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PRIME MINISTER

E, 16 December: Pay Review Bodies

At E tomorrow the Chancellor's paper E(80)(146) will be considered. The Chancellor's note covers a note by officials, prepared by the Treasury; the Treasury are wrong to imply that those other officials consulted (including myself) are committed to the arguments in it, because we did not see the note in final form. I made clear during the discussions your commitment to implementing the recommendations of the Armed Forces Pay Review Body (AFPRB). It is essential to consider how to treat the Top Salaries Review Body (TSRB) and the Doctors' and Dentists' Review Body (DDRB) separately from the AFPRB.

The Chancellor's main recommendation on the TSRB and the DDRB is that they should be asked to advise the Government on the distribution of a total amount determined by the pay assumption in the cash limit. I understand that you are concerned about that recommendation. It does seem to me to be the least we can ask them to do. Otherwise, both Review Bodies will make recommendations well above the pay assumption, and since it would be harder to apply the pay assumption for the rest of the public service if we accept such a recommendation, we would have to reject it - or else suspend the Bodies before they begin. In either case we would then have to apply the pay assumption across the board to all the groups covered - which would be contrary to our approach of establishing what we can afford overall, and leaving room for negotiation of the distribution of that amount. In the case of the DDRB it is particularly important that we have their advice, because of the complex nature of expenses and allowances.

It will also be highly desirable for the TSRB and DDRB to agree to confine their advice to the distribution of a limited amount (the Chancellor's recommendation (ii)). The more authority is attached to higher claims, the harder it is to make lower figures stick.

The Chancellor suggests in his recommendation (iii) that Ministers discuss the possibility of amending the terms of reference. The TSRB and DDRB already take account of general economic and

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financial conditions; it is difficult to see what amendments could usefully be made to their terms of reference without insisting that they observe the constraints of the cash limit, as in the first recommendation.

As for the AFPRB, the Chancellor suggests that as serious damage would be done to public service pay policy if the Forces get much bigger pay increases than others in the public service, we should argue that the Armed Forces civilian counterparts are primarily those in the other public services, so that we can ask the AFPRB also to limit itself to the pay assumption in the cash limit. I think you may wish this to be put the other way around: we can ask the AFPRB to regard civilian counterparts as being in the public services and hope that the outcome is an increase in line with the pay assumption, but if it is not our commitment to the AFPRB means that we have to implement whatever they recommend.

In short, therefore, we should:

- (i) ensure that our evidence to all three Review Bodies stresses the limits to what can be afforded in the public sector;
- (ii) ask the TSRB and DDRB to advise on the distribution of a specified total amount determined by the pay assumption in the cash limit; implement that regardless of other recommendations; but try and prevent them making any other recommendations; and
- (iii) ask the AFPRB to regard the civilian counterparts of the Armed Forces as being entirely within the rest of the public service, but implement whatever recommendation they come up with.

J.V.

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Qa.05028

TO: MR LANKESTER

15 December 1980

FROM: J R IBBS

Pay Review Bodies

Regretfully, the CPRS does not believe that the Chancellor's approach in E(80)146 is ^{wholly} a realistic option. In particular:-

- (i) we see no reason to suppose that the TSRB and the DDRB will agree to advise solely on the distribution of a limited amount of money (6% or whatever). Indeed Lord Boyle's letter of 21 November makes it quite clear that such advice would only be given if the TSRB's report were overruled; and that they see it as crucial that they act, and are seen to act, as an independent body.
- (ii) a fortiori, we do not believe that Review Bodies would agree to operate under terms of reference that required them to recommend increases consistent with Government "guidelines".
- (iii) nor do we think that the AFRB will agree to interpret "civilian counterparts" as being restricted to other public services: and such an interpretation by Government against AFRB advice could not be reconciled with Ministerial statements, including that of the Prime Minister of 10 July 1980.

We do not, therefore, think that the Chancellor's approach will do anything to remove the embarrassment of unacceptable recommendations.

2. Superficially there is much to be said for suspending the Review Bodies, or abolishing them altogether. In theory this would allow a "step change" down for the public services; and would avoid the running sore of recommended increases which were repeatedly overruled. In practice, however, this would solve nothing. Negotiations would instead be conducted on less respectable data; there would be a continuous row with the professions; and effects and costs would be incalculable. Moreover, it is inconsistent with Ministerial statements to the effect that the Review Bodies should continue.

3. If the Review Bodies continue in much their present form, some embarrassment is inevitable. Recommendations will be made which the Government cannot endorse. This is particularly true of the TSRB whose recommendations in the last round were reduced by Government by an

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average of 12%. A repetition of that exercise would create a "catching-up" problem of a size similar to that which has so often damaged policies of pay restraint in the past.

