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27 June 1980

CABINET

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THE PAY OF MINISTERS, MEMBERS OF PARLIAMENT  
AND SENIOR PUBLIC SERVANTS: TOP SALARIES  
REVIEW BODY REPORTS 14 AND 15

Note by the Secretary of the Cabinet

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1. In summing up the Cabinet's preliminary discussion of the 14th Report of the Top Salaries Review Body (TSRB) on 19 June (CC(80) 24th Conclusions, Minute 4), the Prime Minister said that she would arrange for a detailed study of the possibilities for dealing with this report, and the parallel report on the pay of Ministers and Members of Parliament, and for the options to be presented for the Cabinet's consideration.
2. I attach a note by officials in fulfilment of this remit.

Signed ROBERT ARMSTRONG

Cabinet Office

27 June 1980

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TOP SALARIES REVIEW BODY:  
REPORTS 14 and 15

Note by Officials

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1. TSRB 14 deals with the salaries of the higher Civil Service, senior officers in the armed forces, the higher judiciary and chairmen and board members of nationalised industries. TSRB 15 deals with the pay of Ministers and Members of Parliament.
2. The groups covered by the reports stand in various different positions in relation to staging and updating;
  - i. The TSRB 14 groups have had all three of their stages, and their salaries have since 1 April 1980 been at the level that the TSRB thought right for 1 April 1979. The question at issue is by how much those 1979 rates should be increased to bring them to levels appropriate for a 1980 settlement.
  - ii. Members of Parliament have had the first two stages of their updating, and have a third stage due in 1981. Their salaries have since 13 June 1980 been at the level which it was agreed in 1979 they should be at that date. Again, the question at issue is by how much the 1979 rates should be increased to bring them to levels appropriate for a 1980 settlement.
  - iii. Ministers have had only the first of their three staged increases. They are due for the second stage, to bring them to the level which it was agreed in 1979 they should be in June 1980. The Cabinet has agreed in principle that they should receive the second stage. When they get it, they will be in exactly the same position as Members of Parliament. The question at issue will then be one of updating for 1979-80. For simplicity's sake it is assumed in what follows that the second stage for Ministers is not in question, and it has been included in the figures for current salaries. On this basis the matter of staging can be put

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on one side, and the issue for decision is the same for each group: by how much the current salaries, which are in 1979 terms, should be increased to bring them up to date for a 1980 settlement.

3. The TSRB 14 recommends increases of about 30 per cent for Civil Service Under Secretaries and Army Major Generals, and equivalent, to give them a tolerable differential against the grades and ranks immediately below them. In doing so the TSRB are responding to a specific request by this Government to deal with the problem of the "interface". For the Under Secretaries the "floor" from which the differential has to be assessed is the top of the Assistant Secretary scale. The pay research evidence indicated a rate of £22,000 for the top of the Assistant Secretary scale. The TSRB 14 recommends a rate of £23,500 for the Under-Secretary. It is impossible to reduce that and preserve a reasonable differential, unless the Assistant Secretary maximum can be brought below £22,000. The Staff Side would seek to go to arbitration on any lower figure than £22,000, and they would almost certainly win. In order to enforce a lower rate the Government would have to refuse arbitration. The Government is, however, committed by a letter to the Staff Side to allowing arbitration for the Assistant Secretaries if an "interface" problem with Under Secretaries still exists after the implementation of TSRB 14. This letter was marked "without prejudice" so that technically it could be withdrawn; but withdrawal would give rise to considerable embarrassment and acute criticism.

4. There is also an "interface" problem, though it is less acute, in the armed forces, where the Armed Forces Review Body recommended a salary for Brigadiers and equivalent ranks some £5,000 less than that recommended by TSRB 14 for Major Generals (who are paid the same as Under Secretaries). Medical Brigadiers will however be paid £21,000 if the current recommendations of the AFPRB are accepted (and the government's commitment to the Armed Forces applies to them). The rate for Major Generals cannot therefore be reduced below about £22,500 if a reasonable differential is to be provided.

