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Rt Hon Michael Heseltine MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
WHITEHALL  
London SW1A 2HB

*Prime Minister 2*  
*To note*  
*DHS*  
*2/9.*

30 August 1985

*John Michael*

**GOVERNMENT EVIDENCE TO THE ARMED FORCES PAY  
REVIEW BODY (AFPRB)**

Thank you for your letter of 9 August 1985.

We are agreed on the importance of striking the right balance between comparability and other vital factors in evidence to the AFPRB, in accordance with the E(PSP) decision of 1983. My letter of 15 July also suggested similar care over future public statements, as unnecessary references to the 1979 commitment can feed expectations - not only among the Armed Forces.

I appreciate the importance which the Services attach to the principle of comparability and the sensitivity of the issue for you. I am not suggesting that we can abandon the principle altogether, only that the phrase "full comparability" appears inconsistent with giving adequate weight to the counterbalancing factors identified by E(PSP). If comparability is to be "full", what notice will be taken of affordability?

I do not pretend that moderating the language will in itself have any great effect upon the level of award recommended by AFPRB, although even a reduction of 0.5% would release over £15 million for your budget. But I am concerned that repeated use of the phrase by MOD may increase demands for fuller comparability from other parts of the public sector, where the costs could become more worrying. It would, therefore, be most helpful if you could agree to speak in future of "comparability" rather than "full comparability", and to avoid unnecessary references to the 1979 manifesto to be helpful steps.

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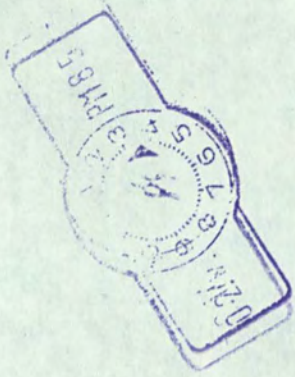
I note that you are not showing this correspondence to any of your military advisers, and will take corresponding steps to ensure that my officials make no reference to it in the wider and more general discussions on pay matters between our departments.

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read "Nigel Lawson", written over a horizontal line.

NIGEL LAWSON

DEFENCE: Armed Forces Pay: Pt 2





Prime Minister <sup>(2)</sup>  
To note.  
MEA 12/P

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9th August 1985

*See Nigel*

*ms*

GOVERNMENT EVIDENCE TO THE ARMED FORCES PAY REVIEW BODY (AFPRB)

Thank you for your letter of 15<sup>th</sup> July 1985.

The Services attach enormous importance to seeing their pay maintained at comparable civilian levels, and I have no doubt that if we let it fall behind, we should quickly get into the problems of the late 1970s once more. The Services have confidence in the present system for setting their pay and, above all, in the Government's handling of this very sensitive matter. They do not believe that honouring our 1979 commitment means that it can now be quietly dropped and forgotten. Nor do I. I enjoyed your argument that by honouring our commitment thus far, we had discharged it. On the same approach presumably we could honour our NATO commitment in any future conflict by participating in the first day's hostilities and then giving up.

The Rt Hon Nigel Lawson MP



3. It is also not the case that the recruitment and retention position in the Armed Forces suggests it is no longer necessary to talk of comparability. In fact figures for retention at least suggest that, as the economy picks, we shall face increasing difficulty in retaining those with marketable skills.

4. The truth is that the Services and their senior management attach considerable importance to the principle of comparability partly because they have seen what has happened elsewhere in the public service when that principle is dropped. In this Department and its outstations, They work directly alongside Civil Servants. They could be forgiven for being suspicious that an end to full comparability would not mean a more sophisticated set of judgements about what was needed to recruit and retain in competition with outside employers but rather an imposed single figure for all ranks set at or below the level of inflation. As a result of the level of concern over this issue, there is no way in which we can modify our evidence by stealth.

5. I do not want, however, to minimise the difficulties which the commitment to full comparability causes me. The problems of accommodating within the defence budget year after year pay awards which are well above the pay factor are becoming increasingly severe. That is why, of course, the Government's evidence to the AFPRB next year will have to strike a balance, as it did this year, between the commitment to full



comparability and affordability.

6. Because this is such a sensitive issue with the Services I have not shown your letter or my reply to any of my military advisers. I should be grateful if the correspondence is not referred to in any wider and more general discussion of pay matters between the Treasury and my Department.

7. I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read "Michael Heseltine".

Michael Heseltine

DEFENCE: Armed Forces Pay Pt 2

