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2 pps.



Chancellor of the Duchy of Lancaster

✓ Mr Vercher  
Mr Duguid  
Mr Wolpan

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

30 June 1981

Dear Margaret

Yes, Mr

Prime Minister [through TPL]  
Mr Pym wants to offer the Select  
Committee a paper on linkage  
early next week. He has tried  
to draft on a damage limitation  
basis. The Chancellor may comment  
over the week-end. Content  
subject to his views?

LINKAGE OF MPs' PAY

You will recall that on 19 February the House of Commons approved a resolution to set up a Select Committee to consider the desirability and possible method of adjusting MPs' pay on the basis of an independent review once in the first Session of each Parliament and linkage to a designated group of outside occupations (commonly referred to as a "basket") in the period between independent reviews. The resolution was tabled in my name following consultations that my predecessor held in the House, notably with representatives of the 1922 Committee, which suggested that the Government risked a defeat if we opposed all forms of linkage.

MAJ  
3/vii

The Select Committee has recently begun its work and I have been invited to give evidence to them on 8 July. I believe that it would be best if I put in a paper before seeing them. I attach a draft of the sort of thing I have in mind. Although we do not want to suggest that we are at all happy about the idea of linkage, I do not think that it would be appropriate at this stage to concentrate on the general arguments of principle. We made our position clear in the paper which Norman St John-Stevas circulated to all Members on 23 October and I fear that it did not attract a great deal of support. By tabling the resolution passed on 19 February we accepted that the debate had in effect moved a stage further. The need now is to guide the Select Committee towards the least harmful form of linkage, and that means above all confining the "basket" of outside occupations to public service grades over whose pay we have some control. The attached draft paper argues for a basket containing Civil Service grades only, on the grounds of simplicity: this is in line with a scheme put forward in the letter from Norman St John-Stevas's Private Secretary to yours on 17 October.

.../...

The Rt Hon Margaret Thatcher MP  
Prime Minister  
10 Downing Street  
London SW1

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I would be grateful for your comments, and those of other colleagues to whom this letter is copied, on the draft paper.

I am copying this letter to Willie Whitelaw, Geoffrey Howe, Christopher Soames, Jim Prior, Michael Jopling and Robert Armstrong.

*Jim Prior*

*John H's*

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FRANCIS PYM

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LINKAGE OF MPs' PAY

Note by the Chancellor of the Duchy of Lancaster and Paymaster General

1. On 19 February 1981 the House of Commons approved the following resolution:

"That a Select Committee be appointed to give further consideration to the desirability and possible method of conducting reviews of Members' salaries by an independent body once during the first Session of each Parliament and of adjusting such salaries during the periods between such reviews by reference to increases in the remuneration of a designated group of outside occupations, and to make recommendations to the House".

2. As I said in my speech when this resolution was debated, the Government remain sceptical about the appropriateness of linking Members' pay to that of any outside group for a variety of reasons, not least because it would detract from the responsibility of the House of settle Members' pay directly in the light of prevailing circumstances. However, the House was in favour of linkage and this note is confined to practical considerations.

3. Two broad questions arise from the resolution: what form should the independent reviews take and what method should be used to determine interim increases?

Independent Reviews

4. The Committee may consider that the Top Salaries Review Body would be the most appropriate body to carry out the periodic independent reviews. It has a wealth of experience in dealing with Members' pay and has over the last decade provided valuable advice, even if successive Governments have not always felt able to implement its recommendations in full because of prevailing economic circumstances. It is difficult to see how any other body would be better placed to give informed and independent advice.

5. The resolution states that the independent reviews should be conducted in the first Session of each Parliament. I know that some Members would prefer a review at the end of each Parliament so that the electorate would know what the salaries of Members of the new Parliament would be. However, as the Prime Minister can call an election at any time, it is not easy to predict the end of a Parliament. I support, therefore, the view expressed in the resolution.

