

SECRET

Copied to Parl Members: pag: 172

Prime Minister

4B

Ref. A02530

PRIME MINISTER

I attach a draft of the statement which you are to make on Monday, 7th July, about the Top Salaries Review Body Reports. This draft has been gone over with the Departments concerned.

2. I am afraid that it is very long, but I find it difficult to see how we can escape from that. You will need to deal, as briefly as possible, with the complications of staging for those concerned. You are bound to give a very brief account of what the Review Body has recommended. You said that you would like to have a short piece about the economic background to the Government's decisions. And you will need to set out the Government's decisions, particularly on Members of Parliament and Ministers.

3. I also attach copies of the schedules which would be circulated in the Official Report. There are only two outstanding points on these schedules to which I need draw your attention. One relates to the salary for Ministers of State and Parliamentary Secretaries in the Lords, on which I am sending you a separate submission. The other is that, on the assumption that you will agree with the proposals made by the Minister of Transport in his minute of 3rd July on the National Freight Corporation, we are deleting the National Freight Corporation both from these schedules and from the detailed material that will be placed in the Library.

4. There is a point of detail on the pension entitlement of MPs. The Cabinet agreed that the pension entitlement should continue to be calculated on the basis of the notional third stage salary of £12,000. It is proposed, however, to update the third stage salary from £12,000 to £13,025. Somebody may say that it would be logical to increase the notional salary for pension purposes to that level. The statement is drafted in terms of the Cabinet decision, but you may wish to consider whether it would make the reduction in salary slightly more acceptable to Members of Parliament if the higher figure of £13,025 was taken as the notional salary for pension purposes.

The statement is very long - for the reason Sir Robert Armstrong gives - though I know he had the need for brevity in mind. The fact is of course you are covering two separate reports which could each warrant a major statement of its own in other circumstances. I will telephone you on Sunday when you have had a chance to read all this material to see whether you would like me to produce a shorter draft.

JWH
Svi

Minute below
Brief A02534
(British Transport
Docks Board...)
within

State by what
was a clear
Cabinet
decision?

It would only
what widows - and for only a year - we will

SECRET

delete the higher figure
£13,025



SECRET



5. The statement does not include any reference to the proposed increase of the secretarial allowance for Ministerial Members of the House of Lords (on which I am making a separate submission).

6. Nor does it include any references to the future of the Review Bodies; or to the refusal of arbitration for Assistant Secretaries and Senior Principals. Both of those points will be covered in supplementaries.

7. Neither the draft statement nor the schedules refer to the medical Major General and equivalent; or to certain judicial officers, for whom increases substantially higher than the average are envisaged. I am minuting you separately on both these points.

8. The Lord President is preparing to report your statement in the House of Lords.

9. I am sending copies of this minute and of the draft statement and schedules to the Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer, the Secretaries of State for Industry and Defence, the Lord President of the Council, the Secretaries of State for the Environment and Scotland, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Trade and Energy, the Paymaster General, the Minister of Transport and the Chief Whip.

REA

ROBERT ARMSTRONG

4th July, 1980

SECRET



DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on two recent reports by the Top Salaries Review Body.

2. Both reports have been presented as Command papers and are available in the Vote Office this afternoon.

The Review Body's recommendations

3. The first of these reports - the Review Body's 14th Report - makes recommendations for the salaries of the higher Civil Service, senior officers in the armed forces, members of the judiciary, and chairmen and members of boards of nationalised industries. The House will recall that in 1978 the Review Body made recommendations for these groups of public servants which our predecessors accepted but decided to implement in three stages, on 1 January 1978, 1 April 1979 and 1 April 1980. Last year the Review Body recommended an updating of the second and third stages, which we accepted. The third stage has been in payment since 1 April this year. The present report is concerned with the increases required to bring that third stage up to date from the levels appropriate on 1 April 1979 to the levels appropriate on 1 April 1980.

4. The other report now submitted - report no. 15 - makes recommendations for the salaries of Members of Parliament, Ministers and other paid office holders. Last year the Review Body made recommendations which the House agreed should be accepted, but should be implemented in three stages, on 13 June 1979, 1980 and 1981. The first stage was paid to all those concerned. The second stage has been in payment since 13 June last for Members of Parliament, but not for Ministers and other paid office holders. The



Review Body's latest report is concerned with the increases required to bring the second and third stage payments up to date from the levels appropriate on 13 June 1979 to the levels appropriate on 13 June 1980.

*debt in office -
"State Justice"*

5. The Review Body has arrived at detailed recommendations over the whole field ~~on the basis of a comprehensive review of movements of salaries at comparable levels in the private sector, and has taken account of all the factors which are traditionally relevant in applying the results of that review to the salaries within their remit.~~

The Government is grateful to Lord Boyle and his colleagues for their thoroughness and with which they have done their review, and for all the time and effort which they have devoted to ~~the Review.~~

6. ~~Very broadly,~~ they recommend increases of the order of ~~14.5~~^{14.6} per cent in the second and third stage payments to Members of Parliament and Ministers.

The general level of the increases which they recommend for the four groups of public servants is about 19 per cent, though they propose larger increases than that for certain categories within these groups either to relieve problems created by compressions of differentials between these groups and those directly below them or, in the case of the judiciary, to ensure that the best candidates are attracted to and retained for the bench.

If these larger increases are taken into account, the overall cost of the increases recommended for these groups of public servants would work out at about 26 per cent.

