



Ref. A03999

PRIME MINISTER

With my minute earlier today I sent you a draft letter to Lord Plowden which you might show him when you see him this evening.

2. I have now had comments from the other Ministers to whom the draft was copied. I attach two copies of the revised draft, one of which you could show to Lord Plowden if you are content with it. There are three changes:

- (a) At the suggestion of the Chancellor of the Exchequer, I have inserted in the sentence about cash limits in the middle of the third paragraph a reference to the grant to the Universities.
- (b) At the suggestion of the Lord President I have taken out the sentence at the end of the fourth paragraph which read: "Indeed it would clearly be unfair that they should receive percentage increases significantly larger than those which the cash limits imply for other people in the same services." The reason for this deletion is that the increases for the Armed Forces will not be constrained by the cash limit, and senior members of the Armed Forces come within the Top Salaries Review Body remit.
- (c) At the suggestion of the Lord President I have modified the last sentence of the fifth paragraph so as to avoid referring to 7 per cent. As you know, we do not want to discuss the 7 per cent figure publicly at this stage. By the time you actually come to send the letter, this embargo on the figure should have been lifted and we should be able to revert to the original text.

3. I am sending copies of this minute and the revised draft to the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Secretary of State for Defence and the Secretary of State for Social Services.

ROBERT ARMSTRONG

15 January 1981



CONFIDENTIAL

DRAFT LETTER TO LORD PLOWDEN

I thought that it might be useful if, following our discussion on 15th January, I put on record what I said to you about the Government's general policies and their bearing, as we see it, upon the work of the Top Salaries Review Body under its standing terms of reference.

The Government's overriding priority is the reduction of inflation. We seek to achieve this by means of a progressive reduction in monetary growth. If we are to succeed in that, we must continue to limit as strictly as we can, and to reduce wherever possible, the demands which the public sector makes upon the rest of the economy.

You will know that the economic recession, and the financial constraints that accompany it, have meant not only a severe loss of jobs in industry but also a substantial reduction in the rate of pay increases paid to those in industrial employment. Those constraints do not operate directly upon the public services, but it is no less important that the rate of pay increases should be moderated in the public sector than in the private sector. For the public services - the Civil Service and the National Health Service, and local government - and for the grant to the Universities, we are imposing cash limits which are intended to ensure that pay increases this year are kept within levels which the country can reasonably be asked to afford. At a time when many workers in industry are having to accept modest pay increases or even no increases at all, we believe that those who work in the public services should also be, and will be, prepared to accept the need for a considerable degree of restraint. This applies to the pay of those who come within the Review Body's remit no less than to that of others in the public services concerned.



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I told you that my colleagues and I hoped that the Review Body would take full account of these considerations, including the cash limits set for the Civil Service, in formulating their recommendations. I also told you that, apart from whatever recommendations which the Review Body may think it right to make, we should like to take advantage of their willingness, which the Chairman has already expressed to me, to give advice on the appropriate distribution of a hypothetical sum which would derive from average increases low in single figures across the two groups of higher Civil Servants and senior officers in the Armed Forces. This figure will be announced in due course.

As I also told you when we met, the Government believe that there may be considerations which would justify and indeed require a special review of the pay of the judiciary this year. That will be a matter for the Review Body to consider in the course of their work; but I wanted to make it clear to you at this stage that, as far as the Government is concerned, the Review Body should not feel that the constraints I have described need inhibit them from taking such a view, and recommending accordingly, if they conclude that it would be right to do so.

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As I also told you when we met, the Government believe that there may be considerations which would justify and indeed require a special review of the pay of the judiciary this year. That will be a matter for the Review Body to consider in the course of their work; but I wanted to make it clear to you at this stage that, as far as the Government is concerned, the Review Body should not feel that the constraints I have described need inhibit them from taking such a view, and recommending accordingly, if they conclude that it would be right to do so.

Ref: A03994



CONFIDENTIAL

*Further
Revised draft
coming*

PRIME MINISTER

You asked me to revise the draft letters to the Chairmen of the Review Bodies, in the light of the discussion at the meeting of the Ministerial Committee on Economic Strategy yesterday morning.

2. I attach a revised version of the draft letter to the acting chairman of the Top Salaries Review Body, whom you are to see this evening.

3. I am sending copies of this minute and of the revised draft letter to the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Secretary of State for Defence and the Secretary of State for Social Services.

4. If you are content, I propose to offer revised drafts of the letters to the other two Chairmen tomorrow, taking account of the comments that you and other Ministers have made on this draft and also of the outcome of your meeting with Lord Plowden this evening.

RA

Robert Armstrong

15th January 1981

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DRAFT LETTER TO LORD PLOWDEN

I thought that it might be useful if, following our discussion on 15th January, I put on record what I said to you about the Government's general policies and their bearing, as we see it, upon the work of the Top Salaries Review Body under its standing terms of reference.

The Government's overriding priority is the reduction of inflation. We seek to achieve this by means of a progressive reduction in monetary growth. If we are to succeed in that, we must continue to limit as strictly as we can, and to reduce wherever possible, the demands which the public sector makes upon the rest of the economy.

You will know that the economic recession, and the financial constraints that accompany it, have meant not only a severe loss of jobs in industry but also a substantial reduction in the rate of pay increases paid to those in industrial employment. Those constraints do not operate directly upon the public services, but it is no less important that the rate of pay increases should be moderated in the public sector than in the private sector. For the public services - the Civil Service and the National Health Service, and local government - we are imposing cash limits which are intended to ensure that pay increases this year are kept within levels which the country can reasonably be asked to afford. At a time when many workers in industry are having to accept modest pay increases or even no increases at all, we believe that those who work in the public services should also be, and will be, prepared to accept the need for a considerable degree of restraint.

This applies to the pay of those who come within the Review Body's remit no less than to that of others in the public services concerned. Indeed it would clearly be unfair that they should receive percentage increases significantly larger than those which the cash limits imply for other people in the same services.



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I told you that my colleagues and I hoped that the Review Body would take full account of these considerations, including the cash limits set for the Civil Service, in formulating their recommendations. I also told you that, apart from whatever recommendations which the Review Body may think it right to make, we should like to take advantage of their willingness, which the Chairman has already expressed to me, to give advice on the appropriate distribution of a hypothetical sum which would derive from average increases of 7 per cent across the two groups of higher Civil Servants and senior officers in the Armed Forces.

As I also told you when we met, the Government believe that there may be considerations which would justify and indeed require a special review of the pay of the judiciary this year. That will be a matter for the Review Body to consider in the course of their work; but I wanted to make it clear to you at this stage that, as far as the Government is concerned, the Review Body should not feel that the constraints I have described need inhibit them from taking such a view, and recommending accordingly, if they conclude that it would be right to do so.

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