



ce JV

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 December 1982

Michael Scholar, Esq.,
No.10 Downing Street

Dear Michael,

Civil Service:
Pay and Pensions
: P4 12

ANNUALITY AND THE REVIEW BODIES

Your letter of 8 November, which was primarily concerned with the Megaw Report, recorded that the Prime Minister wondered whether we should be encouraging the Review Bodies to move away from automatic annual pay increases.

There is nothing in the Review Bodies' terms of reference which requires them either to carry out a review or to recommend a pay increase every year; they are required simply to "advise the Prime Minister on the remuneration/pay and allowances" of the groups. In general, the Review Bodies carry out annual reviews because they follow current, conventional pay practice (though in the case of the Top Salaries Review Body the then Government announced in December 1974 that it proposed specifically to invite the Review Body to carry out annual reviews for the higher Civil Service, senior armed forces officers and the judiciary).

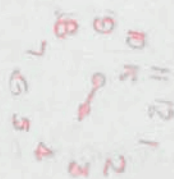
To preclude the Review Bodies from carrying out annual reviews or from making annual awards before a clear trend away from annual increases has become established in the economy generally, would be strongly resented by the groups on whose pay they report. A particular problem would arise in relation to the Government's commitment to the armed forces. We should also risk creating a 'catching up' problem in the years in which the Review Bodies did report. However, we can perfectly reasonably frame our economic and other evidence to the Review Bodies in such a way as to encourage them to consider whether any pay increase is justified in the year in question, and not to take this for granted. The Prime Minister will have seen the draft evidence to the Top Salaries Review Body which sets out to do just this. A similar line has been taken in the draft evidence to the Doctors and Dentists and Armed Forces Review Bodies.

I am copying this letter to the Private Secretaries to members of the Cabinet, the Attorney General and the Lord Advocate, and to John Sparrow and Sir Robert Armstrong.

Yours sincerely,
Margaret O'Mara

MISS M. O'MARA

Civil Servant : Pay + Pension
Pt. 13



75 DEC 1982

COMMUNICATIONS

Prime Minister

②

MR SCHOLAR

To note this and

the Treasury letter attached.

cc Mr Mount
Mr Walters O/R

Mes 17/12

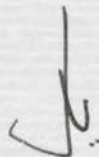
ANNUALITY AND THE REVIEW BODIES

The letter of 14 December from the Chancellor's Private Secretary makes the perfectly fair points that there is nothing to stop the Review Bodies deciding that automatic annual pay increases are no longer appropriate, but that we cannot instruct them accordingly.

I see this issue as part of the wider problem of moving away from automatic annual pay increases in the public sector generally. It is a matter for judgement how quickly we can get there, but it must be the Government's policy to get there eventually. As long as inflation is kept under control, ie in low single figures, we have to reach the stage where pay rises are only available where they are earned or where there are skill shortages, if we are to regain competitiveness.

We cannot reach that stage during this pay round. Although the CBI reports that one in ten of the settlements so far is zero, the average is still around 5%, and our own 3½% pay factor is well known. But we could contemplate announcing that there would be no automatic increases next round. That would also give us the opportunity of tying pay increases to the rate of introduction of new technology, which is going to be increasingly important in the Civil Service.

You may feel that there is no need to reply to the letter.


16 December 1982