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5. Ministers have to decide whether to risk going to arbitration for a maximum of less than £22,000 for the Assistant Secretary, or to impose a lower figure and refuse arbitration, despite the commitment to allow it. This is a crucial decision, because if it is accepted, the Assistant Secretary maximum has to be not less than £22,000. A figure less than the £23,500 recommended by TSRB 14 for Under Secretaries would leave a wholly inadequate differential. That recommendation represents an increase of about 30 per cent, and as the weight of numbers is in this grade and the corresponding service ranks, it would then be impossible to bring the average increase for the higher Civil Service and the senior officers within a figure of 14 per cent, let alone any lower figure. It would however be possible to go for a pattern of figures which gave the recommended 30 per cent to the lowest grades covered by TSRB 14 and shaded the percentage increases for the higher grades to levels below those recommended by TSRB.

6. There are a number of established relativities between the groups covered by TSRB 14, and it would be very much better to avoid disturbing these in whatever the Government decides, save where the TSRB has itself recommended doing so. It has in fact proposed to break the former links between the Civil Service and the higher judiciary: for instance High Court Judges and Permanent Secretaries are both paid £28,500 at present, but for reasons set out in Chapter 4 of TSRB 14 the recommendations would give the High Court Judges £35,000, £1,000 more than is recommended for the Permanent Secretaries. This change reflects the general difficulty being experienced, as the Lord Chancellor said in Cabinet on 19 June, in recruiting judges of adequate calibre, given the levels of earnings at the Bar.

7. In the options suggested in this note it has been assumed that the recommendations for chairmen and board members of nationalised industries should be delayed or modified on the same basis as those for the other groups. It is arguable that, if the TSRB recommendations are to be modified, there is not much point in implementing modified recommendations for the chairmen and board members when they are about to be taken out of the TSRB's terms of reference. On the other hand it

will take time to settle new rates for each of the industries separately, given the need for co-ordination, and it may be sensible to implement modified recommendations for this group as well as the rest, and allow more time for the individual reviews that will be necessary.

8. Whatever decision is taken on salary levels will need to be accompanied by a decision on implications for pensions. The decisions required are indicated below. The only general point that should be made is that compressing differentials too much can make problems for pensions in future as well as inadequate reward for increased responsibility in the present.

#### THE OPTIONS

9. One option is clearly to pay the rates recommended by TSRB 14 from the due date. These are summarised in column B of the annexed table.

10. If the recommendations are to be modified, they can be modified either as to amount, by reducing the salary rates, or as to date, by delaying implementation. This note deals with the latter first.

#### DELAYING IMPLEMENTATION

11. The average cost of the increases recommended for all groups, including MPs and Ministers, is 24 per cent in a full year. Each month by which implementation is delayed reduces the average cost in 1980-81 by 2 per cent. The table below sets out various possibilities:

Length of delay in months	Implementation date TSRB 14	Implementation date TSRB 15	Average percentage increase in cost in 1980-81
3	1 July 1980	13 September 1980	18
4	1 August 1980	13 October 1980	16
5	1 September 1980	13 November 1980	14
6	1 October 1980	13 December 1980	12

These dates are on the assumption that the groups covered by the two reports should be treated as a single whole. It would be possible to separate them in which case the deferment period required for MPs to

achieve a given percentage increase in the wage bill in 1980-81 would be considerably shortened, and that for the TSRB 14 groups would be a little lengthened.

12. The disadvantages of delaying implementation are -

a. this would appear to be Press and public as a less effective demonstration of Government determination to restrain the growth of public sector pay, because the resulting percentage increases in salaries at particular levels as reported in the Press would be the same as those recommended by TSRB 14;

b. the price of reducing the average percentage increase in cost in 1980-81 would be a larger increase in cost in 1981-82, when the full-year cost would have to be met, plus the cost of any further increases that came into effect next year.

13. But there are so few salaries involved in these groups that the increased cost is a relatively small problem, and the advantages of proceeding by delaying the implementation of the TSRB recommendations rather than modifying them are -

a. if the recommended rates are accepted, even if their implementation is delayed, there will not be a "catching up" problem and the risk of ever more embarrassingly large increases next year or the year after;

b. it would avoid all the problems of compressing differentials and distorting relativities that would result from reducing the amounts of the recommendations, though there would have to be transitional arrangements at the "interfaces" for the period of the delay;

c. the recommended rates could be applied for pension purposes with effect from the dates recommended by the TSRB for pension purposes, and there could be no permanent damage to pension benefits;

d. it would avoid the difficulties for recruitment from the private sector (Judges and Nationalised Industry Boards) which would be the consequences of any of the options involving reductions in salaries.

