

Parliament
Members.

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PRIME MINISTER

PAY, PENSIONS AND ALLOWANCES OF MEMBERS OF PARLIAMENT
(C(80) 50)

BACKGROUND

On 21 July the House of Commons amended the Government's Motion on MP's pay so that, while accepting the proposed cut in this year's increase to 9.6 per cent, they sought four offsetting improvements in their total remuneration package:-

- a. Restoration of the Government's proposed cut of £600 a year in the secretarial allowance.
 - b. An increase of £600 from £13,150 to £13,750 - in the proposed notional salary for pensions purposes in 1980/81.
 - c. Linkage of their salary so that it corresponded with "the salary paid to a specified grade in the public service".
 - d. An improvement in the rate of accrual of MPs' pension entitlement from one-sixtieth to one-fortieth of final pay for each year's service.
2. The Chancellor of the Duchy of Lancaster proposed to Cabinet last week (C(80) 47) that the Government should accept these improvements. The Cabinet hesitated to come to a decision in the absence of more information about the financial consequences of the proposed concessions and officials were asked to examine them and report. The resulting report has now been circulated under cover of my note (C(80) 50).
3. The Government's original proposals would have resulted in a saving in public expenditure in the year from June 13 1980 of rather under £1 million (a little under £400,000 in MPs' pay, up to a similar amount on secretarial allowances and about £80,000 in Exchequer contributions to the Parliamentary Pension Fund - it being the practice for the Exchequer to bear, and provide to the Fund, its own and MPs' contributions on the difference between notional and actual salary).

4. The Motion as amended by MPs would wipe out the last two of these savings (except that they failed to adjust the amount to be created by way of refund of Member's contribution to take account of revising the notional salary from £13,150 to £13,750); and would, if the Exchequer were to bear the whole cost of improving the rate of accrual for MPs' pensions, add a further annual charge on the Exchequer of £1.4 million. These are of course only the direct costs. Indirect costs of meeting the wishes of the House could be much higher. Basing MPs' pensions on the full recommended TSRB rate would carry an almost inescapable commitment to do the same thing for the other TSRB groups and for the senior PRU grades (Assistant Secretaries, Senior Principals and their equivalents). This would cost £1½ million in 1980/81 and 1981/82, £600,000 in 1982/83 and a diminishing sum thereafter. But the potentially horrifying consequential would arise from changing the accrual rate of MPs' pensions. Their present pensions, although calculated somewhat differently, are equivalent to those applicable throughout wide ranges of the public service. If other schemes were improved pari passu with the improvements sought in MPs' pensions the cost would build up over a period of several decades to a total of the order of £1,000 million a year. Moreover, as the report shows, it is not necessary to improve the basic rate of accrual of MPs' pensions to one-fortieth in order to enable MPs to come closer than at present to a full two-thirds pension (the maximum allowed) when they retire. The same effect can be achieved by utilising the right to buy "added years" - a right of which many MPs have already taken advantage. The report also shows that an attempt to isolate the improved rate of accrual for MPs' pensions from the wider public service schemes by making MPs bear the full cost of the improvement would not work because the rates of contribution would have to be so high as to take the schemes outside the normal Revenue rules for schemes qualifying for tax relief. Strictly speaking these rules do not apply to the Parliamentary Pension Fund - because it is a statutory scheme - but it is inconceivable that MPs should vote themselves larger tax concessions than those available to the public at large.

5. The Chancellor of the Duchy will continue to argue in Cabinet, as he did last week, that relations with the House require the Government to find some way of meeting MPs' wishes, and the central question for the Cabinet is whether they are prepared to refuse any concessions or, if concessions are to be made, how limited they should be. In ascending order of cost, including consequential costs, the concessions run:-

- i. Secretarial allowances (up to £400,000 a year).
- ii. Notional pay for pensions at £13,750 (direct cost £80,000, indirect costs £1½ million in the current year).
- iii. Accrual at fortieths (immediate cost up to £1.4 million a year, depending on how the contributions are split between MPs and the Exchequer, ultimate potential indirect cost around £1,000 million a year). A new arrangement limited to reinstating the right of MPs to buy added years in their present pension scheme by lump sums (a possibility referred to in para 14 of the paper by officials) ought not however to cost much - if the price is correctly calculated.

6. As to "linkage", the implicit advice of officials is that MPs' pay should be linked to the rate of change in a suitable basket of public service salaries rather than to the salary of a specific grade. To go down the latter route, as the House has asked, would involve the invidious task of picking the "right" grade in a situation where comparisons are odious and would leave MPs open to the temptation of seeking to change the comparator grade to their own advantage. But if linkage to a rate of change in public service salaries is chosen, the Government will face the difficult job of recommending the starting level of salary to which the linkage should be applied. Members of Parliament might not be prepared to accept that the present parity - with the middle of the scale for principals - was right, though in terms of future rates of change that might be more advantageous than a link with a higher grade.

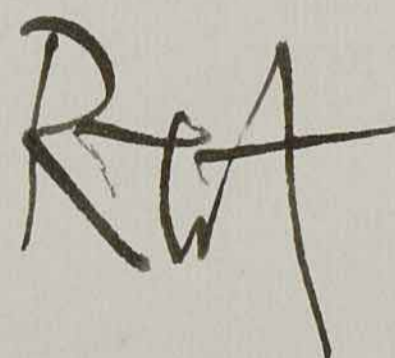
HANDLING

7. You might open the discussion by briefly recalling the background, and then invite your colleagues to work their way through the specific questions for decision set out in paragraph 20 of the Officials' Report. The final question for decision (paragraph 20(i)) relates to the timing and context of any announcement. The Chancellor of the Duchy is, we know, likely to press for a statement to be made in the afternoon following Cabinet. He may argue that he is committed to this by what he said in the House last week, though he was asked by the Cabinet not to promise a statement this week. But, despite the crowded timetable, there is no reason why a statement should not be deferred long enough for you and other

colleagues, to know what is to be said and to have a chance to comment. If nevertheless the view of Cabinet is that a statement should be made at once, you will wish to ask that its terms be cleared in advance with you, the Chancellor of the Exchequer and the Lord President of the Council. Preliminary work has in fact been taken as far as it can be, ahead of Cabinet decisions.

CONCLUSIONS

8. The essential need is for a decision on the question in paragraph 20(a) - are any concessions at all to be made to MPs? If not, the only remaining issue is when and how should the House be told. If colleagues feel some concessions to be inescapable, the minimum decisions needed now are on questions 20(b), (c), (d), (h) and (i). Decisions on questions 20(e), (f) and (g) (on 'fortieths' and 'linkage') could be deferred and the House simply told that these proposals raise considerable difficulties which the Government needs to study further before coming to a view (after the Recess). Cabinet may also wish to consider whether, in announcing any concessions the Chancellor of the Duchy should make it clear that the Government will be seeking to persuade the House authorities to look for offsetting savings so that the concessions can be accommodated without extra expenditure.



ROBERT ARMSTRONG

30 July 1980