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Ref. A02387

PRIME MINISTER

TSRB 14
(C(80) 30)

BACKGROUND

The note circulated under cover of my note C(80) 30) summarises the Fourteenth Report of the TSRB dealing with the pay of the higher Civil Service, senior officers of the armed forces, the higher judiciary and chairmen and Board members of nationalised industries. Only you, the Chancellor and the Lord President have seen the full report. You are not asking the Cabinet for decisions at the present meeting. The time for this will come (perhaps early in July) when the TSRB's further report on the pay of Ministers and MPs has also been received, and decisions on the two reports can be taken together.

2. In approaching the discussion you may care to bear the following points in mind:-

- (a) The two TSRB reports represent only part of the last phase of the present pay round. Other main public sector settlements due in the next few weeks include local authority administrative, professional and technical staffs, Civil Service industrial staff, Post Office administrative and telecommunications staff, nurses and teachers. Taken together these groups represent over 2 million public sector employees.
- (b) The TSRB's 14th report recommends increases averaging 25 per cent for the groups covered. This figure is compounded of two quite different tendencies: a general uprating of around 19 per cent (much in line with the recently accepted increase for doctors and dentists); and higher increases for the lowest grades covered by the report (Civil Service Under-Secretaries, Major Generals and their equivalent

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and Board members of nationalised industries) where there are particular interface problems with the pay of the staffs immediately below them. Although the issue arises in the armed forces and the nationalised industries as well, it can be illustrated in the case of the Civil Service. The pay of the Assistant Secretaries - immediately below the Under-Secretaries covered by Boyle - is determined by the PRU system and as such is subject to arbitration. For some time the rather different approaches of the two systems has meant that the pay of the Assistant Secretaries has been stepping on the heels of that of Under-Secretaries. In consequence the pay of Assistant Secretaries has been deliberately held back to avoid overlap (though an overlap actually occurred in the early months of this year). You will recall that Lord Soames raised the matter with you in November last year and that you agreed to his proposals for handling (I attach copies of the relevant minutes). TSRB 14 refers in general terms to the problem (in paragraph 5) and in more specific terms in paragraphs 16 to 20. The relatively high rates of increase recommended for Under-Secretaries, Major Generals and their equivalents and the Board members of nationalised industries, represent the Review Body's attempt to cope with this problem.

- (c) In his Report on MPs' pay last year (TSRB 12) Lord Boyle recommended £12,000 a year as the appropriate salary at June 1979. The House agreed to phase the award in three stages. The second stage has just been paid (an increase of £1,275 or 13½ per cent), bringing MPs' salary to £10,725. We do not know the updating which TSRB will recommend as appropriate for this year but, on the form of the other reports, it is likely to be of the order of 20 per cent.
- (d) Ministers have already agreed (E(80) 16th Meeting) that in future the TSRB should no longer be invited to advise on the remuneration of chairmen and Board members of nationalised industries and other essentially trading public corporations. Precise details of the groups to be excluded have still to be settled, as has the timing of an announcement of the decision.

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(e) Sir Keith Joseph is currently in negotiation about the salary of the new Chairman of the Telecommunications Corporation. Assuming the present candidate does not withdraw, the salary is likely to be of the order of £150,000 a year. An announcement is possible before the Summer Recess.

3. In deciding whether to use the present TSRB reports as an occasion for making a gesture towards pay restraint in the public services the Cabinet will need to consider three questions:

- (a) Are they prepared in principle to see the Government impose a settlement on the TSRB groups at lower levels than those recommended in the present report?
- (b) If so, can effect be given to this view without parallel action on the pay of MPs and Ministers?
- (c) If the answer to (b) is no, what are the prospects of persuading the House of Commons to agree to a less than full updating of MPs' pay this year?

4. Assuming that Ministers would not wish to impose on the groups covered by TSRB 14 a restraint that the House of Commons will not impose on itself, the position of MPs is the key. For the Government - and for MPs - part of the background to this is the statement by the Chancellor of the Duchy of Lancaster, in the House of Commons on 4th March (Column 266), that:

"This year the updating of the second stage payment by the Review Body on Top Salaries /i.e. on MPs' pay/ has been accepted in advance by the Government and the Government are committed to implementing the updating from this summer. That also will be applied to the third stage of the payment /due in June 1981/."

Mr. St John-Stevas went on:

"Furthermore we propose that the Review Body undertake annual reviews of Parliamentary salaries from next year onwards. It is the Government's intention, save in the most exceptional circumstances, that any recommendation made by the Review Body will be implemented."