Background to the Government's proposals

7. The Government is committed to accepting the recommendations of the Review Body, save where there are clear and compelling reasons to do otherwise. ~~Indeed,~~^{Indeed,} my right hon. Friend the Leader of the House told the



House some months ago that the Government would accept the recommendations of the Review Body for updating the second stage increases to hon. Members. I should like to explain to the House, Mr Speaker, why notwithstanding these commitments the Government takes the view that there are clear and compelling reasons, of a kind which the Review Body could not ~~be expected to~~ take into account, for not accepting the Review Body's recommendations in full on this occasion.

~~~~~

8. The overriding priority to which the Government's economic and monetary strategy is directed is the reduction of inflation. At over 20 per cent, the rate of inflation is unacceptably high, in absolute terms and in relation to the rate of inflation in most of the countries with which we compete in world markets. We shall not be able to make progress in resuming sound economic growth and in reversing the rise of unemployment, until we succeed in reducing the level of inflation very substantially. By sticking to our monetary targets we shall bring the rate of inflation down. It is likely to be falling in the next few months, but unless the growth of earnings is broadly consistent with the rate of monetary growth, the fall in inflation ~~will be slower in coming, and it~~ will be accompanied by a ~~further~~ <sup>larger</sup> rise in unemployment.

③

9. Pay increases in the private sector are clearly beginning to respond to the combined pressures of tough market conditions and financial constraints. But the private sector cannot be expected to take the whole of the strain. Levels of pay increases in the public sector must likewise be reduced, if public expenditure is to be kept under control and our monetary objectives achieved. And when we are looking to other groups

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in the public sector to accept pay settlements which fall below what might be suggested by traditional comparisons with movements of other earnings or of prices, the Government thinks it right to expect people in positions of responsibility and leadership in Parliament and the public services to act <sup>in a way which we hope others will</sup> ~~as we hope the rest of the country~~ will follow.

10. This is the background to the Government's proposals, to which I now turn.

Members of the House of Commons

11. First, as to Members of this House. We are in the virtually unique position of determining our own remuneration.

Our calls to others to show restraint and act responsibly will <sup>be judged by what we do</sup> ~~not carry much authority if we fail to do so ourselves.~~

The Review Body has recommended a parliamentary salary of £12,300 from 13 June 1980 and £13,750 from 13 June 1981.

~~As I have said,~~ <sup>14.5</sup> those figures represent an increase of about 14.5 per cent.

<sup>with this</sup> The Government thinks it right to propose to hon Members ~~to~~ settle for a substantially smaller figure. We shall therefore invite the House to approve a resolution to provide a parliamentary salary of £11,750 from 13 June 1980.

That represents an increase of £1,025 or <sup>9.5</sup> ~~about 9.5~~ per cent, on the second stage salary of £10,725, which has been in

payment since 13 June last. We propose also to provide <sup>with resolution</sup> (for an increase of the same <sup>2</sup> amount in the third stage salary,

due on 13 June 1981, <sup>to</sup> ~~£13,150~~ <sup>to £13,150</sup>.)

Ministers and other paid office holders

12. Ministers and other paid office holders are not yet in receipt of the second stage payment due on 13 June 1980.

We shall invite the House to approve an Order putting into





The order will also provide for the same 2 increases

effect the second stage payments recommended by the Review Body last year, increased as for Members of Parliament by 9.6% per cent, save in the case of Cabinet Ministers and my right hon and learned Friend the Attorney General for whom the increase will be 5 per cent. Provision will also be made for the third stage payments due on 13 June next year. We propose that the secretarial and research allowance for honourable Members of this House should be increased by 9.6% per cent, to £7,400, with effect from 13 June 1980.

do take effect applied to

reduced to

reduced to

The same 2 increases will also be made for the third stage payments due on 13 June next year.

combined

Members of the House of Lords

13. The Government proposes that Peers' expense allowances, which are related to relevant costs, should be increased as the Review Body recommends. [We shall also invite the House to approve a Resolution extending the entitlement to claim these allowances to Ministers of State, Parliamentary Secretaries and other paid office holders in the House of Lords, who are in the Government's view unreasonably disadvantaged, by comparison with their colleagues in the House of Commons, by the fact that they have no parliamentary salary.]

but nevertheless have to do a lot of work in the VMC include beyond their own departments.

TSRB 14 groups

14. I turn now, Mr Speaker, to the four groups of public servants covered by the Review Body's 14th Report.

15. The Government considers that they should be expected to accept ~~no less a~~ <sup>the same proportionate</sup> reduction, as compared with the Review Body's recommendations, that Members of Parliament are being asked to make for themselves. The increase which we are proposing for hon Members is about ~~35 per cent~~ <sup>£3,000 or thereabouts</sup> below that recommended by the Review Body. We propose that the average increase for the four groups of public servants concerned should be ~~33 per cent less than~~ <sup>also 5% above</sup> the general increase of about 19 per cent recommended by the Review Body. That will

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[scribble]

[scribble]





bring the overall cost of the increases to these groups down to about 12½ per cent. This will not be paid as straight percentage increases across the board to all those concerned; it will be so distributed as to mitigate the compression of differentials between <sup>those groups</sup> ~~those groups (and grades)~~ covered by the Review Body's report and those directly below them, and within those groups to preserve <sup>that it be lower salary levels</sup> ~~broadly~~ the pattern of differentials and relativities recommended by the Review Body, though of course at lower salary levels.

16. The result of distributing the total sum in this way will in fact be that most of those at the highest levels - the Permanent and Deputy Secretaries in the Civil Service, the equivalent ranks in the armed forces, and the chairmen of nationalised industries, will, like honourable Members <sup>revenue ministers in simple figures.</sup> and Ministers, ~~get~~ less than 10 per cent.

17. The new salary rates for all four groups will be effective from 1 April 1980. The effect of implementing them will be to reduce the cost, as against full implementation of the TSRB 14 recommendations, by about 50 per cent.