#### REDUCING SALARY RATES

14. The choice of options for illustration in the annex has been determined by the ideas being canvassed in relation to salaries of MPs. TSRB 15 has recommended a rate of £12,300 for MPs; this represents an increase of 14.6 per cent. One possibility under consideration is to reduce that figure to £12,000. That would be expressed either as reducing the recommended increase from 14.6 to 11.9 per cent, or as reducing the recommended new salary rate by  $2\frac{1}{2}$  percentage points.

15. We have therefore produced figures showing the effect of reducing the TSRB 14 increases to 12 per cent or 14 per cent, and showing the effect of reducing the increases recommended by the same proportionate reduction as would be represented by a  $2\frac{1}{2}$  percentage points reduction for MPs (about one-sixth) or by reducing the recommended rates by  $2\frac{1}{2}$  per cent. We have also produced figures on the annex showing the resulting salary rates for all groups concerned on the following basis -

Column A.	Current salaries
Column B.	Rates recommended by TSRB
Column C.	Current salaries increased by 12 per cent.
Column D.	Current salaries increased by 14 per cent.
Column E.	TSRB recommended salary increases reduced in proportion to the reduction in the increase in MPs' pay (ie reduce all increases by approximately one-sixth)
Column F.	TSRB recommended salaries reduced by $2\frac{1}{2}$ per cent.

The options in Columns C, D, E and F are available only if Ministers decide to refuse arbitration and reduce the Assistant Secretary maximum to something less than £22,000, to whatever extent is necessary to leave a differential of about £1,500 against the Under Secretary. In the

armed forces, there is no question of refusing arbitration: the lower rates are set by the AFPRB. The remaining options show the rates that would result from accepting an Assistant Secretary maximum of not less than £22,000 and the TSRB recommended rate of £23,500 for Under Secretaries, Major-Generals and equivalents, while reducing the increases for higher grades by various amounts compatible with retaining a reasonable salary structure. Four ways of doing this are illustrated: the highest salaries increased by 12 per cent or 14 per cent from present rates and TSRB recommended rates reduced to match either interpretation of the proposed reduction in the increase recommended for MPs. Once the figures have been rounded and modified to make a sensible progression with reasonable differentials, there is really no difference between the last two calculations.

- Column G. 12 per cent plus additions for differentials  
 Column H. 14 per cent plus additions for differentials  
 Column J. TSRB recommended increases reduced to match the proposed reduction in the increase in MPs' pay plus addition for differentials (ie a reduction of one-sixth of the increase)  
 Column K. TSRB recommended rates minus  $2\frac{1}{2}$  per cent plus additions for differentials.

16. If salary rates less than those recommended by the TSRB were imposed, those new rates would presumably apply for pension purposes. The effect would be permanent, to depress the pensions of those who retire with pensions based on these rates. Whatever the unfairness of that, it would not produce anomalies if this year's depression of salaries continued into the future and was never made good. If, on the other hand, the depression of salaries was thought of as a temporary phase, and it was expected that there would eventually be a catching up, then questions of justice between pensioners would arise. If in order to avoid this it was desired that the TSRB recommended rates should apply in full for pensions purposes, it would be necessary for the Government to promulgate those rates as correct for 1 April 1980 (or 13 June 1980) and to commit itself to paying salaries at those rates at some time in the future (which need not be specified). There is a precedent for that in what was done for MPs in 1975.

17. Finally, Ministers will need to make a judgement of the effect of their decisions upon the Review Bodies; bearing in mind that, if the Government's decisions fell short of the TSRB's recommendations by enough to provoke them to resign, the other two Review Bodies (for Armed Forces Pay and Doctors and Dentists Remuneration) would be immediately concerned about the implications for them, and might well resign in sympathy. Any judgement must be speculative: for what it is worth, officials believe that -

- a. the TSRB probably would resign if the Government rejected their recommendations and substituted rates as low as 12 or 14 per cent for the TSRB 14 groups and ignored their proposals for dealing with the "interface" problems (Columns C and D);
- b. the TSRB might not resign if the Government accepted their recommendations for the "interface" grades and shaded the increases down to 12 or 14 per cent at the top (Columns G and H);
- c. the TSRB would probably not resign if the Government reduced their recommended rates to match the proposed reduction in the rates recommended for MPs or implemented their recommendations in full but delayed implementation (paragraph 11, and Columns E, F, J and K).

