

Item 2
Parliament

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Ref. A02709

PRIME MINISTER

MPs' Pay, Pensions and Allowances

(C(80) 47)

BACKGROUND

In accepting the Government's recommendations on their pay for the coming year, in the debate last Monday, the House of Commons imposed the four conditions set out in paragraph 1 of the Chancellor of the Duchy of Lancaster's paper (C(80) 47). The Chancellor of the Duchy in effect recommends that all four conditions should be accepted - two of them (pensions to be based on the TSRB's recommended rates and full implementation of the TSRB recommended secretarial allowance) for immediate implementation and two (MPs' pay in future to be linked to "a specified grade in the public service" and an increase in the accrual rate of MPs' pensions from one-sixtieth to one-fortieth) to be accepted "in principle" for later implementation. This is potentially a very expensive deal (much more expensive than implementing the TSRB recommendations without amendment) and the Cabinet will need to consider very carefully how far they are prepared to go. Key points on the four proposals are set out in the following paragraphs.

2. Pensions to be based on the TSRB recommended rates: The immediate cost of basing MPs' pensions on the TSRB recommended rate of pay for this year (£13,750 as against the £11,750 actually to be paid) will be small though it would grow in future years to the extent that the TSRB continues to recommend rates of pay higher than those which the Government believes can be afforded. But the indirect cost could be more substantial. In particular, as the Chancellor of the Duchy recognises, the other TSRB groups (judges, generals, senior civil servants) will expect comparable treatment which it would be invidious to deny. In addition there would be a particular problem with Civil Service Assistant Secretaries and Senior Principals where, because of the denial of arbitration,

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no current "notional" rate exists. If the Cabinet feels that MPs' wishes must be met on this point and that, by extension a similar arrangement must be conceded for the other TSRB groups, the Lord President will need to advise what, if anything, can be done for PRU grades affected by the Government's recent decisions.

3. Linking MPs' salaries to a public service grade: The question of linkage was exhaustively considered by the TSRB in their 13th Report in 1979. They recommended against linkage and the Government accepted their recommendation. The gain from linkage is clear - it avoids the annual hassle and attendant publicity; the disadvantages are that linkage absolves MPs from taking a responsible view of the impact of changes in their pay on the national economic situation and that, more remotely, it gives them a built-in incentive to side, in pay arguments, with the staff against the Government. The cost of linkage is unquantifiable and may not be large. The Cabinet will have to decide whether a concession here will help the Government to resist the potentially very expensive concession being sought on the accrual rate for MPs' pensions.

4. Increase the accrual rate for MPs' pensions to one-fortieth of pensionable salary for each year's service: This is potentially a very expensive concession indeed. The proposal has been made before and was considered in detail in the 13th Report of the TSRB. They concluded that the present arrangements (one-sixtieth of pensionable pay for each year's service) "is satisfactory". Three points need to be made:-

- (a) The present rate for accrual for most public service pensions (civil servants, nurses, etc.) is one-eightieth of the final salary for each year's service - with a maximum pension of one-half final salary - plus a lump sum accruing at the rate of three-eightieths for each year of service. The MPs' rate of accrual of one-sixtieth with a maximum of two-thirds final salary and provision to convert part of the pension to a lump sum amounts to the same thing. To improve the rate of accrual for MPs would lead to considerable pressure from very large numbers of public servants for parity of treatment which, if conceded, would ultimately increase the public service pension bill substantially.

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The Cabinet may well judge this risk to be quite unacceptable and as settling the matter so far as MPs are concerned.

(b) MPs already pay less for their pensions than major groups of public servants. For example MPs pay 6 per cent whereas civil servants pay $8\frac{1}{2}$ per cent. If the cost of improving MPs' pensions were to be borne by MPs themselves the pension contribution they would have to make would rise to 15 per cent (the Inland Revenue limit) and still leave extra costs to be borne by the Exchequer.

(c) Pensions are a form of deferred pay. A quick calculation by the CSD suggests that acceptance of this particular demand would raise MPs' total remuneration by 10 per cent above the TSRB recommendations instead of cutting it by 5 per cent below those recommendations.

5. If the Cabinet has any hesitations about turning down this proposal the Lord President might be asked to provide urgently a note comparing the relative costs and benefits of MPs' pensions as against the main groups in the public services. If the Cabinet wants to accept the proposal detailed recommendations will be needed on contributions etc. The Lord President should be asked to provide these.

6. Secretarial allowance: The decision of the House to increase secretarial allowances from £7,400 to £8,000 would cost up to £400,000 in a full year. The Cabinet may well feel disposed to concede ground here in order to resist change elsewhere but this concession, along with the others, raises again the question of setting a cash limit on Parliamentary expenditure. The current agitation by some Members about overseas travel by Select Committees (admittedly arguing for more not less expenditure) points to where offsetting savings could be made. You will want the Chancellor of the Duchy to report further on where he is getting to in his discussions with the House authorities on these questions following his remit from last week's Cabinet.

HANDLING

7. You will want to ask the Chancellor of the Duchy of Lancaster to introduce his paper and then take the Cabinet through the four specific points at issue. You will also want to make sure that the Cabinet is fully aware of the timing and

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nature of the procedural steps which would be necessary to give effect to any concessions the Cabinet may be prepared to make.

CONCLUSIONS

8. You will want to record specific conclusions on each of the points at issue, namely:

- (i) Whether or not to allow MPs' (and Ministers') pensions to be based on the TSRB recommended rates of pay rather than those actually in payment.
- (ii) If so, whether the concession of basing pensions on TSRB recommended rates of pay should be extended to the other TSRB groups.
- (iii) If the decision on (ii) is 'yes', to invite the Lord President to make proposals for handling the problem of pensions for Assistant Secretaries, Senior Principals and other equivalents.
- (iv) Whether or not to accept in principle that MPs' pay should in future be linked to a public service or other suitable analogue.
- (v) Whether or not to increase the accrual rate of MPs' pensions to one-fortieth of final salary for each year of service.
- (vi) In case of doubt on (v) to invite the Lord President to provide a quick study comparing Parliamentary pensions and the contributions made by Members and the Exchequer with the pension arrangements for the main groups of public servants.
- (vii) If the decision is to accept the one-fortieth basis to invite the Lord President to propose the specific conditions needed to accompany the change.
- (viii) Whether or not to accept that the Secretarial Allowance for MPs should be increased to £8,000.
- (ix) To invite the Chancellor of the Duchy to propose ways in which offsetting savings in Parliamentary costs might be achieved to finance whatever concessions the Cabinet is prepared to adopt.

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- (x) To note the procedural and timing elements in giving effect to the Cabinet's decisions and to approve the general lines of the statement to be made by the Chancellor of the Duchy later in the day (if indeed something has to be said so quickly).

A handwritten signature in black ink, appearing to be 'RA' with a stylized flourish.

(Robert Armstrong)

23rd July, 1980

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