18. A special problem arises in the Civil Service. When other grades recently received increases following pay research, it was agreed that new salary scales for Assistant Secretaries and Senior Principals - the grades immediately below those covered by the Review Body's remit - should not be settled until the outcome of the Review Body's report was known. The results of pay research for the Assistant Secretaries would take the maximum of their scale above the rate we now propose for Under Secretaries. In order to preserve tolerable differentials it will be necessary to set a lower scale for Assistant Secretaries from that which would result from the application of the pay research findings; there will also need to be a slight adjustment at the top end of the scale for Senior Principals.





19. I will with permission circulate in the Official Report schedules showing the current and proposed rates of salary for the main groups and grades concerned. Full details of the Government's proposals will be placed in the Library.

20. The rates of salary now proposed will be used for the purposes of calculating pension entitlements <sup>for all those</sup> concerned, ~~save~~ <sup>save</sup> For hon Members of this House, <sup>of whom some are paid</sup> for whom pension entitlement will ~~continue~~ <sup>be revised</sup> to be calculated on ~~the~~ <sup>scales</sup> notional salary of £12,000. <sup>third stage of</sup>

*Will regard to*

21. In its 14th Report the Review Body has queried the appropriateness of its role in advising on the remuneration of nationalised industry board members, and has suggested that <sup>the</sup> ~~it~~ should reconsider its remit in this respect. The

*Govt.*

Government shares the doubts which the Review Body has expressed. We have therefore decided that this should be the last occasion on which the Review Body is asked to recommend on the remuneration of the chairmen and members of boards of nationalised industries. In future years these salaries will be determined by the Minister concerned in each case <sup>with</sup> the ~~approval of the~~ <sup>approval of</sup> Minister for the Civil Service. ~~Thus the salaries of board members in each industry will be determined by reference to the market and other circumstances of the industry.~~

*in consultation with the members*

22. Mr Speaker, I am very well aware that in making the proposals ~~of~~ <sup>described to</sup> which I have now ~~informed~~ <sup>informed</sup> the House, the Government will be accused of going back on commitments and breaking agreements, and of failing in its obligations to the public servants concerned, on whose hard work, loyalty and integrity society depends. But it must have regard to its wider obligation to propose what <sup>we believe to be</sup> ~~is~~ right ~~for the country as a whole.~~ <sup>circumstances</sup> In ~~our~~ present economic situation, the Government believes





that ~~the implementation of~~ these proposals would give fair levels of remuneration to honourable Members of this House and to the public servants to whom they apply, and at the same time measure up to the needs and expectations of those to whom we in this House are answerable and who in the end have to find the money.



|                                     | Current Salary (a)<br>£ | Proposed Salary<br>£        | Percentage increase<br>% |
|-------------------------------------|-------------------------|-----------------------------|--------------------------|
| <u>MPs (Backbenchers)</u>           | 10,725                  | 11,750                      | 9.6                      |
| <u>Ministers</u>                    |                         |                             |                          |
| Examples:                           |                         |                             |                          |
| Cabinet Ministers (b)               | 22,325                  | 23,500                      | 5.3                      |
| Ministers of State (Commons)        | 14,812                  | 16,250                      | 9.7                      |
| Ministers of State (Lords)          | 14,955                  | <del>16,250</del><br>16,400 | <del>8.7</del><br>9.6    |
| Parliamentary Secretaries (Commons) | 11,262                  | 12,350                      | 9.7                      |
| Parliamentary Secretaries (Lords)   | 11,405                  | <del>12,350</del><br>12,500 | <del>8.3</del><br>9.6    |

- a. Current Salary includes second stage of 1979 pay increase.
- b. Excluding Prime Minister, Lord Chancellor and Lord President of the Council.



|                                                                  | Current<br>Salary<br>£ | Proposed<br>Salary<br>£ | Percentage<br>increase<br>% |
|------------------------------------------------------------------|------------------------|-------------------------|-----------------------------|
| <u>Higher Civil Service and Senior<br/>Armed Forces Officers</u> |                        |                         |                             |
| Head of the Home Civil Service                                   |                        |                         |                             |
| Permanent Secretary to the Treasury                              |                        |                         |                             |
| Secretary of the Cabinet                                         | 31,000                 | 33,500                  | 8.1                         |
| Admiral of the Fleet                                             |                        |                         |                             |
| Field Marshal                                                    |                        |                         |                             |
| Marshal of the Royal Air Force                                   |                        |                         |                             |
| Permanent Secretary                                              |                        |                         |                             |
| Admiral                                                          | 28,500                 | 31,000                  | 8.8                         |
| General                                                          |                        |                         |                             |
| Air Chief Marshal                                                |                        |                         |                             |
| Second Permanent Secretary                                       | 26,000                 | 28,500                  | 9.6                         |
| Deputy Secretary                                                 |                        |                         |                             |
| Vice Admiral                                                     |                        |                         |                             |
| Lieutenant General                                               | 22,500                 | 24,500                  | 8.9                         |
