

SECRET

REVIEW BODY REPORTS

Note of a Meeting at
10 Downing Street on
Tuesday 20 May 1986
at 12 noon.

PRESENT

Rt Hon Margaret Thatcher MP
Prime Minister.

Rt Hon Viscount Whitelaw
Lord President of the Council

Rt Hon Lord Hailsham of
St Marylebone

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

Rt Hon Peter Walker MP
Secretary of State for Energy

Rt Hon George Younger MP
Secretary of State for Defence

Rt Hon Nicholas Edwards MP
Secretary of State for Wales

Rt Hon Norman Fowler MP
Secretary of State for
Social Services

Rt Hon Norman Tebbit MP
Chancellor of the Duchy of
Lancaster

Rt Hon Nicholas Ridley MP
Secretary of State for
Transport

Rt Hon Kenneth Baker MP
Secretary of State for the
Environment

Rt Hon Kenneth Clarke QC MP
Paymaster General

Rt Hon John MacGregor MP
Chief Secretary, Treasury

Rt Hon Malcolm Rifkind QC MP
Secretary of State for
Scotland

Rt Hon Paul Channon MP
Secretary of State for Trade
and Industry

Rt Hon John Wakeham MP
Parliamentary Secretary,
Treasury

Rt Hon Richard Luce MP
Minister of State Privy Council Office.

SECRETARIAT

Sir Robert Armstrong
Mr A J Wiggins

SECRET

The Meeting had before it minutes of 16 and 19 May from the Secretary of the Cabinet to the Prime Minister.

The PRIME MINISTER recalled that a number of the Ministers directly concerned had been considering the Government's response to the 1986 Review Body Reports. They had reached some provisional conclusions which she wished to explore with a wider group of her colleagues before taking the matter to the Cabinet. As had invariably happened in recent years, the recommendations were disappointingly high; the review bodies continued to pay more attention to comparability than to economic factors like recruitment and retention. The proposed increases were all far in excess of the current rate of inflation of 3 per cent, although inflation had been running at 5-6 per cent while the preparatory work was in progress. The provisional conclusion of the Ministers directly concerned had been that the Review Body recommendations, other than those of the Top Salaries Review Body (TSRB) should be accepted, but that their implementation should be deferred until 1 July 1986. This would have the effect of reducing the paybill increases during the current financial year for the groups concerned to just below the 6 per cent rate at which a settlement was currently being concluded with non-industrial civil servants. In the case of the groups covered by the TSRB, the increases recommended were unacceptably high, having regard to the major pay restructuring which the Government had implemented in 1985. For these groups the intention was to allow increases averaging 4.2 per cent, as against the 6.5 per cent proposed by the Review Body; implementation on 1 July would reduce the paybill cost during the current year to about 3.1 per cent. At the same time it was proposed to implement the TSRB recommendation, first made in 1985, for a system of additional discretionary increments above the normal scales for Grades 2 and 3 (Deputy and Under-Secretaries); these additional increments would be awarded to a limited proportion of the people in these grades, in order to reward exceptional service; the costs would be very modest.

In discussion there was general agreement with the approach recommended by the Ministers directly concerned. The following particular points were made:

SECRET

a. It would not be possible for the cash-limited Hospitals and Community Health Services (HCHS) to absorb the costs of implementing the Review Body recommendations on 1 July, together with those of pay settlements with other employees at the same level as the civil service, without prejudice to service to patients. The Chief Secretary, Treasury, had exceptionally offered to increase the cash limits for Health Authorities by £60 million (for the UK as a whole) in order to make it possible for services to be maintained. The Family Practitioner Services were not cash limited, and provision for them would be reviewed later in the financial year in accordance with the normal arrangements for demand-led programmes.

b. The April inflation figure had been 3 per cent, as against 4.2 per cent in March. It would be undesirable to continue to give currency to the 4.2 per cent figure, as would result from using this as the basis for pay increases for the TSRB groups. The best course on balance would be to accept a 3 per cent increase in the paybill for these groups, which would result in increases averaging 4 per cent to be paid from 1 July. The scale of proposed increases should be adjusted to reflect this relatively small change.

c. Because of the precise arrangements for determining the pensions of members of the armed forces, deferment of the increases to 1 July would result in the pensions of those retiring between 1 April and 30 June falling below those of people retiring before 31 March. This problem could be overcome by adjusting the operation of the Pensions Increase arrangements in the case of the armed forces, without breaching the principle that pensions must be related to salaries actually in payment at the time of retirement. This problem did not arise in the case of other groups.

THE PRIME MINISTER, summing up the discussion, said that the Group were in general agreement with the recommendations of the Ministers directly concerned. The Review Body recommendations should all be implemented in full from 1 July 1986, except those of the TSRB where increases averaging 4 per cent should be paid from the same date, with the distribution of the increases falling that recommended by the Review Body. Arrangements should be made for the

introduction of additional discretionary increments for Grades 2 and 3 in accordance with the TSRB's 1985 proposal, if possible during the current financial year. These increments should be subject to withdrawal if the recipient's relative performance ceased to merit them, and should not be pensionable. At the same time the increments on the normal scales introduced for the first time last year should no longer be automatic for new entrants to these grades. Subject to the agreement of the Cabinet, the Review Body Reports should be published on Thursday 22 May, and the Government's response to them announced at the same time by means of a Written Answer given by herself; the increase in Health Authorities' cash limits should be included in the Answer, as well as the details of the new salary scales for the TSRB groups. The Secretaries of State for Defence and Social Services should make arrangements to inform their Review Body Chairmen of the Government's decisions immediately before the announcement, and the Secretary of the Cabinet should similarly see the Chairman of the TSRB. It was essential that the Government's decisions should be effectively presented and explained; accordingly arrangements should be made for the Departmental Ministers concerned, including the Chief Secretary, Treasury, to brief the Officers of the Back-Bench Committees immediately before the announcement. Meanwhile the text of a letter the Chancellor of the Exchequer would send to all Members of Parliament should be available in the Vote Office and the Whips' Office at the time the Answer was published.

The Group of Ministers -

1. Took note, with approval, of the prime Minister's summing up of their discussion.
2. Instructed the Secretary of the Cabinet to arrange for their agreed recommendations, both as to substance and procedure, to be put before the Cabinet at their meeting on Thursday 22 May.

SECRET

