

(Original on ^{Wall} MP's Pay File)

Prime Minister

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Please also see new

P.01054

Correspondence on the Armed Forces

PRIME MINISTER

Review Body Report on Doctors and
(FACCA)

TSRB REPORT

identists in the services; and a reply
to 2 questions you put to John Biffen

This meeting is to consider the two reports from the Top Salaries Review Body (TSRB) on top salary groups, and on parliamentary pay and allowances (including Ministerial salaries).

MS 24/1
(FACCA) and (FACCA)
and two minutes from the Chancellor
= =

2. In his minute to you of 24 June the Lord Privy Seal recommends:

- that the TSRB report on parliamentary pay and allowances should be dealt with in the House in the normal way before the Summer Recess
- that the TSRB recommendations should be accepted as a guide to the level of MPs' salaries to be attained over four years and that the recommendations should be implemented in four equal stages with annual uprating on the lines envisaged in the last Parliament
- that the TSRB recommendations on allowances and pensions should be accepted in full.

3. The Chancellor of the Exchequer's views on the recommendations affecting top salary groups, MPs' pay and allowances, and Ministerial salaries, are set out in minutes to you of 29 June.

MAIN ISSUES

4. It may be convenient to structure the meeting as follows:

- i. pay of top salary groups;
(ie senior civil servants, senior officers in the armed forces and the judiciary)

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- ii. pay and allowances of MPs:
 - a. parliamentary tactics;
 - b. substance of the recommendations on pay;
 - c. substance of the recommendations on pensions and allowances;
- iii. salaries of Ministers and other office holders.

Top salary groups

5. The Cabinet considered the TSRB's recommendations about top salary groups on Tuesday 10 May (CC(83)17th Conclusions, Minute 2) on the basis of a note by the Secretary of the Cabinet (C(83)14) which contained recommendations from an ad hoc meeting of Ministers under your chairmanship the previous week. The paper proposed: that the AFPRB recommendations should be accepted; that the DDRB recommendations for the current year increase (7 per cent) should be implemented from 1 April 1983 but that the restoration of the previous abatement (2.7 per cent) should be deferred to 1 January 1984; and that the TSRB recommended current year increase (6.9 per cent) should be implemented from 1 April 1983 but that the restoration of the previous abatement (just under 5 per cent) should be deferred until 1 January 1984. The Cabinet accepted the proposals relating to the AFPRB and the DDRB. In relation to the top salary groups they accepted that there was a strong case in principle for the proposal in C(83)14 but thought that the Government would be criticised for announcing increases for these groups at the beginning of a General Election campaign and a decision was therefore deferred.

6. The Chancellor of the Exchequer and the Secretary of State for Employment are likely to point out that restoring the 5 per cent abatement, even if deferred until 1 January 1984 will attract some criticism when the Government is trying to encourage progressively lower pay settlements. On the other hand the present pay round is virtually over and the new pay round does not get under way until the autumn. Unless it was thought that these groups should have a permanent 5 per cent abatement in their pay (which would be bad on management grounds as well as difficult to defend in relation to the doctors and dentists), there is a strong case for getting this backlog out of the way in January 1984 and the Chancellor is reluctantly prepared to accept this (his Option B).

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Pay and allowances of MPs

a. Parliamentary tactics

7. The first issue is whether the aim should be to dispose of the matter of MPs' pay before the Summer Recess. The timetable is however very tight. Present advice is that it can be achieved so long as the Cabinet reaches firm decisions on 7 July and the House does not rise before the last week of July. If however the House were to rise on 22 July it is not clear whether there would be a feasible timetable.
8. The second issue is how far the responsibility for an increase in MPs' pay and allowances should rest, and be seen to rest, with Parliament itself rather than the Government. These matters are referred to in paragraphs 4 and 5 of the Lord Privy Seal's minute.
9. There appear to be two responsibilities that fall inescapably on the Government. The Government has to put down a Motion for debate by the House of Commons; and the Government has to take the necessary administrative steps. The question for consideration is how far, in carrying out these responsibilities the Government allows itself to be guided by the expressed opinion of the House. The situation is complicated because two Motions are required: an "expression of opinion" Motion which can be freely amended by the House and an accompanying "effective" (Queen's recommendation signified) Motion which cannot be amended. The possibility therefore exists for the Government to accept the view expressed in an amended "expression of opinion" Motion by bringing forward a new "effective" Motion.
10. The meeting will therefore need to consider how far the Government ought to take advantage of the procedural possibilities in order to place the onus on the House rather than the Government. In theory it would be possible for the Government to table an unforthcoming Motion which demonstrates a desire to restrain increases in MPs' pay but which has a strong chance of being rejected by the House. If the House voted in favour of full acceptance of the TSRB recommendations, the Government could then give effect to the wishes of the House, having made its own position clear. I understand that the Lord Privy Seal is opposed to a manoeuvre of this kind. If this option is ruled out, the Government must at the very least put forward a Motion which is a reasonable response to the TSRB Report and has some chance of