4. There are no easy answers. The CPRS would urge, however, that Ministers should not look solely at the problem of the current round. The Review Body reports come late in the round, and do not therefore greatly affect its tone. There is no need to decide now on what the Government response should be. But we think Ministers should commission further work on this well in advance of receiving the reports so that proper consideration can be given not only to the effects on the current round but on the "catching-up" problem as well.

JR.

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P.0404

PRIME MINISTER

PAY REVIEW BODIES

(E(80) 146)

BACKGROUND

The Committee discussed the membership and terms of reference of the three Review Bodies (Top Salaries (TSRB), Armed Forces (AFPRB) and Doctors and Dentists (DDRB)) on 23 July (E(80) 27th Meeting, Item 2). They then agreed that the Review Bodies should continue; that their terms of reference should not be changed; and that, with the exception of the AFPRB, the Government should continue to give no commitment to accepting their recommendations. You subsequently announced, in answer to a written PQ, the decision that the Review Bodies would continue.

2. You also had a discussion with members of the TSRB on 7 November - a discussion which led Lord Boyle (who had been unable to be present) to write to you jointly with Lord Plowden on 21 November commenting on points made in the discussion. His letter is annexed (Annex C) to the Chancellor's paper. For present purposes the important point is that, while the TSRB next year will continue to recommend the salaries it thinks 'right' irrespective of Government views, it would nevertheless be prepared to advise, if asked, on the allocation of any lesser sum which the Government decided was all it could afford for the Group covered by the TSRB remit.

3. In addition, when the Cabinet discussed public expenditure on 19 November, you announced and recorded that a settlement of the Defence Budget for 1981-82 had been reached in discussion between yourself, the Secretary of State for Defence and the Chancellor of the Exchequer. Among the conditions attaching to the settlement was one relating to Armed Forces' pay. This was recorded as:-

"If the decisions taken by the Government in the light of the recommendations of the Armed Forces Pay Review Body entailed an increase in the Armed Forces pay bill beyond the 6 per cent which will be provided in the Defence Cash Limit, the limit would be increased by the full amount involved."


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4. The Chancellor of the Exchequer is now seeking to modify or reinterpret two of these earlier decisions. In particular:-

(a) In the case of the Armed Forces, the Chancellor says that "serious damage would be done to our policy for pay in the public services if we implemented recommendations of the AFPRB which meant giving the Forces much bigger pay increases than others in the service of the Central Government". He therefore advocates applying "broadly the same financial discipline" to Armed Forces' pay as to the other public services and squaring this with the Manifesto and other commitments by arguing that, for this year at any rate, the appropriate "civilian counterparts" of the Armed Forces are primarily in the other public services.

(b) In the case of the other Review Bodies, to ask them to confine their Reports to advice on the distribution of a limited amount of money fixed by Government and not to make recommendations on the appropriate level of salary irrespective of Cash Limits. If the Review Bodies will not act in this way the Chancellor asks that the Committee reconsiders its earlier decisions not amend the terms of reference and to allow the Bodies to continue functioning.

5. The recommendation on the pay of the Armed Forces is likely to be fiercely contested. Mr Pym, for example, may well argue that the Chancellor is seeking to overturn the basis of the agreement on Defence spending next year endorsed by Cabinet as recently as last month. Of course that agreement expressly reserved the right of the Cabinet to decide not to accept the recommendations of the AFPRB but Mr Pym will argue that that decision was expressly envisaged as coming after the AFPRB Report was available - and when the time comes he will no doubt rely in part at least on your answer to a Supplementary Question by Mr Wellbeloved in the House on 10 July when you confirmed that the Government would honour the recommendations of the AFPRB. The Chancellor may well be right in holding that a comparability-based settlement for the Armed Forces in April next year - coinciding as it will with the settlement dates for the Doctors, the Dentists, the Nurses and the non-industrial Civil Service - will greatly


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complicate negotiations with those groups for settlements around 6 per cent. But this problem has been inherent in the Government's approach to public service pay since the beginning and must come to a head at some stage. The real question is whether the battle is fought now or reserved for Cabinet in April.

6. The Chancellor's recommendations on the other two Review Bodies are less traumatic but not without difficulty. The Committee will no doubt readily endorse the Chancellor's recommendation that the DDRB be asked, as the TSRB has already volunteered, to make recommendations on the allocation between their clients of the sum of money the Government is prepared to make available. This would at least enable the Government to avoid this summer's difficult operation of taking such decisions itself. They may also readily accept his view that it will not be possible to persuade the RBs not to give their view on the 'right' levels of salary. If this forecast is correct the Committee have three choices open to them:-

(a) To accept the situation whereby the Review Bodies will recommend levels of salary increase which the Government cannot adopt but may help in allocating the money available.

(b) To amend the terms of reference of the Review Bodies to require them to take account of general economic and financial considerations. The risks here are set out in paragraphs 11 and 12 of the Report by Officials annexed to the Chancellor's paper. To this statement of the risks might be added the difficulty of finding an alternative way of settling the pay of Doctors and Dentists (free collective bargaining?) which does not lead to higher settlements.

