

cc ECON POL TSRB PHS

Mr. Scholar

Ref. A083/2636

MR INGHAM

c Mr Butler

Sir David Orr, Chairman of the Armed Forces Pay Review Body, is very unhappy about the first paragraph of the article in today's Financial Times about yesterday's Cabinet decision on the pay limit for public expenditure. It implies that the increase in the Armed Forces pay will be held to three per cent, irrespective of what the Review Body thinks, and Sir David Orr feels that, if that impression cannot be corrected, the Review Body will think that its work is a mockery and will be liable to resign.

2. I have told him that I will ask you to say to the Lobby --- today something on the lines of the attached text. I have cleared the text with the Treasury, and I have read it over to Sir David Orr who is content.

RTA

ROBERT ARMSTRONG

16 September 1983

Proposed Statement to Lobby

As yesterday's announcement made clear, the 3 per cent is not a pay norm or a pay limit. As regards members of the Armed Forces, the situation is exactly as it has been in previous years. The Armed Forces Pay Review Body will be free, as in previous years, to make whatever recommendations it sees fit in the light of the evidence available to it. Assuming that the Government accepts those recommendations - as it has invariably done since 1979 - if their cost exceeds 3 per cent of the pay bill, they will be financed, as in the past, either by savings elsewhere in the Defence Budget or by drawing on the Central Contingency Reserve.