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Ref. A08509

PRIME MINISTER

Future Arrangements for Settling the Pay of MPs

(C(82)25)

BACKGROUND

This memorandum by the Chancellor of the Exchequer and the Lord President of the Council is concerned only with the longer-term arrangements for settling the pay of MPs: the Government has already announced that its proposal for the current year is an increase in pay and allowances of 4 per cent; this should be effective from 13 June.

2. In recent years up to 1980, the pay of MPs was the subject of annual recommendations by the Top Salaries Review Body (TSRB). In 1980 the Government felt unable to recommend full implementation, although in 1981 there was a 6 per cent increase which brought MPs' pay about  $1\frac{1}{2}$  per cent above the 1980 proposals. As a result, the House of Commons set up a Select Committee to consider possible alternative systems. The Select Committee has recommended:

a. that the TSRB should review MPs' pay and allowances once during the lifetime of each Parliament; and

b. that pay should be adjusted automatically each year between reviews by a system of indexation based on movements in average earnings as estimated by the Department of Employment's New Earnings Survey (NES).

3. C(82)25 proposes that the Government should accept the recommendations regarding the TSRB and the principle of indexation (subject to the approval in each case by the House of Commons of the resulting pay increases); but that it should reject the proposal to use the NES as the index - instead, there should be a link with a 'basket' of public service comparators. It proposes that the Government's views should be announced during the debate on the proposed increase in MPs' pay, which the Lord President expects to take place shortly before 13 June, and an appropriate motion tabled for that debate.



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MAIN ISSUES

4. The main issues for consideration seem to be as follows:

i. should there be periodic reviews of MPs' pay by the TSRB? should this cover also MPs' and peers allowances and Ministers' salaries?

ii. should the TSRB be asked to conduct the first such review in time for the settlement of MPs' pay due in June 1983?

iii. should there be a system for automatic adjustments of MPs' pay between reviews?

iv. if so, what should it be?

v. when and how should the Government make its views known?


Periodic reviews

5. It is unlikely that there will be much disagreement with the suggestion that an important part of the system of determining MPs' pay and allowances should be some form of outside review: for either the House of Commons or the Government to take the sole, or even the dominant, role would create obvious difficulties. Nor is there any natural candidate to conduct the review other than the TSRB.

6. As C(82)25 points out, because it is impossible to be certain exactly how long a Parliament will last there must be some flexibility in the timing of reviews. However, as the paper argues, a four-yearly review with the first one in 1983 seems about right.

7. It seems unlikely that there will be objection to the proposal that, if the TSRB is asked to review MPs' pay, it should also be asked to review MPs' allowances and the expense allowances of peers. There is perhaps more likely to be some discussion of the suggestion that the pay of Ministers should also be reviewed

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once every four years by the TSRB. It may be suggested that the pay of Ministers should not be reviewed by the TSRB but should be the subject of separate recommendations to Parliament by the Government on the basis of what the TSRB recommends for MPs. But different considerations apply in the two cases, and it seems most sensible to keep Ministers' salaries under separate review from MPs' pay, and to ask the TSRB to review them either at the same intervals as it reviews MPs' pay or (see para. 15 below) every year.

An immediate review


8. If the TSRB makes recommendations in time for the adjustment of MPs' pay and allowances in 1983, these may create problems for the handling of what seems likely to be a difficult pay round. On the other hand, there is no other opportunity for a review by the TSRB during the lifetime of the present Parliament. For the Government to refuse to allow it to go ahead would not doubt be attacked as tantamount to a rejection of the Select Committee's recommendation. The only alternative would be to use the TSRB's 1980 recommendations as a base for automatic adjustments on the lines recommended by the Select Committee. This would require early decisions to be taken on the adjustment mechanism, and would throw even more weight on the comparability factors.

Automatic adjustments between reviews

9. Although it is possible to separate the question whether there should be a system of automatic adjustments from the question of the basis of the system, it is likely to be convenient to discuss the two together. It might well be dangerous to become committed to the principle of automaticity without having a clear idea of how it would work.

10. It will no doubt be argued that automatic adjustments between reviews are an essential part of the Select Committee's recommendations: they are necessary if MPs' pay is not to be the subject of constantly recurring political controversy.

11. On the other hand, it is likely to be argued that a system based on comparability (and a particularly loose form of comparability at that), and giving MPs credit for

  
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pay increases elsewhere which may be financed by improvements in productivity or reductions in staff numbers, would be contrary to the Government's approach to public service pay.