(c) To suspend the operation of the Review Bodies. The pros and cons of this course are described in paragraphs 13-15 of the Officials' Report. Again the problem of Doctors' and Dentists' pay looms large and suspension would also leave the current reference of MPs' pay to the TSRB up in the air.


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HANDLING

7. You will want to ask the Chancellor of the Exchequer to introduce his paper and then perhaps discuss each Review Body in turn, starting with the AFPRB as representing much the most difficult problem. The main contributions in each case will come from the Secretary of State for Defence on the AFPRB, the Secretary of State for Social Services on the DDRB and the Lord President of the Council on the TSRB though most of your colleagues are likely to have a view to express.

CONCLUSIONS

8. It would be helpful if conclusions can be recorded on:-

(i) Whether an attempt is to be made to settle the question of Armed Forces' pay before the AFPRB Report is available or whether, as Cabinet envisaged, this decision should be taken "in the light of" the AFPRB's recommendations - probably in April.

(ii) Whether an attempt should be made to persuade the TSRB and the DDRB not to recommend appropriate rates of pay for their client groups next Spring.

(iii) Irrespective of the outcome of (ii), whether the DDRB should be asked for its co-operation, which the TSRB has already volunteered, in allocating a fixed sum of money between its clients.

(iv) Whether the terms of reference of the Review Bodies should be altered - if so, the Committee will need to commission specific proposals on how this should be done: a task which could be laid on the Chancellor of the Exchequer in consultation with the other Ministers primarily concerned.

(v) Whether the operation of the Review Bodies should be suspended in the present pay round.



P Le CHEMINANT

Cabinet Office
15 December 1980

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E(80)146
12 December 1980

COPY NO. *2*

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PAY REVIEW BODIES

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Note by the Chancellor of the Exchequer

I attach a note prepared by Treasury officials in consultation with the other Departments concerned. I agree with their analysis and recommend the following approach to my colleagues:-

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- (i) We should accept the helpful offer in the letter of 21 November from the TSRB to advise on the distribution of a limited amount of money, and ask the TSRB and DDRB to give advice within constraints reflecting our approach to cash limits for 1981-82.
- (ii) We should try to persuade the two Review Bodies to confine themselves to such advice; but we must recognize that this may not prove possible.
- (iii) If they are not willing to confine themselves in this way, we are likely to face embarrassing recommendations in due course; the only way of avoiding that would be through formally amending their terms of reference or suspending their operation. Either of these courses would have disadvantages, as the official report brings out. But they are possibilities we must discuss.

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(iv) The question of the AFPRB requires special consideration because of our public commitments. But my view is that serious damage would be done to our policy for pay in the public services if we implemented recommendations of the AFPRB which meant giving the forces much bigger pay increases than others in the service of the central government. I think we could reasonably argue that, at least in the circumstances of the current pay round, the "civilian counterparts" of the Armed Forces are primarily in the other public services and that broadly the same financial discipline should apply. This would point to handling the AFPRB in the same way as the TSRB and DDRB this year.

*In that case
the review would
show the level
of other services*

(v) Whatever our decision on the AFPRB, our evidence to all these Review Bodies should draw attention to the need to take account of current economic conditions and of the financial constraints that apply to the public services.

G.H.

HM TREASURY
12 December 1980

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PAY REVIEW BODIESNote by Treasury Officials

This note considers possible action in the current pay round towards the three pay Review Bodies. It is not concerned with possible longer-term changes, which are being considered as part of the current study of future arrangements for pay determination in the public services.

2. This note has been prepared after consultation with officials in the Civil Service Department, Ministry of Defence, Department of Employment, DHSS, No 10, CPRS and Cabinet Office; but other departments are not committed to the arguments or the recommendations in it.

Not are committed.

Background

3. There are three bodies involved: the Armed Forces Pay Review Body (AFPRB), the Top Salaries Review Body (TSRB), and the Doctors and Dentists Review Body (DDRB). Details of each of these bodies are set out in Annex A. All have a purely advisory role. It is for the Government, in the light of their advice, to take decisions on the pay of the groups concerned. However, successive Governments have indicated that they would not reject or modify recommendations from the Review Bodies unless there were obviously compelling reasons for doing so.

4. Ministers last considered their attitude to the Review Bodies in July. The discussion took place in the context of the longer-term future of pay determination, including the future of the Clegg Commission. As a result, it was announced that the Clegg Commission would be wound up, but that the Review Bodies would continue to operate.

5. Ministers have made a number of public statements regarding the operation of the Review Bodies. These are listed in Annex B. In summary, however:

- (a) Ministers have undertaken that the AFPRB will continue to operate ✓
on a basis of comparability with civilian counterparts. X
- (b) The Prime Minister has stated that all three Review Bodies should continue to make recommendations.