Interim increases

6. It is in the period between independent reviews that the question of linkage arises. It is important to distinguish between linkage to particular rates of outside salaries and linkage with the level of increase in such salaries. The first form of linkage would be inappropriate. The right rate for Members' salary would be determined by the independent review and the purpose of the link would be only to make adjustments between reviews. A link with particular outside rates would also imply a close connection between the work of MPs and the work of the groups with the salary rates selected. There is no group whose work is comparable with that of MPs.

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7. The Committee will be aware of the objections to a link with a single comparator: the sensitivity attached to MPs' pay would almost certainly be transferred to the comparator. It was for this reason that the House supported the "basket" approach. However, there are also objections to having too large a basket. With a very wide selection of outside occupations in it, the basket would look very much a specially constructed salary index. It would not be right to give MPs anything resembling an index link, as this is an advantage enjoyed by very few other groups. By the same token, it seems quite wrong to include occupations in the private sector or in the public trading sector (eg nationalised industries) in the basket. The organisations in these sectors are highly dependent on market conditions and changes in salaries will reflect factors which have no bearing on MPs' pay. With this in mind, therefore, it is for consideration whether the basket should include only grades from the public services (eg the Civil Service, the NHS and the local authorities). In this event, given the variation in settlement dates and pay systems within the public services, and also that with a wide variety of groups the risk of delay in getting the necessary information on increases together, it would be administratively much simpler to use a basket containing a number of grades from only one of the public service groups. For example, the Civil Service would seem to be as appropriate as any and the basket might in that case consist of all grades between Higher Executive Officer and Assistant Secretary, together with their equivalents in the Science and Professional and Technology Groups. An annex discussing some of the more technical points associated with linkage is attached.

8. It is possible that between independent reviews increases derived from linkage would take MPs' pay above the level that the body conducting the next review considered appropriate. In such a case I think it would be right for MPs' salary to drop to the level recommended in the independent review. I suggest that 13 June should remain the normal settlement date for MPs' pay.

## LINKAGE: SOME TECHNICAL POINTS

Definition of salary increase: If MPs are to receive a salary based on the increases for selected outside groups, it is necessary to be clear what constitutes a "salary increase". The simplest and most easily defensible approach is to consider increases in basic salary only, excluding all allowances, overtime, bonuses, perquisites etc. If the salary is an incremental scale or a range, only the increase in the maximum should be considered. Some further refinement of the definition may be necessary when the precise composition of the basket has been determined.

Averaging increases: The various comparators will be groups of different sizes and will have different settlement dates. It would be possible to construct an average increase by weighting each comparator by the number of people in the group or some other criterion, and to make an allowance for date of settlement. However, the easiest approach would be to take a simple average giving each comparator equal weight and ignoring the settlement date (providing that it was after the last settlement for MPs).

Staging: If one or more of the comparators had a staged settlement, this ought to be reflected in the settlement for MPs.

Restructuring: If one of the comparators were restructured so that it was impossible to establish what increase in basic pay had occurred at a particular settlement date, there seems little alternative but to exclude it from the basket for that year.

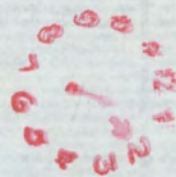
Delays: If one of the comparators had a delay in its settlement so that there was no prospect of an increase emerging until well after the normal settlement date for MPs, either the increase for MPs would have to be delayed or they could have an increase based on the management offer for the outstanding comparator with subsequent adjustments being made if necessary.

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Administration of linkage: Calculating the increases due to MPs as a result of linkage could be a complex matter. The Office of Manpower Economics, which provides the secretariat for the TSRB, would probably be the best organisation to undertake it. The more varied the groups in the basket, the more difficult the task of collecting and processing the information about their pay increases would be.

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- 11 JUL 1991

COMMUNICATIONS

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~~PC~~ J. Vachew  
A. Duguid.

Parliament

From the Private Secretary



Civil Service Department  
Whitehall London SW1A 2AZ

01-273 4400  
6 July 1981

David Hayhoe  
PS/Chancellor of the Duchy  
of Lancaster  
Privy Council Office  
68 Whitehall  
LONDON  
SW1A 2AT

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Dear David,

LINKAGE OF MPs' PAY

You copied to the Lord President the letter of 30 June from the Chancellor of the Duchy to the Prime Minister. The Lord President is content with the paper the Chancellor of the Duchy proposes to submit to the Select Committee on MPs' pay.

