



10 DOWNING STREET

THE PRIME MINISTER

8 August 1980

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When we met on 21 July I explained to you the reasons for the Government's proposals on the pay of the groups covered in TSRB Reports Nos. 14 and 15. I have since written to you to tell you that the Government wished TSRB and the other two Pay Review Bodies to continue to make recommendations on the groups within their terms of reference. I made a public announcement to that effect on 4 August.

I am writing now to let you know formally of the Government's decisions on TSRB 14 and 15 in the light of the debate in the House of Commons on 21 July. As you know, the Government believe that it is essential to reduce the level of pay increases in the public sector and that it is right to expect those in positions of responsibility to give a lead in this respect. We therefore proposed that the groups covered in TSRB 14 and 15 should receive pay increases substantially below those recommended by the Review Body. I attach a table showing the increases for each group. In the case of MPs' pay, the House of Commons was required to vote on our proposals and Members accepted that their salaries should increase by only 9.6 per cent. However, the House passed the following amendments to the Government's motions:

- (i) That MPs' pay for pensions purposes should be £13,750; our proposed rate was £13,150.

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- (ii) That MPs' salaries should be linked to a "specified grade in the Public Service."
- (iii) That the accrual rate for MPs' pensions should increase from 1/60th to 1/40th of pensionable pay for each year of service.
- (iv) That the secretarial allowance should be £8,000; our proposed rate was £7,400 (a 9.6 per cent increase on the current rate).

We have decided to accept the views of the House on the secretarial allowance. £8,000 is, of course, the rate which the Review Body recommended. The other three amendments raise serious difficulties. If we accept that the pensionable pay of MPs should be £13,750, the full TSRB recommended rate, we do not believe that we could, in equity, deny a similar concession to the TSRB 14 groups and this would be relatively expensive. You will be aware of the problems with linkage: the Review Body has argued cogently against it several times. The 1/40th's accrual rate is the most difficult of all. If accepted it could have very widespread and expensive repercussions indeed.

In the light of these considerations, we have decided to circulate a factual paper to individual Members pointing out the implications of the amendments on pensions and linkage. The House will be offered a further opportunity to debate these matters in the autumn in the full knowledge of the effects of their decisions.

You have previously indicated that the Review Body would be willing to review MPs' and Ministers' pay on an annual basis and I would now like to ask you formally to undertake such a review for 1981. The resolution of the linkage question will of course have implications for your work on MPs' pay and I will write to you again when matters are clearer, probably in the autumn. I would also be grateful if you could review next year MPs' secretarial allowance, Peers' expenses allowance and the secretarial allowance of Ministers in the Lords.

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As you know, the Government has decided to take nationalised industry board members' salaries out of the Review Body's terms of reference, a change which you yourselves recommended. We do not wish to change the Review Body's terms of reference in any other way but, as you suggested when we met on 21 July, the Government will consider putting in evidence on relevant economic considerations during the course of the Review Body's deliberations.

Finally may I clarify one small point. The Government have given a lead of £1,000 to medical Major Generals and their equivalents over the ordinary Major General salary. This is a new departure, the reason for which is that the Armed Forces Pay Review Body recommended a rate for Medical Brigadiers of £21,000. The Government accepted this recommendation and in order to give medical Major Generals a differential over Medical Brigadiers, decided to give the former a salary of £21,500.

Let me thank you and the other members of the Top Salaries Review Body once again for all your efforts. They are greatly appreciated by the Government.

(sgd) M T

The Rt. Hon. Lord Boyle of Handsworth.