Cabinet Office

27 June 1980

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	A. Current Salary *		B. TSRB recommended rate (% increase)		C. Current Salaries increased by 12%		D. Current Salaries increased by 14%		E. TSRB recommended increases reduced pari passu with MPs		F. TSRB reduced by 2½%		G. Current Salaries increased by 12% + additions for differ- entials		H. Current Salaries increased by 14% + additions for differ- entials		J. As E + additions for differ- entials		K. As F + additions for differ- entials	
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%
MPs (backbenchers)	10,725		12,300	14.6	12,000		12,250		12,000	11.9	12,000	11.9	12,000	11.9	12,250	11.9	12,000	11.9	12,000	11.9
<u>Ministers</u>																				
Examples:																				
Cabinet Ministers	22,325		25,450	14	25,000		25,450		24,850	11.3	24,800	11.1	25,000	12	25,450	14	24,800	11.1	24,800	11.1
Ministers of State (Commons)	14,812		17,000	14.8	16,600		16,900		16,600	12.1	16,600	12.1	16,650	12.4	17,000	14.8	16,600	12.1	16,600	12.1
Ministers of State (Lords)	14,955			13.7	16,750		17,050		16,600		16,600		16,650	11.3	17,000	13.7	16,600	11	16,600	11
Parliamentary Secretaries (Commons)	11,262		13,000	15.4	12,600		12,850		12,700	12.8	12,700	12.8	12,650	12.3	13,000	15.4	12,700	12.8	12,700	12.8
Parliamentary Secretaries (Lords)	11,405			14	12,750		13,000		12,700	11.4	12,700	11.4	12,650	10.9	13,000	14	12,700	11.4	12,700	11.4

Salaries rounded to nearest £50

\*"Current salary" includes second stage of 1979 pay increase

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Higher Civil Service and Senior Armed Forces Officers

	Salary £	recommended rates (% increase)	Salaries increased by 12% £	Salaries increased by 14% £	recommended increased reduced pari passu with MPs £	(% increase)	Salaries increased by 12% + additions for differ- entials £	(% increase)	Salaries increased by 14% + additions for differ- entials £	(% increase)	Salaries increased by 12% + additions for differ- entials £	(% increase)	Salaries increased by 14% + additions for differ- entials £	(% increase)
Head of the Home Civil Service) Permanent Secretary to the Tby Secretary of the Cabinet	31,000	37,000 19.4	34,700	35,350	35,900 15.8	36,050 16.3	34,750 12.1	35,250 13.7	36,000 16.1	36,000 16.1				
Admiral of the Fleet Field Marshal Marshal of the Royal Air Force														
Permanent Secretary Admiral General Air Chief Marshal	28,500	34,000 19.3	31,900	32,500	33,000 15.8	33,150 16.3	32,000 12.3	32,500 14.0	33,000 15.8	33,000 15.8				
Second Permanent Secretary	26,000	31,000 19.2	29,100	29,650	30,100 15.7	30,200 16.2	29,000 11.5	29,500 13.5	30,000 15.4	30,000 15.4				
Deputy Secretary Vice-Admiral Lieutenant General Air Marshal	22,500	27,000 20	25,200	25,650	26,150 16.3	26,300 16.9	26,500 17.7	26,500 17.7	27,000 20.0	27,000 20.0				
Under Secretary Rear Admiral Major General Air Vice-Marshal	18,000	23,500 30.6	20,150	20,500	22,500 24.9	22,900 27.2	23,500 30.6	23,500 30.6	23,500 30.6	23,500 30.6				

Salaries rounded to nearest £50

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	A. Current Salary	B. TSRB 14 recommended rates (% increase)	C. Current Salaries increased by 12%	D. Current Salaries increased by 14%	E. TSRB recommended increases reduced pari passu with MPs	F. TSRB reduced by 2½% (% increase)	G. Current Salaries increased by 12% + additions for differ- entials	H. Current Salaries increased by 14% + additions for differ- entials	J. As E + additions for differ- entials	K. As F + additions for differ- entials
	£	£ %	£ %	£ %	£ %	£ %	£ %	£ %	£ %	
<u>Judiciary</u>										
Examples:										
Lord Chief Justice	37,000	43,000 16.2	41,450	42,200	41,900 13.2	41,900 13.2	41,500 12.2	42,000 13.5	42,000 13.5	
High Court Judge etc	28,500	35,000 23	31,900	32,500	33,800 18.6	34,100 19.6	33,000 15.8	33,500 17.6	35,000 23.0 23.6	
Circuit Judge etc	19,500	24,000 23	21,850	22,250	23,150 18.7	23,400 20	24,000 23	24,000 23	24,000 23	
Masters and Registrars of Supreme Court etc	17,250	22,500 30.4	19,300	19,650	21,550 24.9	21,950 27.2	22,500 30.4	22,500 30.4	22,500 30.4	