| Air Marshal                                                      |                        |                         |                             |



Higher Civil Service and Senior  
Armed Forces Officers

|                                          | Current<br>Salary<br>£ | Proposed<br>Salary<br>£ | Percentage<br>increase<br>% |
|------------------------------------------|------------------------|-------------------------|-----------------------------|
| Under Secretary                          |                        |                         |                             |
| Rear Admiral                             |                        |                         |                             |
| Major General                            | 18,000                 | 20,500                  | 13.9                        |
| Air Vice-Marshal                         |                        |                         |                             |
| Percentage increase for group as a whole | -                      | -                       | 12.6                        |



Judiciary  
examples:

|                                                    | Current Salaries<br>£ | Proposed Salaries<br>£ | Percentage increase<br>% |
|----------------------------------------------------|-----------------------|------------------------|--------------------------|
| Lord Chief Justice                                 | 37,000                | 40,000                 | 8.1                      |
| High Court Judge etc                               | 28,500                | 32,000                 | 12.3                     |
| Circuit Judge etc                                  | 19,500                | 22,000                 | 12.8                     |
| Masters and Registrars of<br>the Supreme Court etc | 17,250                | 19,500                 | 13.0                     |
| Percentage increase for group as a whole           | -                     | -                      | 12.6                     |



|                                                                                                                                                 | Current Salaries<br>£ | Proposed Salaries<br>£ | Percentage increase<br>% |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|------------------------|--------------------------|
| <u>Nationalised Industries</u>                                                                                                                  |                       |                        |                          |
| <u>Chairmen &amp; Members</u>                                                                                                                   |                       |                        |                          |
| Examples:                                                                                                                                       |                       |                        |                          |
| British National Oil Corporation                                                                                                                |                       |                        |                          |
| - Chairman                                                                                                                                      | 53,500                | 58,500                 | 9.3                      |
| - Members                                                                                                                                       | 29,250                | 33,000                 | 13.4                     |
|                                                                                                                                                 | 37,750                | 43,000                 |                          |
| British Steel Corporation, Post Office                                                                                                          |                       |                        |                          |
| - Chairmen                                                                                                                                      | 48,500                | 53,000                 | 9.3                      |
| - Members                                                                                                                                       | 28,500                | 31,500                 | 12.7                     |
|                                                                                                                                                 | 34,500                | 39,500                 |                          |
| British Aerospace, British Airways Board, British Gas Corporation, British Rail, British Shipbuilders, National Coal Board, Electricity Council |                       |                        |                          |
| - Chairmen                                                                                                                                      | 44,000                | 48,000                 | 9.1                      |
| - Members                                                                                                                                       | 23,250                | 26,000                 | 13.0                     |
|                                                                                                                                                 | 28,750                | 32,750                 |                          |
| British Airports Authority, Cable and Wireless, Civil Aviation Authority, National Bus Company, Scottish Development Agency                     |                       |                        |                          |
| - Chairmen                                                                                                                                      | 31,000                | 34,000                 | 9.7                      |
| - Members                                                                                                                                       | 18,500                | 20,500                 | 13.4                     |
|                                                                                                                                                 | 22,500                | 26,000                 | 11.6                     |
| Percentage increase for group as a whole                                                                                                        |                       |                        |                          |



PRIME MINISTER

MS

10/7

## TOP SALARIES

On Monday the Prime Minister announced an average reduction of about one third in the general increases recommended by the Top Salaries Review Body for the heads of nationalised industries, the Civil Service, the judiciary and the Armed Forces. She also announced that the Government would introduce an Order proposing a reduction of one-third the pay rise recommended by the same Review Body for MPs.