12. It may also be suggested that, considerations of principle apart, it would be unwise to establish a link with the pay of the non-industrial Civil Service and nurses in the National Health Service, since their systems of pay determination are due to be reviewed when the Megaw Committee has reported.


13. If the arguments against automatic adjustment are thought to be the stronger, the Government could announce that it was unwilling to endorse the Select Committee's recommendations. An alternative would be to decline to express a view at this stage on how interim adjustments should be made between TSRB reviews: the Government could reasonably say that it wished to defer a decision until it had considered the Megaw recommendations. Either approach might well be unsatisfactory to opinion in the House of Commons; but if the House went its own way, that might be less embarrassing to the Government as employer than voluntary acceptance of what, ex hypothesi, it would regard as an unsatisfactory system.

#### Approval of pay increases by the House of Commons

14. It seems unlikely that, notwithstanding the Select Committee's preference for automaticity, there will be any objection to the suggestion that all increases in MPs' pay should be subject to approval by the House of Commons.

#### Adjustment between reviews to Ministers' salaries and MPs' and peers' allowances

15. The paper proposes that, whatever may be decided about automatic adjustments to MPs' pay, Ministers' salaries and MPs' and peers' allowances should be dealt with between reviews on an ad hoc basis. So far as Ministers' Salaries are concerned, this would throw squarely on to the Government the duty of deciding how they should move between reviews: neither the embarrassment nor the cover of an independent recommendation would be available. This seems to have all the makings of considerable political embarrassment for the Government of the day. It might be preferable for the TSRB to review Ministerial Salaries every year.



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Timing

16. The Lord President of the Council is likely to report that the debate on MPs' pay should be held shortly before 13 June and that the Government should make its views known by tabling a motion for approval in the debate. The Opposition parties have indicated that they will acquiesce in the proposed 4 per cent increase this year only if it is put into early effect. You would wish to question this timing if the earlier discussion should suggest that the Government would be in a substantially better position to take a view on the other issues if it waited for two or three weeks. However, that seems unlikely: the Megaw Report might be available during this period; but it is bound to be several months before the Government is able to take a view on its recommendations.


HANDLING

17. The main Ministerial responsibility rests with the Lord President of the Council; and you will wish him to introduce the memorandum. You might then invite the Chancellor of the Exchequer to add any points that he wishes. Ministers with responsibility for public service pay, especially the Secretaries of State for Social Services, for Education and Science, and for Employment will probably wish to comment. The Lord Privy Seal will have an interest as Leader of the House of Lords, and perhaps from the Management and Personnel Office standpoint. You may wish to ask the Chief Whip about opinion in the House of Commons.

CONCLUSIONS

18. You will wish the Cabinet to reach conclusions on the following:

- i. Should the Government accept the proposal that MPs' pay and allowances should be regularly reviewed by the TSRB? Should such reviews extend to the pay of Ministers, MPs' allowances, and the peers' expense allowance?
- ii. If so, should the first review be undertaken in time for next year, with subsequent reviews at four yearly intervals or thereabouts?

  
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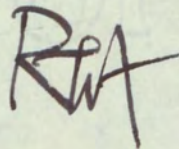
iii. Should the Government endorse the principle of automatic adjustment of MPs' pay between TSRB reviews, and if so what should that basis be?

Or, should the Government say that it does not intend to come to a view for the time being on how interim adjustments should be made, at least until it has had time to reach conclusions on the recommendations of the Megaw Committee?

iv. Should increases in MPs' pay be subject to approval in each case by the House of Commons?

v. Should Ministers' salaries, and MPs' and peers' allowances, be dealt with ad hoc between the TSRB reviews?

vi. Should the Government make its views known by tabling a motion in a debate on MPs' pay shortly before 13 June?



ROBERT ARMSTRONG

24th May 1982

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se JV ①  
Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG  
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Agree to circulation

of this paper to

Cabinet ?

26 April 1982

(Subject to the Lord

President's agreement)

MUS 27/4

Michael Scholar  
10 Downing Street  
LONDON  
SW1

Dear Michael

MP'S PAY

In your letter of 20 April to John Kerr, you reported on the meeting that day on the subject of MP's pay, and recorded in the Prime Minister's summing-up a remit to the Treasury to bring forth proposals to Cabinet on MP's pay for 1982. I attach such a draft paper, approved by the Chancellor of the Exchequer. You will note that it refers to the pay of Ministers as well as of MP's, pointing out that in the past they have normally been dealt with together, and recommending that they should receive the same treatment this year. The paper also deals with the question of those allowances which are adjusted at the same time as pay.