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acceptance by the House. The Government does not however need to put down a Motion which is so forthcoming that it is bound to be accepted.

b. Substance of the recommendations on pay

11. So far the Government's stated attitude to the TSRB recommendations on MPs' pay is to hope that MPs, like members of the Cabinet, will regard the "increases proposed" as too high (your Written Answer of 12 May). This leaves open the question of whether the TSRB's view about the right level of MPs' pay is being challenged or whether the objection is, rather to the size of the immediate increases proposed (31 per cent in the case of MPs and most Ministers, 47 per cent for Commons Cabinet Ministers).

12. The two main options are therefore:

- i. setting MPs' pay at a level below that proposed by the TSRB (favoured by the Chancellor of the Exchequer)
- ii. staged implementation of the full TSRB recommendations (favoured by the Lord Privy Seal).

13. The problem about i. is that the Government has so far gone along with the view that the best method for arriving at the right level of MPs' pay is a review by the TSRB every four years or so. It has also so far been common ground that the salary of an MP should provide adequate remuneration for a full-time Member who has no other source of income. If the Government are to reject the TSRB recommendations not just on the timing of implementation but also on substance, they will need to have some grounds for doing so. The TSRB explain at some length the rationale for their recommendations. They commissioned a study from Hay MSL who advised a figure of £18,700. Updating of the £12,000 recommended by the TSRB in 1979 and accepted in principle by the Government at that time would give £19,500 by reference to earnings and £18,500 by reference to movements in prices. Less weight can be placed on the TSRB's questionnaire to MPs or on the study the TSRB commissioned of the remuneration of legislators overseas. Nevertheless the selection of any figure less than the £19,000 proposed by the TSRB will be seen as an arbitrary judgement by the Government.

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14. The problem about ii. (staging) is that it prolongs the agony and would mean higher than average increases for MPs over several years especially as the staged instalments would have to be accompanied by an annual uprating in line with the average change in public service pay, as the Government envisaged in the last Parliament. The way in which the Lord Privy Seal's proposal would work out in practice is set out in the Annex to this minute.

15. You will want the meeting first to make a strategic choice as between the broad options of a lower increase or staging. When that has been decided you will want the meeting to settle on a preferred variant of the chosen option, eg:

Lower increase

- halfway between £14,510 and £19,000 - say £16,750 (15.4 per cent)?
- or some higher figure - say £17,500 (20.7 per cent) or £18,000 (24.1 per cent)?
- should there be annual uprating from 1984 onwards?

or Staging

- how many instalments?
- size of instalments?
- should there be annual uprating from 1984 onwards and, if so, on what basis?

c. Substance of the recommendations relating to pensions and allowances

16. There is a large number of complex recommendations relating to pensions and allowances costing £5½-6 million, about double the cost of the pay increases. The Lord Privy Seal argues in favour of accepting in full the recommendations relating to allowances on the ground that Members attach great importance to them and they are less likely to cause presentational difficulty.

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17. The main issue for discussion is the proposed 1/50th accrual rate for pensions. The Chancellor of the Exchequer will question whether the compensating increase in the contribution from 6 per cent to 8 per cent proposed by the TSRB is adequate bearing in mind that the Government has a Manifesto commitment to seek "realistic contributions" to public sector pension schemes. A judgement has to be made about how the total cost of the pension scheme should be shared between the "employer" and the "employee". The proposal that MPs should pay 8 per cent out of a total cost of 22 per cent is not out of line with the 11 per cent contributions made by the armed forces, police and firemen to their Schemes which cost 30 per cent. It is however lower than the proportion paid by civil servants (8 per cent out of 20 per cent). The Chancellor is therefore disposed to bid for a contribution of 8.8 per cent or 9 per cent. The Lord Privy Seal may feel however that the justification for such a change is not compelling, especially if the Government is unforthcoming about MPs' pay.

18. You will recall that the TSRB has recommended changes in the resettlement allowance and that your Written Answer of 12 May said that the Government believed "that any decisions which are reached in the new Parliament about resettlement arrangements should apply also to the Members of the present Parliament in relation to their present salaries".