Full debate
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5. The fact that assurances have been given in these terms does not of course prevent the House from exercising self-restraint. But the Motion on MPs' pay has to be laid by the Government. Any Motion which departed from the Chancellor of the Duchy's statement would presumably have to be put forward as reflecting a widespread view in the House. If Ministers want to pursue the possibility of an increase in MPs' pay less than that likely to be recommended by the TSRB, the Chancellor of the Duchy and the Chief Whip will need to enter into wide consultations in the House, with the Opposition parties as well as with Government backbenchers.

6. For this to be done effectively, and indeed for the Government to come to a decision on the treatment of the other TSRB groups, the Government will need to have a specific proposition to put forward. Questions which arise are:-

- (a) What abatement would be appropriate? The obvious starting-point would be to reflect the 14 per cent Civil Service cash limit. If this route is chosen, an important subsidiary question arises: namely whether the increases themselves are held to this level or whether the introduction of the recommended rates is deferred (as was done by the Civil Service main pay settlement) to achieve the same cash effect over the year as a whole while preserving the recommended rates as the basis for the future pay structure. If either route were chosen it would be necessary to decide also whether the civil servants involved should benefit, as did their junior colleagues, from a 2½ per cent offset for staff cuts. A staff cut offset would not however be applicable in logic to MPs, Ministers, senior military personnel and judges where presumably there is no expectation of cuts in numbers. A cruder approach, again based on the Civil Service settlement, would be to apply a uniform 5-week (or some other) delay in the implementation of the new rates without attempting to discriminate between sub-groups and individuals. (I should add that, if the increases were paid in full, Sir Ian Bancroft and I would propose to our colleagues that, as the rest of the Civil Service was "staged" for five weeks, the higher Civil Service should voluntarily undertake to accept the same staging.)

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- (b) Should the senior officers and the lawyers be excluded from the cuts as 'law and order' groups?
- (c) What should be done about Ministers, including especially junior Ministers?
- (d) How should any cuts be presented? At one level the cuts would require no justification. The numbers are small, and those concerned are relatively highly paid. On the other hand, the cuts would be symbolic and would raise a number of pertinent questions. Among these are: Is the Government instituting a policy of selective pay restraints for higher-paid groups only? What are the implications for doctors and dentists, TSRB groups and MPs next year? Will private sector management be expected to follow suit? What 'clear and compelling reasons' have emerged since the Chancellor of the Duchy's statement on 4th March to justify overturning Boyle? (Successive Governments have accepted an obligation to implement the recommendations of the Review Bodies - Top Salaries, Doctors and Dentists and Armed Forces - except where there are "clear and compelling reasons" why they should not do so. The last Government exercised this option but only in the context of a specific national pay policy). Does this act therefore foreshadow a national pay policy? Etc., etc.

7. The alternative course, which may be urged by some colleagues - and which may become essential if MPs refuse to cut their own increases - will be to regard the present reports as clearing the decks of the past (though the problems of the remaining stage payments to MPs and Ministers will remain - they will be the only groups next year to have a claim on an historic rather than a current basis). If, at the end of the day, the Government decides that it has no alternative but to accept the recommendations in the next report on the pay of MPs and Ministers - and hence those in TSRB 14 - it will be for consideration whether to go down fighting - by presenting a resolution to the House which fails to carry - or not to risk defeat on a motion while making its position plain.

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HANDLING

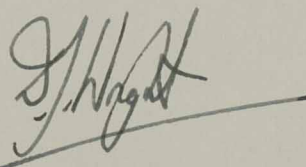
8. You will need to open the discussion yourself, perhaps by posing the three questions in paragraph 3 above. Thereafter almost every member of the Cabinet is likely to wish to make a contribution. Among those who should speak early are the Chancellor of the Exchequer, the Lord President of the Council, the Lord Chancellor (for the judges), the Secretary of State for Defence (for the Services), Lord Gowrie (representing Mr. Prior), and the Secretaries of State for Industry, Trade, Energy and Scotland (as the main sponsoring Ministers for nationalised industries). Once attention focuses on MPs' pay you will also need to bring in the Chancellor of the Duchy and the Chief Whip.

CONCLUSIONS

9. No substantive conclusions are required at this meeting. But you will need procedural decisions on:-

- (a) The sounding of opinion in the House (to be remitted for action and report to the Chancellor of the Duchy of Lancaster and the Chief Whip?)
- (b) Preparatory thinking on public presentation on alternative hypotheses of the outcome (to be remitted to the Paymaster General); and, perhaps,
- (c) individual members of Cabinet to sound the opinion of their junior colleagues.

10. You might also consider inviting the Lord President, with colleagues immediately concerned, to prepare specific proposals for abatement to be considered when the Cabinet returns to the subject early in July.



(Robert Armstrong)

(approved by Sir R. Armstrong
and signed on his behalf)

18th June, 1980