I am copying this letter to Willie Rickett at No 10, and to other Private Secretaries to the recipients of Mr Pym's letter.

Yours sincerely,  
Jim Buckley.

J BUCKLEY

7 JUL 1981



MR. HANKESTER



12

10 DOWNING STREET

6 July 1981

*Pauline*

LINKAGE OF MPs' PAY

You will have seen the Chancellor's letter of 6 July commenting on the Chancellor of the Duchy's letter of 30 June to the Prime Minister about linkage of MPs' pay to a designated group of outside occupations.

This is just to say that we entirely endorse the points made by the Chancellor; and to make two further comments. First, although the draft note makes it clear that it is not intended to address the question of the desirability of linkage, some of the wording - particularly that in the seventh sentence of paragraph 7 - would leave one to think that the Government attached more importance to comparability than it does to market factors, which is not, of course, the case. It is precisely because comparators other than the Civil Service have some basis in market reality that we would want to see them included. Second, I wonder whether it is consistent with the role that the Civil Service is going to play in the linkage to suggest that the normal settlement date for MPs' pay should remain 13 June: there may be a case for putting MPs on 1 April, like a very large number of other public service groups.

G. M. M. VEREKER

David Heyhoe, Esq.,  
Chancellor of the Duchy of Lancaster's Office.

*cc J. Harris p/s Chancellor*



*de J. Verch  
& Bernard*

*with*

*NBOM?*

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

6 July 1981

The Rt. Hon. Francis Pym, MC., MP.,  
Chancellor of the Duchy of Lancaster

*12  
6/17*

*Dear Chancellor,*

LINKAGE OF MPs PAY

*with MAP*

Thank you for sending me a copy of your letter of 30 June to the Prime Minister. I have only one comment on your draft paper. It does seem to me that the arguments against linkage with a few Civil Service grades are much stronger than the paper suggests.

(a) It would give MPs a direct financial interest in the pay of the grades concerned.

(b) If the Review Body recommends an improvement in the relative position of MPs, this will be treated by the grades concerned as evidence that the pay increases that they have received in the past are inadequate.

(c) If the Review Body recommends a reduction in the relativity, this will lead to criticisms from MPs of what will be represented as the Government's excessive generosity to the comparator grades; it might also lead to criticisms to the effect that MPs had been overpaid for some years.

I would therefore suggest that the final section of paragraph 7 of the draft should be amended so as to bring out these objections and to steer the Select Committee towards a "basket" containing groups from more than one public service. This would not entirely avoid the difficulties mentioned above; but it would much reduce them, and ensure that MPs pay could not be introduced as an issue in any particular set of public service pay negotiations.

I am sending a copy of this letter to the other recipients of yours.

*Yours sincerely,*

*R. S. Tothick, for,*  
GEOFFREY HOWE

[Approved by the Chancellor and signed in his absence]

16 JUL 1981

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5 6 7 8 9  
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DS



10 DOWNING STREET

From the Private Secretary

6 July 1981

Dear David

Linkage of MPs' Pay

The Prime Minister has now considered the Chancellor of the Duchy's letter of 30 June and the draft paper which he enclosed with it which he intends to put to the Select Committee. She has said that she is content with the draft subject to any points which the Chancellor of the Exchequer may have. (The Chancellor of the Exchequer has now of course sent his comments in his letter of 6 July.)

I am sending a copy of this letter to John Halliday (Home Office), John Wiggins (HM Treasury), Jim Buckley (Lord President's Office), Richard Dykes (Department of Employment), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

Yours ever

Mike Pattison

David Heyhoe, Esq.,  
Office of the Chancellor of the Duchy of  
Lancaster.

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EH



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

6 July 1981

The Rt. Hon. Francis Pym, M.C., M.P.,  
Chancellor of the Duchy of Lancaster

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*R. T. Tothick, for,*

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[Approved by the Chancellor  
and signed in his absence]

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