These are, by any standards, very substantial cuts indeed. It means an average rise of under 10% for the chairmen of the nationalised industries compared with 24% recommended by the Review Body. It means 8.8% for Permanent Secretaries in the Civil Service instead of 19.3%; 9.6% for MPs and 5% for Cabinet Ministers instead of 14.6%. As a result, the cost of these public sector pay rises will be almost exactly halved - from £12 million to £6 million.

But the Government has not decided to cut these pay increases so drastically just to save £6 million - though every saving in the public sector counts. It is committed to accepting the recommendations of the Top Salaries Review Body except where there are clear and compelling reasons for not doing so. The clear and compelling reason in this case is that after a year of strenuous battling with inflation, there are real signs that at last we are winning.

Wholesale prices increased by only 1% between May and June. This is the third month in which the annual rate of increase in these prices has declined. There are other signs as well, which all point to the fact that if we stick to our monetary targets we will, over the next few months, bring inflation down from its present crippling rate. Pay increases in the private sector are clearly beginning to respond to the combined pressures of tough market conditions and financial constraints.

But we cannot let the private sector take all the strain. Levels of pay increases in the public sector must also be reduced. The Government's decision on Top Salaries is a message to people in all walks of life that if we are to win this battle against inflation we must all contribute.

The Paymaster General's Office  
Privy Council Office  
68 Whitehall SW1

10 July 1980



6

SECRET

P.0285

MR WRIGHT

*Sir R. Armstrong*

TSRB 14 AND 15

I thought you (and No 10) might find it helpful to have a consolidated list of the outstanding points of which I am aware, on today's statement, together with a few of the answers which I have elicited. They are:-

(a) The proportion of Parliamentary salary to be drawn by Ministers: CSD are checking and will ring me back.

(b) What does the PM say if asked about the actual new salary level for Assistant Secretaries? Again, CSD are checking but their first thoughts are that it would be helpful to state the maximum figure, ie £19,500. It is barely conceivable that there will be a negotiated settlement on Assistant Secretaries so that imposition will be necessary. The precise timing of discussion with the Staff Side, before the point of imposition is reached, is not yet clear.

(c) Other "paid office holders" in the Lords: the question was raised on Friday whether this definition might extend to Lords of Appeal and Bishops. CSD advice is that it will not. So far as they are concerned the "paid office holders" involved are those listed in Boyle.

(d) Pensions base for Ministers: as the statement stands it would (paragraph 20) debar Ministers from receiving pensions based on notional salary. This is not the intention. Precise formulation must await the Prime Minister's reply to Sir Robert Armstrong's submission of the weekend about Parliamentary pensions.

(e) Secretary allowance in the Lords: awaiting the PM.

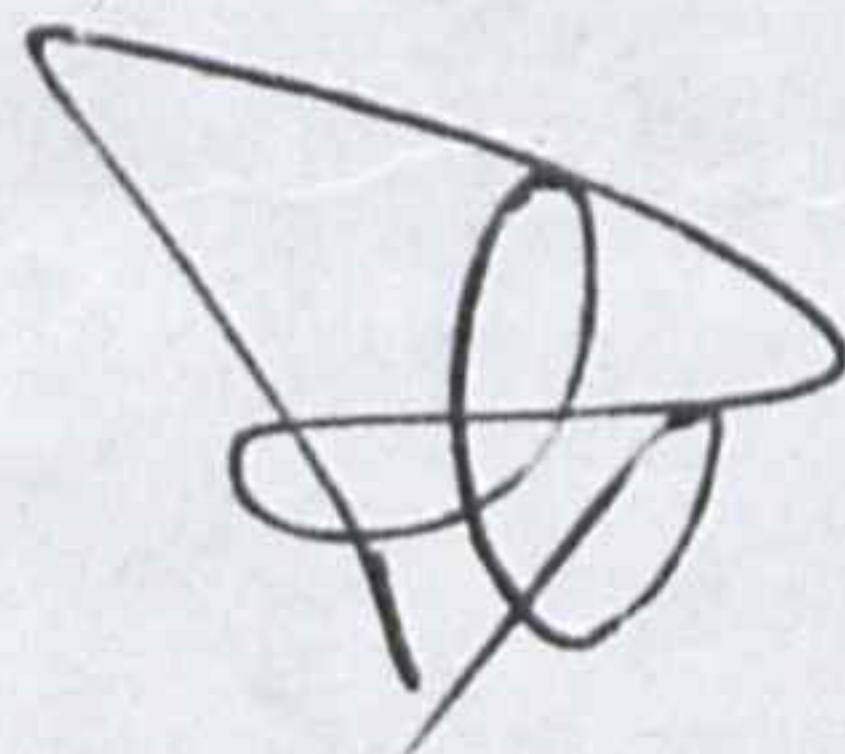
(f) Different varieties of Ministers of State etc: awaiting the PM.

*CSD now tell  
me that the Staff  
side will know  
of £19,500 before  
testimony. No  
more in giving  
to figure if  
asked.*



SECRET

- (g) Divided group of judges: awaiting the PM.
- (h) Attendance allowance Lords: awaiting the PM.
- (i) The NEB (Moulson's letter of 4 July to David Wright): CSD tell me there is no problem. The NEB appear to have been being paid at the lower level already.
- (j) Salary tables: CSD tell me that the revised calculation of the group pay increase for the Judiciary and the Civil Service/Military is 12.5 per cent in each case.
- (k) Nationalised Industry Supplementary Answers (the Moulson letter of 4 July): the first two Supps. appear to be misconceived for the present situation. I will pursue with Industry and Nick Sanders.
- (l) Supplementary Answers generally: the full set, as of Friday night, are with the Chancellor of the Exchequer, the Chancellor of the Duchy and the Lord President. Other Departments do not have them though we are checking with Transport on the changes we have made to the proposals they made on Friday. The Supps. suggested by the Lord Chancellor's Office and Defence on Friday are incorporated in our consolidated list with only drafting changes and do not need further checking.
- (m) The Ministerial table annexed to the statement: uncertainty about Parliamentary Secretaries and Ministers of State in the Lords. We need a single set of figures. Depends on the PM.



P Le CHEMINANT

7 July 1980



cc Parliament members  
MP's pay Pt 2.



10 DOWNING STREET

From the Private Secretary

7 July, 1980.

Dear Jim

I attach a copy of the Prime Minister's statement for this afternoon as it now stands. There may be some further minor drafting changes to come.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Robin Birch (Chancellor of the Duchy of Lancaster's Office), Murdo Maclean (Chief Whip's Office), John Halliday (Home Office), and David Wright (Cabinet Office).

If anybody spots any errors or omissions, needless to say I will be glad to have immediate notice.

You are

Nick Sanders

Jim Buckley, Esq.,  
Civil Service Department.

SC.



603230  
348

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/ Review Body's



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5 The Review Body has arrived at detailed recommendations over the whole field on the basis of all the factors which are traditionally relevant. The Government is grateful to Lord Boyle and his colleagues for their thoroughness and attention to detail, and for all the time and effort which they have devoted to the review.

6 They recommend increases of 14.6 per cent<sup>0</sup> in the second and third stage payments to Members of Parliament, and similar increases for Ministers. The general level of the increases which they recommend for the four groups of public servants is about 19 per cent, though they propose larger increases than that for certain categories within these groups. If these larger increases are taken into account, the overall cost of the increases recommended for these groups of public servants would work out at about 26 per cent.

#### Background to the Government's proposals

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/ The overriding



8 The overriding priority to which the Government's economic and monetary strategy is directed is the reduction of inflation. At over 20 per cent, the rate of inflation is unacceptably high, in absolute terms and in relation to the rate of inflation in most of the countries with which we compete in world markets. We shall not be able to make progress in resuming sound economic growth and in reversing the rise of unemployment, until we succeed in reducing the level of inflation very substantially. By sticking to our monetary targets we shall bring the rate of inflation down. It is likely to be falling in the next few months, but unless the growth of earnings is broadly consistent with the rate of monetary growth, the fall in inflation will be accompanied by a larger rise in unemployment.

