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80) 26th
clusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

TUESDAY 1 JULY 1980

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

Rt Hon Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

Rt Hon Lord Soames
President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

Rt Hon Norman St John-Stevas MP
Bishop of the Duchy of Lancaster

The Rt Hon John Nott MP
Secretary of State for Trade

Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

Rt Hon John Biffen MP
Chief Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

SUBJECT

TOP SALARIES REVIEW BODY REPORTS

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CABINET

LIMITED CIRCULATION ANNEX

CC(80) 26th Conclusions

Tuesday 1 July 1980 at 10.30 am

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note 4

The Cabinet considered a memorandum by the Chancellor of the Duchy of Lancaster (C(80) 33) on the recommendations in the 15th Report of the Top Salaries Review Body (TSRB 15) for new rates for the salaries and secretarial allowances of Members of Parliament (MPs), the salaries of Ministers, and Peers' expenses allowances; a note by the Secretary of the Cabinet (C(80) 32) covering the 14th Report of the TSRB on rates of salary for the higher Civil Service, senior officers of the armed forces, the higher judiciary and the chairmen and board members of nationalised industries; and a note by the Secretary of the Cabinet (C(80) 34) covering a note by officials on some options for dealing with the two TSRB reports.

THE PRIME MINISTER said that TSRB 14 recommended increases in a range from 16.2 per cent to 30.6 per cent, and averaging 25.8 per cent with effect from 1 April 1980; and TSRB 15 recommended increases for MPs of 14.6 per cent from 13 June 1980. It was necessary to consider these proposals against the background of the current rising levels of unemployment, mounting criticism of the levels of public sector pay, and the overspending by some Government Departments in the first three months of the present financial year. The Government was directly responsible for the decisions on these increases, other than those for MPs, and the outcome would influence the approach to pay negotiations later in the year in both the public and private sectors. The two TSRB reports should be looked at together and given broadly similar treatment. In reaching decisions it would be necessary to recognise the importance of preserving reasonable differentials between grades, both in the Civil Service and in the armed forces. The Government would have to be prepared to impose lower rates of pay for Assistant Secretaries than those suggested by pay research and to refuse arbitration to the Assistant Secretary grade, if that was necessary to ensure a reasonable differential between the maximum of the Assistant Secretary scale and the rate for Under Secretaries at levels which were not excessively high.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that he recommended acceptance of the full 14.6 per cent increase proposed in TSRB 15 for MPs. The Government was publicly committed to implementing the updating proposed by the TSRB, and it would be a grave step to go back on this. The Executive of the 1922 Committee and Parliamentary Labour Party believed that in principle the TSRB recommendations should be accepted. It was, however, difficult to judge what would be the reaction to the proposal of 14.6 per cent since MPs were generally expecting a recommendation in the order of 20 per cent. Given that 14.6 per cent was substantially below expectations, and below the current rate of increase in the Retail Price Index and in other comparable salaries, he believed that the Government should not go back on its undertaking in order to make further marginal reductions. The Cabinet had already agreed to implement the second stage increases due to Ministers. There was no such public commitment to uprate the salaries of Ministers as there was in the case of MPs, and it should be possible to set an example either by making no additional payments to Cabinet Ministers and a partial payment to junior Ministers or by making a small payment to the former and a larger one to the latter.

In discussion the following points were made -

- a. Since the Government had publicly undertaken to accept the outcome of TSRB 15 the economic situation had seriously deteriorated. In particular unemployment was rising sharply and there were increasing signs of economic downturn. Private sector employers were now under strong financial pressures to seek relatively small pay settlements in the next round, but their ability to do so would be weakened if the Government were seen to be giving large increases in the public services for which they had direct responsibility. In these circumstances the Government was justified in adopting a new approach, and in making clear that it could not afford settlements at the levels proposed. While it might be argued that the settlements were at the end of the present round, they would be bound to influence forthcoming pay negotiations. Unless the Government took a tough line on these groups, which had all had major increases in the last year, it could not hope to influence settlements in the next round or to persuade the country that it was showing determination in dealing with the current serious economical and social situation.

b. Single figure settlements were necessary to have the maximum impact. Nine per cent was the mid-point of the range of 7-11 per cent for the money supply target; but the Government should think in terms of an average figure with a scatter of rates between grades and groups and it would be important to avoid the appearance of a pay norm.