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Nationalised Industries  
Chairmen and Members

Examples:

	A. Current Salary	B. TSRB 14 recommended rates (% increase)	C. Current Salaries increased by 12%	D. Current Salaries increased by 14%	E. TSRB recommended increases reduced pari passu with MPs	F. TSRB reduced by 2½% (% increase)	G. Current Salaries increased by 12% + additions for differ- entials	H. Current Salaries increased by 14% + additions for differ- entials	J. As E + additions for differ- entials	K. As F + additions for differ- entials
	£	£ %	£	£	£ %	£ %	£ %	£ %	£ %	
<b>BIOC</b>										
- Chairman	53,500	63,500 18.7	59,900	61,000	61,650 15.2	61,900 15.7	59,900 12	61,000 14	61,650 15.2	61,900 15.7
- Members	29,250	36,500 25.3	32,750	33,250	34,750 20	35,600 22.2	36,500 25.3	36,500 25.3	36,500 25.3	36,500 25.3
	-37,750	-47,500	-42,300	-43,000	-45,700	-46,300	-47,500	-47,500	-47,500	-47,500
<b>British Steel</b>										
- Chairman	48,500	57,500 18.6	54,300	55,250	55,850 15.2	56,050 15.6	54,300 12	55,250 14	55,850 15.2	56,050 15.6
- Members	28,500	34,000 24.6	31,900	32,500	33,000 20	33,150 21.5	34,000 24.6	34,000 24.6	34,000 24.6	34,000 24.6
	-34,500	-44,500	-38,650	-39,250	-42,650	-43,400	-44,500	-44,500	-44,500	-44,500
<b>Post Office</b>										
- Chairman	44,000	52,500 19.3	49,300	50,250	50,950 15.8	51,200 16.4	49,300 12	50,250 14	50,950 15.8	51,200 16.4
- Members	23,250	28,500 25	26,050	26,500	27,550 20.4	27,800 21.9	28,500 25	28,500 25	28,500 25	28,500 25
	-28,750	-36,500	-32,200	-32,750	-35,050	-35,600	-36,500	-36,500	-36,500	-36,500
<b>Aerospace, Airways, Gas, Rail, Shipbuilders, Coal, Electricity Council</b>										
- Chairman	31,000	37,000 19.4	34,700	35,250	35,900 15.8	36,100 16.5	34,700 12	35,250 14	35,900 15.8	36,100 16.5
- Members	18,500	22,500 25.6	20,700	21,000	21,750 20.8	22,500 22.6	22,500 25.6	22,500 25.6	22,500 25.6	22,500 25.6
	-22,500	-29,000	-25,200	-25,750	-27,800	-28,300	-29,000	-29,000	-29,000	-29,000
<b>Airports, Cable and Wireless, Civil Aviation, Bus, Freight, Scottish Development</b>										
- Chairman	27,750	31,100 33.3	31,100	31,750	35,300 27.2	36,100 30.1	31,100 25	31,100 27	31,100 29.4	31,100 30.1
- Members	15,750	17,650 45.1	17,650	18,000	21,250 36.8	21,250 41.6	17,650 45.1	17,650 45.1	17,650 45.1	17,650 45.1
	-19,750	-22,100	-22,100	-22,500	-27,300	-27,300	-22,100	-22,100	-22,100	-22,100
<b>Docks, National Water Council</b>										
- Chairman	27,750	31,100 33.3	31,100	31,750	35,300 27.2	36,100 30.1	31,100 25	31,100 27	31,100 29.4	31,100 30.1
- Members	15,750	17,650 45.1	17,650	18,000	21,250 36.8	21,250 41.6	17,650 45.1	17,650 45.1	17,650 45.1	17,650 45.1
	-19,750	-22,100	-22,100	-22,500	-27,300	-27,300	-22,100	-22,100	-22,100	-22,100

Salaries rounded to nearest £50