9 Pay increases in the private sector are clearly beginning to respond to the combined pressures of tough market conditions and financial constraints. But the private sector cannot be expected to take the whole of the strain. Levels of pay increases in the public sector must likewise be reduced, if public expenditure is to be kept under control and our monetary objectives achieved. And when we are looking to other groups in the public sector to accept pay settlements which fall below what might be suggested by <sup>any</sup> traditional comparisons with movements of other earnings or of prices, the Government thinks it right to expect people in positions of responsibility and leadership in Parliament and the public services to act in a way which we hope others in the country will follow.

10 This is the background to the Government's proposals, to which I now turn.

#### Members of the House of Commons

11 First, as to Members of this House. We are in the virtually unique position of determining our own remuneration. Our calls to others to show restraint and act responsibly will be judged by what we do ourselves. The Review Body has recommended a Parliamentary salary of £12,300 from 13 June 1980 and £13,750

/from



from 13 June 1981. These figures represent an increase of 14.6 per cent. The Government thinks it right to propose to hon. Members that they settle for a substantially smaller figure. We shall therefore invite the House to approve a resolution to provide a Parliamentary salary of £11,750 from 13 June 1980. That represents an increase of £1,025 or 9.6 per cent, on the second stage salary of £10,725, which has been in payment since 13 June last. We propose also to provide in that resolution for an increase of the same percentage in the third stage salary, due to take effect on 13 June 1981, taking it from £12,000 to £13,150.

12 We propose that the secretarial and research allowance for honourable Members ~~of this House~~ should be increased by 9.6 per cent, to £7,400, with effect from 13 June 1980.

#### Ministers and other paid office holders

13 Ministers and other paid office holders are not yet in receipt of their second stage payment. We shall invite the House to approve an Order putting into effect the second stage payments recommended by the Review Body last year, increased as for Members of Parliament by 9.6 per cent, save in the case of Cabinet Ministers and my right hon. and learned Friend the Attorney General. For them the increase will be reduced to 5 per cent.

14 The Order will also provide for the same percentage increases to be applied to the third stage payments due to take effect next year.

15 We propose to adopt the Review Body's recommendation that we should unify the Parliamentary salary payable to Ministers in the House of Commons from three rates to a single rate, <sup>and we propose that that rate should be</sup> / £6,930. Although Junior Ministers in the House of Lords now receive a secretarial allowance of £1,000, which we propose to increase to £1,100, they do not receive any salary <sup>specifically</sup> in respect of their Parliamentary duties. This is a very real problem, and we propose to consider how the arrangements for their remuneration should be revised to take account of it.

/Members



Members of the House of Lords

16 The Government proposes that Peers' expense allowances, which are related to relevant costs, should be increased as the Review Body recommends.

TSRB 14 groups

17 I turn now, Mr. Speaker, to the four groups of public servants covered by the Review Body's 14th Report.

18 The Government considers that they should be expected to accept no less a reduction, as compared with the Review Body's recommendations, than Members of Parliament are being asked to make for themselves. The increase which we are proposing for hon. Members is about one-third below that recommended by the Review Body. We propose that the average increase for the four groups of public servants concerned should also be about one-third below the general increase of about 19 per cent recommended by the Review Body. That will bring the overall cost of the increases to these groups down to about 12½ per cent. This will not be paid as straight percentage increases across the board to all those concerned; it will be so distributed as to mitigate the compression of differentials between the groups covered by the Review Body's report and those directly below them, and within those groups to preserve generally though of course at lower salary levels, the pattern of differentials and relativities recommended by the Review Body.

/ The result of



19 The result of distributing the total sum in this way will in fact be that most of those at the highest levels - the Permanent and Deputy Secretaries in the Civil Service, the equivalent ranks in the armed forces, and the chairmen of nationalised industries, will, like honourable Members and Ministers, receive percentage increases in single figures.

20 The new salary rates for all four groups will be effective from 1 April 1980. The effect of implementing them will be to reduce the cost, as against full implementation of the TSRB 14 recommendations, by about 50 per cent.

21 A special problem arises in the Civil Service. When other grades recently received increases following pay research, it was agreed that new salary scales for Assistant Secretaries and Senior Principals - the grades immediately below those covered by the Review Body's remit - should not be settled until the outcome of the Review Body's report was known. The results of pay research for the Assistant Secretaries would take the maximum of their scale above the rate we now propose for Under Secretaries. In order to preserve tolerable differentials it will be necessary to set a lower scale for Assistant Secretaries from that which would result from the application of the pay research findings; there will also need to be a slight adjustment at the top end of the scale for Senior Principals.

22 I will with permission circulate in the Official Report schedules showing the current and proposed rates of salary for the main groups and grades concerned. Full details of the Government's proposals will be placed in the Library.

23 For the groups covered by the Review Body's Fourteenth Report, who have completed their staging, the rates of salary now proposed will be used for the purposes of calculating pension entitlements. For hon. Members and for Ministers and other paid office holders, pension entitlement will be calculated on the revised third stage salaries..

/ With regard



20 With regard to the remuneration of nationalised industry board members, the Review Body in its 14th Report questions the appropriateness of its role, and has suggested that the Government should reconsider its remit in this respect. The Government shares the doubts which the Review Body has expressed. We have therefore decided that this should be the last occasion on which the Review Body is asked to recommend on the remuneration of the chairmen and members of boards of nationalised industries. In future years these salaries will be determined by the Minister concerned in each case, with the approval of the Minister for the Civil Service.