When we have clearance for this paper, we will arrange for its early circulation to Cabinet.

I am copying this letter to the Private Secretaries, to the Lord President, the Chancellor of the Duchy of Lancaster and the Chief Whip and to David Wright (Cabinet Office).

Yours ever  
Peter

P S JENKINS

## DRAFT CABINET PAPER

PAY OF MPs AND MINISTERS IN 1982

PAPER BY THE CHANCELLOR OF THE EXCHEQUER

1. The Select Committee on Members' Salaries published its report last month. The report recommends reviews of MPs' pay each Parliament by the Top Salaries Review Body and the automatic adjustment of Members' salaries between reviews by reference to increases in the nearest percentile of the New Earnings Survey. It would be difficult for us to accept the report in its entirety: in particular I have very strong reservations about the proposed link with the New Earnings Survey which would be an unhelpful development for our general approach to public service pay. However, there is no immediate urgency in settling the future system for determining MPs' pay and much to be said for our taking this more slowly. The Lord President and I will put to Cabinet a paper on the report at a later stage.
2. The Select Committee concerned itself solely with questions of future pay arrangements. It made no proposals on the level of pay increase in 1982. Unlike previous years, the TSRB have not been asked to review the pay and allowances of MPs in 1982. This was because the Select Committee's review was in progress. We therefore start from a clean slate in the sense that we have no specific recommendations before us for a 1982 increase although some MPs may take the view that the Select Committee's approach could be applied to updating the TSRB recommendations of 1980. An "up-dating" linkage with pay movements generally could point to an increase for 1982 of the order of 25 per cent.



3. The final decision on Members' salaries rests with the House of Commons. I believe that the House will insist on some increase this year whether or not decisions have been reached on future arrangements. A strong case can be made for an increase <sup>being</sup> / no more than 4 per cent. If this is what we decide there would be advantage in an early announcement that we will propose this figure to the House. There are a number of public service groups whose pay negotiations or arbitrations have yet to be completed, including teachers, nurses and various other NHS employees, and Local Authority administrative, professional, technical and clerical staff. An announcement of our proposal of 4 per cent for MPs might well influence negotiations and arbitrations for these groups towards moderate settlements. Any indication that we were prepared to contemplate offering more to MPs would certainly put strong upward pressure on all outstanding public service pay settlements. Though increases in MPs' pay are not themselves very costly, the repercussions would be.

4. Since we came into office, MPs have had very large increases in pay. The increase of 74 per cent agreed for them in 1979 was paid in three stages between 1979 and 1981. In 1980 they received a further 9.6 per cent, admittedly somewhat less than the 14.6 per cent proposed by the TSRB. Last year the TSRB recommended only that MPs' pay should be brought up as quickly as possible to the higher level they had recommended for 1980. In the event we decided to give MPs a further 6 per cent on top of their earlier increases.

This brought their salary to £13,950. This was £200 more than the recommendation by the TSRB in 1980 reiterated in their 1981 report. Although there was obviously a large element of "catching up" in the increases they have received an MPs salary is therefore now over double what it was in May 1979.

5. Against this background the Lord President and I are agreed that we should propose to the House a 4 per cent increase in MPs' pay this year.

6. The majority of Ministers have had a pattern of increases similar to that for MPs over the last few years (though Cabinet Ministers have done a little worse). I suggest that they too should get 4 per cent this year and that we should announce this at the same time as our proposals on MPs.

7. The TSRB has in the past dealt with two smaller matters when reviewing the pay of MPs and Ministers: secretarial and research assistance allowances of MPs and the Peers' expense allowance. I propose that MPs' allowances should be increased by 4 per cent in line with their pay and it would presumably be appropriate to increase by the same amount the Peers' expenses allowance and the secretarial allowance for Lords Ministers.

Conclusion

8. I invite the Cabinet to agree that we should propose to the House of Commons that the pay of MPs [and of Ministers and MPs' secretarial allowances] should be increased by 4 per cent this year and that we should make an immediate announcement of our intentions. An early announcement might also enable us to say that while we are not yet in a position to respond to the Select Committee's report we have very considerable doubts about the part of their recommendation which suggests linking MPs' pay to the NES.



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