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PRIME MINISTER

The 14th and 15th Reports of the Top Salaries Review Body

(C(80) 32-34)

BACKGROUND

The Cabinet had a first, without commitment, discussion of the 14th Report of the Top Salaries Review Body (TSRB) on 19th June (CC(80) 24th Conclusions, Minute 4). The 15th Report (dealing with the pay of Ministers and Members of Parliament) is now available. Decisions are needed quickly if the presentation of the Government's decisions is not to be affected by leaks of their contents. Nevertheless, despite the fact that the present meeting of the Cabinet has no other business before it you may want to leave more time before coming to final decisions. We have provisionally kept open the possibility of a further meeting on 8th July.

2. The papers are complicated and it would be very easy to become bogged down in detail. If this is to be avoided, you will need to keep a tight control of the discussion and to concentrate on principle rather than detailed figures. (The Cabinet cannot be expected to re-do the work of the TSRB in a single meeting.) I suggest that the points of principle which might be addressed are as follows:-

- (a) Is it sensible to reject or amend the Boyle proposals this time round? The problem of setting the right salaries for Ministers, Members of Parliament and senior public employees is a perennial source of difficulty for Governments. The Review Body system was invented ten years ago in the hope that these matters would be taken to some extent at least "out of politics". Successive Governments have paid lip service to the concept by reiterating that the recommendations of the TSRB - like those of the Doctors and Dentists and Armed Forces Review Bodies - would be accepted save where there were "clear and compelling reasons" to the contrary. In every case, however, successive Governments - fighting against inflation - have agonised over the implementation of the Reports as they have come forward, and each attempt to reconcile the basic commitment

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to implementation with short-term problems of presentation has been fraught with political difficulties and embarrassment to Governments. It would be fair to add that every time recommendations have not been implemented, short-term political advantage has incurred the penalty of longer-term embarrassment, sometimes acute, when the pressure for "catching up" could no longer be withstood. Perhaps some of those covered by these reports might also think that they were entitled to ask whether the Government's emphasis on the need to give adequate incentives for responsibility and hard work applies everywhere else but in the public service.

- (b) In a sense this is a question not just of levels of pay, but of systems of settling pay. Has the Review Body system failed in its primary purpose - which is to provide an alternative system of settling pay for groups of public servants (including Ministers and MPs) who cannot negotiate with the Government (or with whom the Government prefers not to negotiate), and thus to provide a measure of protection both for the Government and for the public servants concerned? Unless salaries for the groups concerned are to be settled simply by Government fiat, are there better alternatives?
- (c) If the Cabinet thinks that the present situation demands some modification of the TSRB proposals, is the desired outcome to be achieved by delaying the implementation of the TSRB recommended rates or by the substitution of new rates to be paid from the due dates? Delayed implementation solves the differential problem, makes it easy to handle pensions, and is unlikely to cause members of TSRB to resign. The questions are whether there should be a common period of delay for all the groups concerned (which in the light of the actual TSRB recommendations would bear harshly on Members of Parliament) or whether a differentiation should be made to take account of the varying size of the recommended increases. A judgment here turns on an assessment of what MPs will accept. It would also be necessary to decide on the period of delay. The implications of various choices are set out in paragraph 11 of C(80) 34.

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- (d) If the decision is to go for lower salary rates from the due dates, are the Cabinet prepared to envisage cutting back in some way on the recommendations in TSRB 14 before they know what the House is prepared to accept in respect of the pay of MPs? The House of Commons might argue that a knowledge of what the Government is prepared to do about its own employees is a necessary precondition for their own decision. The Chancellor of the Duchy touches on the point in paragraph 8 of his paper (C(80) 33). He argues that the Government could not let MPs off the hook and then be tough on the TSRB 14 groups. He assumes that it would be less invidious if the sequence of events were reversed. I am not sure that I agree: at least the appearance of even-handedness is a desirable part of this complex of decisions. Your colleagues will have to judge the balance of risks here.
- (e) Is the Government prepared to refuse arbitration to the Assistant Secretary grade and to impose a lower settlement on them than that which they might gain at arbitration? A decision here substantially determines the range of options for handling TSRB 14. If the Assistant Secretaries are to get what they regard as their due, then only option B or something like options G, H, J and K, or the timing options in paragraph 11 of C(80) 34, are consistent with that decision. If however your colleagues are prepared to refuse arbitration to the Assistant Secretaries, the full range of options is available.
- (f) By this stage in the discussion decisions on questions of principle may have substantially narrowed the options available. But your colleagues may find it difficult to envisage the choices which remain without the aid of a further summary paper. We could, if required, readily produce such a paper but, in doing so, it would be most helpful if three further questions of principle could be resolved:-
- (i) Are colleagues prepared, in any final decision, to see a result which involves the application of a single percentage increase to all those covered by the Reports? Discussion on 19th June suggested that colleagues did not favour such a solution inter alia because it

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smacked of a new "norm". Confirmation of this view would cut out options C and D of C(80) 34. Equally rejection of the alternative of a uniform across-the-board cut would remove options F and possibly E as well.