25 Mr. Speaker, I am very well aware that in making the proposals which I have now described to the House, the Government will be accused of going back on commitments and breaking agreements, and of failing in its obligations to the public servants concerned, on whose hard work, loyalty and integrity society depends. But it must have regard to its wider obligation to propose what we believe to be right. In present circumstances, the Government believes that these proposals would give fair levels of remuneration to honourable Members of this House and to the public servants to whom they apply, and at the same time measure up to the needs and expectations of those to whom we in this House are answerable and who in the end have to find the money.





Ce. sent to

Chief Whip

MS

4/7

CABINET OFFICE

A handwritten signature or mark in blue ink, consisting of a series of connected loops and a final upward stroke.

With the compliments of  
Sir Robert Armstrong KCB, CVO  
*Secretary of the Cabinet*

C.A. Whitmore, Esq.

70 Whitehall, London SW1A 2AS  
Telephone: 01-233 8319



PERSONAL AND IN CONFIDENCE



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB CVO

4th July, 1980

Ref. A02523

*cc. Parliament: Members Pay: Pt 2*

The Prime Minister has asked me to write to you - with her apologies for not writing herself, but she had to leave for Scotland directly after Questions yesterday - to tell you that she is proposing to make a Statement in the House after Questions on Monday, 7th July about the Government's decisions on the pay of Members of Parliament, Ministers and other paid office holders, and the groups of public servants covered by the Top Salaries Review Body.

She asked me to let you know, on Privy Counsellor terms, that the Review Body has recommended increases of about 14½ per cent on the second and third stage salary levels recommended and accepted last year for MPs, Ministers and other paid office holders; that she will be telling the House on Monday afternoon that the Government does not think it right, in present circumstances, to accept a figure as high as that; and that accordingly the Government will invite the House to approve a Resolution increasing the second stage salary for MPs in payment since 13 June from £10,725 to £11,750 (an increase of about 9½ per cent), and the third stage due in June 1981 from £12,000 to £13,025.

The second stage salaries for Ministers and other paid office holders are not yet in payment. The Prime Minister will tell the House that the Government proposes to introduce an Order bringing into effect from 13 June 1980 the second stage salary levels recommended by the Review Body last year, increased by 5 per cent for Cabinet Ministers and the Attorney General and by 9½ per cent - as for MPs - for all other Ministers and paid office holders, including the Leader of the Opposition.

She will also tell the House that the Government is proposing a proportionate abatement of the increases recommended by the Review Body for the higher Civil Service, senior officers of the armed forces, members of the judiciary, and chairmen and members of boards of nationalised industries.

/The

The Rt. Hon. James Callaghan, MP

PERSONAL AND IN CONFIDENCE



PERSONAL AND IN CONFIDENCE

The Prime Minister would be happy for you to pass the contents of this letter, on Privy Counsellor terms, to Mr. Foot, the Opposition Chief Whip and the Chairman of the Parliamentary Labour Party.

If you would like to have a word with the Prime Minister about this on Monday morning, she would be very happy to do so; she is expecting to be in the House during the middle of the morning. In the meantime, please let me know if I can be of any help.

**ROBERT ARMSTRONG**

PERSONAL AND IN CONFIDENCE



SECRET

5

Prime Minister.

Content in view of the additional responsibility which these posts apparently now bear?

RLJ  
Svii

Ref. A02531

PRIME MINISTER

*Parliamentary  
Yes. MG.*

As instructed by the Cabinet, I have agreed revised new salary levels for the judiciary, to bring the overall increase to about 12½ per cent, and to reduce one relatively large increase (for Masters and Registrars of the Supreme Court etc.) to a reasonable level.

2. There remains one problem, which will not emerge on your statement or on the schedules attached to it, but will emerge in the detailed material placed in the Library of the House of Commons.

3. The Review Body recommended (TSRB 14, paragraph 70) an upgrading of Senior and Chief Masters and Registrars of the Supreme Court, the Master of the Court of Protection and the Registrar of the Court of Criminal Appeal to the same salary level as the Circuit Judge, on grounds of additional responsibility. The Lord Chancellor's Office would like to accept this recommendation. The effect will be that the salary increases for these three categories (a mere handful of people) will appear in the detailed list at about 17 per cent.

4. I am sending a copy of this minute to the Lord Chancellor.

*RIA*

ROBERT ARMSTRONG

4th July, 1980

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Ref. A02511

PRIME MINISTER

2

Original on:  
Parliamentary members:  
MP's pay - PTZ.

Top Salaries

(C(80) 37)

My memorandum of 2nd July fulfils the remit given to me by the Cabinet yesterday. I think it is self-explanatory, but there are one or two points to comment on.

Ministers

2. There are three questions to decide:
  - (a) What increase should Cabinet Ministers have in addition to the second stage due on 13th June 1980? This is the stuff of gesture, and very much a matter of political judgment. Would a decision by the Cabinet to deny themselves any increase be seen as a valid gesture or a political gimmick? If the Cabinet decides that Cabinet Ministers should have some increase, perhaps it should be lower than that recommended for MPs, to give additional authority to the advice to be given to them. Should it also be lower than any of the other increases for particular grades in TSRB 14? That would point to an increase of  $7\frac{1}{2}$  per cent if the Cabinet goes for the higher option for TSRB 14 groups, or 5 per cent if it goes for the lower option.
  - (b) What should the extra salary for Ministers of State and Parliamentary Secretaries in the Lords be? My memorandum proposes £4,000: a figure plucked out of the air as being about two thirds of the amount of Parliamentary salary drawn by Ministers in the Commons.
  - (c) Should the same additional salary go to Cabinet Ministers in the Lords? Cabinet Ministers in the Commons are entitled to draw about £6,000 of their Parliamentary salary in addition to their Ministerial salaries: do they want to treat their Lords colleagues less generously than Ministers of State and Parliamentary Secretaries in the Lords? I know that

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£4,000 will not make much difference to Lord Carrington and Lord Soames, but the Cabinet should ignore arguments ad hominem: it is creating a new principle, and not all Cabinet Ministers in the Lords will be men of considerable means.

