SUBJECT

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file

cc CRLS
CO
MPO
Chief Whip's Office
Dept Emp
LPS Office
DHSS
LP's office.
SO
Defence
Ed Science
Lord Chancellor's Office
HO
J. Vereker.

10 DOWNING STREET

cc Master

From the Private Secretary

27 April 1982

cc Cabinet Service Key
AFPRB
Doctors + Dentists
TSRB

Dear John,

The Prime Minister held a meeting with Ministers this morning about a number of pay issues. The Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer, the Secretaries of State for Education and Science, Defence Scotland, the Lord President, the Secretary of State for Social Services, the Lord Privy Seal, the Secretary of State for Employment, the Chief Whip, the Minister of State, Treasury, Mr. Hayhoe, Sir Robert Armstrong and Mr. John Sparrow were present.

The Chancellor of the Exchequer said that a number of pay issues required decisions. The award of the Civil Service Arbitration Tribunal (CSAT), which gave an average increase of 5.9%, and a range for individuals from 4.75% at the bottom of the scales to 6.25% at the top, was lower than had been feared and higher than had been hoped. In his judgment it was at about the limit of acceptability. He believed that it would involve an addition to the 4% cash limits, although he hoped colleagues would be able to absorb no less than 5% of the 5.9% within existing departmental cash limits by finding further administrative or manpower savings. The Armed Forces Review Body Report (AFPRB) recommended a range of increases which would add 6.1% to the estimated 1982/83 pay bill. He believed that these recommendations should be accepted. The Doctors and Dentists Review Body (DDRB) recommendations, which would add 6% to the pay bill, or 9% when the 3% deducted from the 1981 recommendations was taken into account, would if implemented in full create very considerable difficulties for the negotiations currently in progress with other National Health Service groups. The Top Salaries Review Body (TSRB), which recommended on average a 21.9% increase over current levels, also posed considerable problems. The most logical course was, perhaps, to accept all these recommendations; but this would make the National Health Service negotiations very difficult. If the DDRB recommendations were not fully accepted, there would be a strong case for a less than full acceptance of the TSRB recommendations. There were a number of options here: it would be possible to deduct 3% from the recommended increases, numerically in line with what was being done with the DDRB. An alternative approach would be to deduct 5% on the grounds that the TSRB recommendations were in part making good the 5% shortfall of the salaries awarded in 1981 as against the 1980 recommendations.

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Further in the background were the issues of teachers' and police pay. English and Scottish primary and secondary teachers were now subject to arbitration. The English further education teachers' negotiations were probably now stalled awaiting the result of arbitration, but there seemed to be a case for conceding 5.5%, or even 5.9%, given that Scottish further education teachers had settled at an average of 5.5%, with Scottish local authority further education teachers receiving 5.9%.

In discussion there was general acceptance of the Chancellor's conclusions as regards the CSAT award. There was, too, a general disposition to accept in toto the recommendations of the AFPRB. The following points were made in discussion:

a) There were strong grounds for implementing the recommendations of the TSRB in full. This group, unlike other groups, had never had a full catching-up operation. Problems of recruitment and retention of people of the right calibre were beginning to make themselves felt, and it was of the highest importance to maintain the quality of those who held these posts. The levels of remuneration recommended by the TSRB were low in relation to the private sector. The public expenditure cost was of little importance in the decision. The differentials between these grades and the grades immediately below them had become excessively compressed. There would, certainly, be political difficulty in accepting the TSRB recommendations. There would not be very much less criticism if 3-5% were deducted from these recommendations; to avoid criticism it would be necessary to implement a very much smaller figure, and this was not a practicable option in 1982, bearing in mind the recent history. In any year it would be politically difficult to grasp this nettle; the time had come to do so.

b) Against this it was argued that acceptance of the TSRB recommendations would make the NHS pay negotiations very hard to handle. It would not be possible to justify offers in the 4-6.4% range to the NHS groups at the same time as 19.4% was offered to senior civil servants and service officers. Nor would it be possible to accept all the Review Body Reports except the DDRB. If the doctors and dentists were held at 6% there was some prospect of sticking successfully to the present NHS offer. To make this one-third reduction on the DDRB recommendations acceptable to the doctors and dentists it would be necessary similarly to cut the TSRB recommendations, by one-third or more. Alternatively, both the DDRB and TSRB recommendations could be accepted in full, but paid in two stages with an abatement of, respectively, 3% and, say, 5% this year.

c) There was arguably less scope in the NHS than in the Civil Service to squeeze a higher pay increase from a given cash limit. The NHS was a labour-intensive service, and

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the Government's policy, in successive public expenditure reviews, had been to budget for a real improvement in the NHS. Demographic trends also worked in the same direction.

d) Departments would not find it easy to absorb part of the cost of the CSAT award within their cash limits, as proposed by the Chancellor. There would be particular difficulties in relation to the prison service, and the defence programme, where the 4% cash limit pay factor was itself already under great pressure as a consequence of the Falkland Islands dispute.

e) On the other hand, the proposal to absorb only part of the CSAT award within existing cash limits would create difficulties with local authorities. The Government's stance with them was that no extra money was available to finance higher pay increases. Their argument would be that the Government was prepared to raid the contingency reserve to finance its own employees' pay increases.

f) With the Task Force at sea it would be unfortunate if there were any suspicion that the Government was holding back its response to the AFPRB recommendations. Ideally all these pay decisions would be announced together. But if this were not possible, there was a strong case for going ahead with the AFPRB in advance of the rest.

The Prime Minister said there were a number of principles to be followed in these matters. It was necessary for broad economic reasons to restrict the level of pay increases. There must, too, be justification for each of the Government's decisions on pay. It was essential that there should be effective management at the top in the public sector. The Prime Minister said that it was agreed that the award of the CSAT, and the recommendations of the AFPRB, should be accepted. The balance of opinion also firmly favoured a full acceptance of the recommendations of the TSRB and the DDRB. There was a good case for announcing all these decisions at the same time, and soon; if this was not possible it would be desirable to go ahead separately with the AFPRB and CSAT. It was recognised that these conclusions would cause very great difficulties with the NHS pay negotiations. The Chancellor of the Exchequer and the Secretary of State for Social Services were, therefore, asked to consider what changes might be necessary to the Government's stance in the NHS negotiations in the light of the meeting's conclusions generally. The results of this consideration together with the group's other conclusions should be put to Cabinet on Thursday 29 April. The Chancellor of the Exchequer should also discuss with the Home Secretary and Defence Secretary the problems which had been raised in relation to the effect of the CSAT award on existing cash limits for the prison service and the defence budget; the general presumption for Departments, however, should be that no less than 1% of the award should be absorbed within existing cash limits. As regards police pay, inter-departmental consideration of the official side report on the police pay system was necessary; when this was concluded she would be grateful if the Home Secretary would bring the matter to colleagues again.

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SECRET AND PERSONAL
AND MANAGEMENT IN CONFIDENCE

I am sending copies of this letter to John Halliday (Home Office), Michael Collon (Lord Chancellor's Office), Imogen Wilde (Department of Education and Science), David Omand (Ministry of Defence), Muir Russell (Scottish Office), David Heyhoe (Lord President's Office), David Clark (Department of Health and Social Security), Jim Buckley (Lord Privy Seal's Office), Barnaby Shaw (Department of Employment), Murdo Maclean (Chief Whip's Office), Adrian Carter (HM Treasury), David Wright (Cabinet Office) and Gerry Spence (CPRS). I would be grateful if you and they would give this letter the most limited possible circulation.

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
HM Treasury.