



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

7 December 2011

Professor Alasdair Smith
Chair
Pay Review Body - Armed Forces
Office of Manpower Economics
6th Floor
Victoria House
Southampton Row
London WC1B 4AD

Dear Professor Smith,

Following my recent announcements at the Autumn Statement, I am writing to set out the Government's view on the critical role of the Armed Forces Pay Review Body in the years ahead.

The Government continues to value the independent and expert view that the Review Bodies provide. You will be aware that, at the Autumn Statement, I announced that the public sector pay freeze will end after 2012-13 – but that in order to support fiscal consolidation, for each of the following two years the Government will seek public sector pay awards that average at 1 per cent. The Secretary of State will write to you in advance of the 2013-14 pay round, in line with normal process.

However, when it comes to setting pay policy after the freeze, the Government is concerned not only with the appropriate annual uplift, but also ensuring that overall public sector pay systems are the most appropriate for the modern labour market.

I am therefore today writing to the chairs of the NHS Pay Review Body, School Teachers Review Body, Prison Service Pay Review Body and Senior Salaries Review Body – requesting that they make recommendations on how pay can be made more market-facing in local areas, to submit initial findings by July 2012. The armed forces have been excluded from this work – but I look forward to continuing to receive your recommendations on other issues in the future.

I am copying this letter to the Chief Secretary to the Treasury and the Secretary of State for Defence.

*Yours faithfully,
George Osborne*

GEORGE OSBORNE