- (ii) If the decision is against a single percentage increase, is the Cabinet prepared to see the judiciary given relatively better treatment than other groups, as proposed by TSRB?
- (iii) Should the recommendations for the members of nationalised industry boards, modified in whatever way seems appropriate, serve as a basis for the immediate settlement of their pay or should Ministers say now that they will move to their new system for individual determination of salaries, by Ministers, with the TSRB 14 recommendations as a guide only to that determination? This is a loose end from earlier discussion. Certainly if the Government were to seek to substitute its own judgment for that of the TSRB on levels of pay generally there would be a lot to be said for making the break between nationalised industry pay and TSRB now.
- (iv) Are Ministers content to deal more harshly with their own pay than the Commons may be prepared to accept for MPs' pay or than Ministers may determine for the groups covered by TSRB 14? If Ministers are prepared to treat their own salaries more harshly than those of the other TSRB groups, they will need to choose between the options for their own pay set out in paragraph 11 of the Chancellor of the Duchy's paper C(80) 33. If not, discussion of the Chancellor of the Duchy's options should follow, not precede, final decisions on the pay of MPs and senior public servants.

3. Other relevant background points are:-

- (a) Cash limits: there is no formal problem with cash limits which would impose a particular result on any of the groups covered by TSRB. Most of those concerned are a small fraction of much wider groups for cash limit or EFL purposes, and Parliament is of course not cash limited.

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- (b) Internal relativities: Mr. Pym may argue that it is very important, managerially, for the Ministry of Defence that existing relationships between the pay of senior military personnel and their civilian counterparts should be maintained.
- (c) Intermediate grades: the tables annexed to C(80) 34 do not, for reasons of space, show all of the posts with separate pay scales covered by the TSRB. This is particularly the case with the judges where 13 different levels of salary are in payment for the TSRB groups. If the Cabinet's conclusions result in a setting of new pay scales other than on a purely mechanistic basis, it will be necessary for a complete list to be agreed. This could be remitted for direct settlement between the Lord Chancellor and yourself.
- (d) London Weighting: in considering the Civil Service pay scales it is necessary to remember that Under Secretaries receive London Weighting (currently £780 a year and due to be revised) which the higher grades do not. This affects the minimum permissible differential to be maintained between the Under and Deputy Secretaries if over-compression is to be avoided.

HANDLING

4. You will probably prefer to introduce the discussion yourself, explaining how you propose to structure it. You might then ask the Chancellor of the Duchy of Lancaster to give the latest news of the discussions which have been going on with Mr. du Cann as Chairman of the 1922 Committee and of any information he may have about the likely attitude of the Opposition Parties. You will then have to judge whether it would be more expeditious to let each of your senior colleagues concerned (the Lord President, the Lord Chancellor and the Chancellor of the Duchy) give their general impressions of the problems first or whether to cut this phase and take your colleagues step by step through the questions posed in the background section of this brief. You will want to clear as many points out of the way as you can, including the Chancellor of the Duchy's recommendations on secretarial allowances for MPs etc. which are not directly affected by the decisions on pay. But unless the Cabinet were to agree to the implementation in

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full, this time, of the two TSRB Reports, they may well find it more convenient to delay final decisions until they can be provided with a further display of whatever options remain as a consequence of the decisions in principle they may take. I could readily arrange for the quick production of such a paper.

CONCLUSIONS

5. The outcome of the Cabinet's discussion is very difficult to predict but the most likely outcome might be:-

- (i) To note the agreements reached on points of principle and on specific recommendations.
- (ii) To invite the Secretary of the Cabinet to produce a further paper for discussion at an early meeting which displays the remaining options open to Ministers in the light of whatever conclusions have been reached at this meeting by the Cabinet.

ROBERT ARMSTRONG

30th June, 1980

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