

Subject

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cc Master

10 DOWNING STREET

From the Principal Private Secretary

22 April, 1985.

Dear Richard,

Armed Forces Pay Review Body

Sir David Orr, the Chairman of the Armed Forces Pay Review Body, and Sir Peter Matthews called on the Prime Minister this morning at Sir David's request to tell the Prime Minister about the recommendations of the Armed Forces Pay Review Body's Report and the background to them.

Sir David Orr said that this was the first time that he had asked to see the Prime Minister personally as Chairman of the Armed Forces Pay Review Body, and he was conscious that the recommendations in the Report would create a difficult problem for the Government. As background, he described the morale of the Armed Forces as excellent, but brittle: they felt under pressure as result of their extensive commitments, and were particularly exercised by the extent of separation from their families. The handling of their allowances, not only the local cost of living allowance, but also those for disturbance and mileage, also caused grievance. They recognised that they had been well treated on pay, and had great confidence in the assurances given by the Government. Last year's staging had been accepted, but with some cynicism that this might be the thin end of the wedge.

Sir David continued that he understood the Government's budgetary problems, but the AFPRB had a responsibility to make recommendations which were fair to those concerned as well as to the taxpayer. The recommendations in their report were at the lowest level consistent with the evidence before them. They had also taken account of market conditions as reflected in recruitment rates. For this reason they were recommending 4% for the lowest recruits, but the recommendations ranged through 4½% to 6½% for longer serving Privates to 7½% for skilled men at Corporal level who were equivalent to production workers in manufacture. The total level of increase recommended for the regular forces was 7.06%. But larger increases had had to be recommended for Reservists bringing the overall total to 7.3%.

Sir David said that rejection or even staging of these recommendations would be a blow to the Armed Forces, especially since comments by the Service media and the allowances issue had made them sensitive. Wastage was

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increasing, and he hoped that the Prime Minister would consider making an immediate statement that the Armed Forces were a special category which justified the acceptance of the recommendations in full. He believed that, if such a statement were made immediately and positively, there would be little political flak, and the effect on morale would be very good.

The Prime Minister said that she was surprised that the issue of local allowances was causing so much difficulty since in 5 places there had been increases, and the implementation of the reductions had been deferred until August. There might be a case for considering a different system. As regards the general recommendations, her difficulty was that these would leave less for equipment, and this would cause less employment than there would otherwise have been in the supply industries. She did not think it possible to solve the problem by reducing numbers.

Sir David Orr agreed that it might be worth considering an alternative to the allowances system: the mileage allowance was very low, and members of the Armed Forces lost money when they had to transfer their families between postings. The local cost of living allowance had particularly affected those in Germany, and there was some problem of morale in Hong Kong. Elsewhere, e.g., in Cyprus or Northern Ireland, there was less problem. He would not pretend that there was a risk of large numbers leaving, but the Services were vulnerable in respect of those with the most marketable skills who were also the most difficult to replace. He agreed that the reduction of numbers did not offer a solution: there were also already complaints about reductions in civilian support staff. The Review Body had been pressed for an increase in the "X factor"; but they had thought it better to face the issues of increases directly.

The Prime Minister concluded the discussion by saying that the Review Body's report would present the Government with a problem, but she was most grateful to Sir David for coming to explain the background, and she and her colleagues would naturally give much weight to what he had said.

The AFPRB report was subsequently received in this office.

I am sending copies of this letter to Rachel Lomax (HM Treasury), and to Sir Robert Armstrong (Cabinet Office).

Yours ever,

Robin Butler

F.E.R. Butler

Richard Mottram, Esq.,