recognised, of course, that the Review Body's recommendations already took account of many other considerations besides those of comparability; but we decided that that was as far as we should go this year.

We have however, I am glad to say, been able to accept in principle the recommendations which the Review Body made last year for the institution of discretionary increments for Grades 2 and 3 in the Civil Service. I know that the Review Body attached much importance to these recommendations, and I very much hope that their introduction will not only enable us to reward especially good performance at these levels but will also contribute to the general improvement of management efficiency which we are seeking to promote in the public service.

I should like once again to thank you and the other members of the Review Body for all the time and effort that you put into the Review. The fact that we have not been able on this occasion to go the whole way with your recommendations does not diminish our gratitude for the service you do in preparing them.

Yours sincerely
Nargaret Thatcher