- (d) Is the Cabinet content with the method of implementing the additional salary for Ministers of State and Parliamentary Secretaries in the Lords? It is the only way of implementing it, short of new legislation to amend the Ministerial Salaries Act 1975 or a Resolution of the House authorising an attendance allowance for Ministers in the Lords; but it will need careful presentation to make sure that the full increase will in fact be paid only to Ministers in the Lords.

## TSRB 14 Groups

3. The 9.6 per cent increase proposed for MPs represents a reduction of 35 per cent on the 14.6 per cent proposed by TSRB 15. If the general level of increases proposed by TSRB 14 (i.e. excluding the special additional increases for improving differentials and facilitating recruitment to the bench) is taken as 19 per cent, a reduction of 35 per cent on that produces an average increase of  $12\frac{1}{2}$  per cent, which is about half the overall increase of 25 per cent actually recommended by TSRB 14, including the special additional increases. Even the higher option will therefore be regarded by the TSRB 14 groups as less generous than what is proposed for MPs.

4. We have kept three of the four groups within an overall  $12\frac{1}{2}$  per cent, but we have gone over the top for the judges, as a conscious decision to round up rather than down in recognition of the special factors relating to the judiciary to which TSRB 14 drew attention in Chapter 4. That takes the overall increase for all four groups up to 12.8 per cent. If the Cabinet wanted to bring the overall increase for the judiciary within  $12\frac{1}{2}$  per cent, the salary rates would have to be:

|                                              | £      | %    |
|----------------------------------------------|--------|------|
| Lord Chief Justice                           | 40,000 | 8.1  |
| High Court Judge etc.                        | 31,750 | 11.4 |
| Circuit Judge etc.                           | 21,750 | 11.5 |
| Masters and Registrars of Supreme Court etc. | 20,000 | 15.9 |



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5. The 12½ per cent scale (column C) for higher civil servants and senior officers in fact gives all grades an additional £2,500 except the Deputy Secretary and equivalent, to whom it gives only £2,000. This is because we have shaped the progression of salary rates broadly to preserve the differentials recommended by TSRB 14, and they seem to have taken a deliberate decision to depress the Deputy Secretary and equivalent in relation to Permanent Secretaries and Under Secretaries:

|                               | Current Salary | TSRB 14  | Column C |
|-------------------------------|----------------|----------|----------|
| Full Permanent Secretary etc. | 28,500         | 34,000   | 31,000   |
|                               | (+6,000)       | (+7,000) | (+6,500) |
| Deputy Secretary etc.         | 22,500         | 27,000   | 24,500   |
|                               | (+4,500)       | (+3,500) | (+4,000) |
| Under Secretary etc.          | 18,000         | 23,500   | 20,500   |

6. The 9.6 per cent increase for TSRB 14 groups could be achieved only at the cost of:

- (a) setting aside pay research for Senior Principals as well as Assistant Secretaries;
- (b) severe new compression of differentials at the "interface" for all groups, extending down to Principals in the higher Civil Service (thus not only rejecting TSRB's proposals for improving differentials but actually moving in the opposite direction);
- (c) damage to judicial recruitment prospects;
- (d) charges of treating the TSRB 14 groups worse (in relation to the TSRB recommendations) than MPs and Ministers.

7. If the Cabinet reaches decisions, it will need to discuss the timing of an announcement. The sooner the better, of course; but there will be a lot to do and a lot of people to be seen (including Lord Boyle) before an announcement is made, and I do not think that it can all be done between the time of these decisions and 3.30 pm the same day. This points to an announcement on Monday.

## HANDLING

8. You may like to start by inviting the "Sponsoring" Ministers to comment on the note and the tables: first, the Chancellor of the Duchy, then the Lord President, the Secretary of State for Defence and the Lord Chancellor; and



**SECRET**

finally the nationalised industry Ministers - the Secretaries of State for Industry, Trade, Energy, Transport and Scotland. After that the Chancellor of the Exchequer could be invited to speak; and then the discussion would be open.

9. You should make sure that the sponsoring Ministers, and particularly the Lord President and the Secretary of State for Defence, tell the Cabinet how they think their clients will react to the reduced increases proposed, and what the consequences will be. These are not reasons for not going ahead; but the Cabinet should take its decisions on the basis of a full account of the implications.

**CONCLUSIONS**

10. If the Cabinet reaches decisions on the basis of one or other of the options now before it, you will wish to guide it to:

- (a) decisions on additional salaries for Ministers in the Lords;
- (b) decisions on timing of announcement;
- (c) instructions to sponsoring Ministers about advance information to representatives of the groups concerned (the National Staff Side, the Chiefs of Staff, the Lord Chief Justice, the Chairmen of nationalised industries);
- (d) instructions to the "sponsoring" Ministers to agree with the Lord President corresponding figures for the grades and posts not covered in these summary tables.

ROBERT ARMSTRONG

2nd July, 1980

**SECRET**



MR. WHITMORE

Original on: Parliament Members  
MPS Pay: Pt 2.  
cc. Mr. Lankester ✓

T.S.R.B.: Announcement Procedure

You asked me to go over the steps necessary before the Prime Minister's Statement, provisionally scheduled for Monday. There are a number of people who are entitled to prior notification on these occasions, but the only two who fall to us to handle are the Leader of the Opposition and Lord Boyle.

In my view, the Prime Minister will have to see Mr. Callaghan to tell him of the decision the Government have reached. He will presumably not only disagree but also complain about the unreality of the "consultation" if we see him on Monday and make the Statement on Monday afternoon; but there is no obvious alternative.

Given the nature of the decision we seem to be heading for, there would be much to be said for the Prime Minister seeing Lord Boyle personally. At the very least I think that she should telephone him on Monday to tell him the terms of the announcement.

The C.S.D. and sponsoring Departments will notify Sir Denis Rooke, the "shop steward" of the nationalised industry chairmen and all the other chairmen. They will also give the Staff Side a little advance notice. We can leave it to the ? cje Chief Whip to tell the minor parties, including the Liberals.

The other action which needs to be set in hand urgently is the preparation of supplementaries for the Statement, which will have to be ready for the Prime Minister's weekend box. C.S.D. are poised to start on them, but will have to wait until after tomorrow's Cabinet.

C.S.D. and Bernard Ingham can consult on the Press arrangements. C.S.D. will be responsible for the publication itself; the two Reports will be available in H.M.S.O. bookshops on Tuesday if we have the Statement on Monday.

N. J. SANDERS

2 July 1980