Salaries of Ministers and other office holders

19. The proposed increases in the salaries of Ministers and other office holders are summarised in Annex C to the Lord Privy Seal's minute. The increase in the Parliamentary salary for Ministers and other paid office holders in the Commons, from £8,460 to £11,000, is 30 per cent, approximately the same as that for MPs. The increases proposed for junior Ministers in both the Commons and the Lords are also broadly of the same order. The percentage increase for Commons Cabinet Ministers (47 per cent) is greater than that for other Ministers, partly because the updating increases applied to their salaries in 1980 and 1981 were 5 per cent rather than the 9.6 per cent applied to other Ministers and MPs. There is also a particularly large increase for Cabinet Ministers in the Lords (71 per cent). Lords Ministers generally do not receive a Parliamentary salary. The Government decided in 1981 that in order to compensate in part for this Lords Ministers below the rank of

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Cabinet Minister should have higher salaries than the equivalent Commons Minister. The TSRB have proposed the same treatment now for the Lords Cabinet Ministers.

20. There are two other points which need to be borne in mind about Ministerial salaries. You and the Lord Chancellor have elected not to receive your current salaries of £46,660 and £52,500 respectively but to receive instead the same salaries as your Cabinet colleagues. Secondly, although resolutions about MPs' pay can be retrospective (for example to 13 June 1983, the operative date of the TSRB Report), the Order in Council relating to Ministerial salaries must, in accordance with the Statutory Instruments Act 1946, be laid on or before the date on which it comes into effect. The normal way of proceeding would be to seek the approval of both Houses to the draft Order in Council on Ministerial salaries at the same time as the debate on the Motions about MPs' pay and allowances.

21. The Government has already made it clear in your Written Answer of 12 May that it regards the proposed increases for Cabinet Ministers as "of a magnitude which they could not possibly accept". Whatever is proposed for Ministers and other office holders will need to have some defensible relationship to the proposals in the Government's Motion on MPs' pay, even if the Government leaves open the possibility that MPs may be allowed to amend upward the proposals relating to themselves. The meeting will therefore need to consider:

- i. whether the proposals relating to the salaries of Ministers and other office holders should follow the same pattern as the proposals relating to MPs' pay;
- ii. if not, what the differences should be.

22. The various options which the Chancellor of the Exchequer has worked out will need to be discussed, including your suggestion about increasing the proportion of Ministers' pay accounted for by the Parliamentary salary.

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CONCLUSIONS

23. You will wish the meeting to reach conclusions to the maximum extent possible on the following points:

i. whether the TSRB recommendations for top salary groups should be implemented on the basis considered by the Cabinet on 10 May, ie 6.9 per cent from 1 April 1983 and restoration of the 5 per cent abatement on 1 January 1984;

ii. whether the aim should be to deal with MPs' pay before the Summer Recess;

iii. what should be the content of the Government Motion relating to MPs' pay;

iv. what should be the content of the Government Motion relating to MPs' pensions and allowances;

v. what should be the content of the draft Order in Council about the salaries of Ministers and other office holders.

(vi) whether the AFPRB Report on armed forces doctors and dentists should be accepted - see letter from MOD of 27/6 and Treasury reply of 29/6

24. You will wish also to consider:

i. the handling of these matters at the Cabinet on 7 July; (ie what papers should be before the Cabinet and who should submit them)

ii. the timing of announcements about the Government's proposals relating to top salary groups, MPs and Ministers.

PLG
P L GREGSON

29 June 1983

MPs' PAY

The table below shows the effect of staging the increase in MPs' pay recommended by the TSRB in four equal stages; as well as increasing the recommended total (£19,000) in 1984/85, 1985/86 and 1986/87 by an amount representing the average change in pay for appropriate public sector groups. For purely illustrative purposes this uprating figure is assumed to be 4% for each of the years in question.

FY	A		B		C	
	1983/84 TSRB recom- mendation (staged)	Resulting salary	Uprating increase	Additional amount payable (Compounded)	Total Increase	Total Salary Payable
1983/84	7%	£15,526	-	-	7%	£15,526
1984/85	7%	£16,613	4% ⁽¹⁾	£760	11.9%	£17,373
1985/86	7%	£17,776	4%	£1,550 (£760+£790)	11.7%	£19,326
1986/87	7%	£19,020	4%	£2,372 (£760+£790+ £822)	10.7%	£21,392 ⁽²⁾

(1) Purely illustrative assumption

(2) £19,000 x 4% pa over 3 years