c. If MPs' salaries were to be increased to £11,750 that would represent an increase of 9.6 per cent. It was thought that the majority of Conservative MPs would be prepared to settle for 10-12 per cent, and might well be persuaded to accept 9.6 per cent. It would be necessary to take informal soundings before the Government put forward its recommendations as a basis for a free vote of the House. It was important that the Government's proposals should not be defeated: while a defeat could be presented as the decision of MPs, it would cause bad feeling and could have repercussions on the handling of other business in the House. Rather than invite comments on the recommendations in TSRB 15 it would be better to try to influence MPs by announcing, when TSRB 15 was published, what were the Government's decisions on the increases for Ministers and for the TSRB 14 Groups and their recommendations for MPs.

d. The recommendations in TSRB 14 were on average considerably higher than those in TSRB 15; if the groups covered by TSRB 14 were similarly brought down to an average increase of 9.6 per cent, it could be argued that they would be treated proportionately more severely than MPs. This pointed to examining the possibility of reducing the TSRB 14 recommendations pro rata with the reduction proposed for MPs, while preserving the present cash differentials between grades. This approach would involve going back on the commitment either to accept the proposed increases for the Assistant Secretary grade to £22,000 which had emerged from the Pay Research Unit (PRU) exercise or to let the Assistant Secretaries go to arbitration on that amount.

e. In the interest of simplicity there was a case for giving Cabinet Ministers the same percentage increase as other Ministers and MPs. On the other hand, it might be better for Cabinet Ministers to take no increase beyond the staging already agreed, even though this would be seen as no more than a gesture. Either way, increases up to those agreed for MPs should be allowed for junior Ministers. In addition ways should be sought of finding additional sums,

through attendance allowances or in some similar way, for junior Ministers in the House of Lords. Such Ministers received no Parliamentary salary of the kind available to their colleagues in the Commons, and their service in Government often entailed substantial sacrifice. Without assistance some of them might find it impossible to continue to serve.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Government should advise MPs to accept an increase of 9.6 per cent, giving them £11,750 from 13 June 1980, rather than 14.6 per cent as recommended in TSRB 15. It would have to be made clear that, although the Government had hitherto undertaken to accept the recommendations in TSRB 15, they now felt bound to recommend a lower rate of increase, in view of the present economic climate. The Cabinet would consider further whether Cabinet Ministers should receive an increase in line with that for MPs or something less than that. It would be necessary to give increases to junior Ministers of up to, but no more than, those offered to MPs. Further consideration should be given to the possibility of offering Ministers in the Lords an attendance allowance or some other supplement to their Ministerial salaries which would help to meet the particular problems they faced. The Cabinet did not agree that MPs' secretarial and research assistance allowances should go up by 18 per cent as proposed in TSRB 15; this increase should be reduced pro rata to the proposed reduction in MPs' salaries.

The Cabinet also agreed that the increases recommended for the four groups covered by TSRB 14 were unacceptably high. The Secretary of the Cabinet should arrange for officials to prepare a further note setting out the options for reductions. This should indicate first what would be the outcome of deflating the general level of increases recommended in TSRB 14 by the same factor - approximately 35 per cent - that was proposed for reducing the increase in MPs' salaries from 14.6 per cent to 9.6 per cent. This would make it necessary to impose a salary less than that resulting from the Pay Research Unit findings for Assistant Secretaries; but the overall increase should be modified with a view to preserving broadly the cash differentials between the grades. The table should indicate the resulting weighted average percentage increase for each of the four groups and for the four groups as a whole. The resulting average increase would inevitably be higher than the 9.6 per cent proposed for MPs. The table should also illustrate the implications of holding the overall increase in the wage bill for the TSRB groups as a whole to 9.6 per cent, while paying due regard to the preservation of appropriate differentials. Ministers recognised that this approach would mean that the Government would have to set aside the pay research results for Assistant

Secretaries and to refuse to let the Assistant Secretaries go to arbitration. For the nationalised industries the salaries emerging from this process of calculation would apply this time round. Thereafter the arrangements would be on the basis agreed by the Ministerial Committee on Economic Strategy at their meeting on 20 May. For all groups pensions would be based on salaries actually paid, except where, as in the case of MPs, the Government had already undertaken to base them on a higher amount.

The Cabinet would resume their discussion on the basis of this further report from officials. In the meantime she would, together with the Chancellor of the Duchy of Lancaster and the Chief Whip, see the Chairman of the 1922 Committee. She would explain that the Government's provisional intention would be to announce a decision on the pay of Ministers and of the groups covered by TSRB 14 at the same time as making their recommendations for the increase to apply to MPs. For the present there should be no public indication of the Government's thinking other than that useful progress was being made.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Instructed the Secretary of the Cabinet to arrange for the preparation of a further note on the lines indicated by the Prime Minister in her summing up.

Cabinet Office

2 July 1980