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CABINET

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FUTURE ARRANGEMENTS FOR SETTLING THE PAY OF MPs

Memorandum by the Chancellor of the Exchequer and the  
Lord President of the Council

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INTRODUCTION

1. We announced on 12 May our proposal to increase pay of Members of Parliament (MPs) by 4 per cent this year. This proposal will need to be debated by the House of Commons which has the final decision on MPs' pay. The recommendations of the report of the Select Committee on Members' salaries are certain to be referred to in the debate. We ought therefore to be in a position to give the Government's response to these recommendations and to put our own proposals for dealing with MPs' pay in future years.

2. The recommendations of the Select Committee were that:

i. Reviews of Members' pay and allowances should be conducted by the Top Salaries Review Body (TSRB) once during the fourth year of each Parliament with a view to that Parliament taking a decision on the recommendations. When shortened Parliaments preclude this timetable, a new review should be undertaken not later than four years after the rates of salary consequent on the previous review first became payable.

ii. At the same time as decisions on the findings of the review are taken, the House should agree to the annual automatic interim adjustment of salaries between reviews by reference to increases in the nearest percentile in the Department of Employment's New Earnings Survey. Such adjustments should take place in November, the first after an interval of at least one year.

PERIODIC REVIEWS BY THE TSRB

3. The first of these recommendations does not pose any serious difficulty. Periodic reviews by an independent body are the most satisfactory way of settling the level of MPs' pay which would be acceptable to both the House of

Commons and the Government. Alternatives are likely to involve a greater role for the Government, to which the House would not agree, or a greater role for the House itself, which would be less publicly defensible and would be difficult for us to endorse. The TSRB has the experience to undertake such reviews; there would be no advantage in setting up another body. If the system is to work we will have to be prepared to implement the TSRB's recommendations save in the most exceptional circumstances. This will be made easier by their relative infrequency.

4. On timing, a review once every four years seems about right. The Select Committee's preference for the review to take place in the fourth year of each Parliament could in practice be difficult to arrange, because of the uncertainty over the length of Parliaments. However, for tactical reasons, we should not reject more of the Select Committee's recommendations than we have to. As it happens, a review in time for next year's increase would take place in the fourth year of the current Parliament. There could be disadvantages in such a review: we would find it very difficult to reject its recommendations and this in turn would make it difficult to reject what the TSRB recommended for its other groups and the Doctors and Dentists Review Body for doctors and dentists. On the other hand, assuming that we succeed in making the 4 per cent stick this year, it is unlikely that the House will be ready to accept an increase below the level gained by most public servants for the third year running. The last substantive TSRB review of MPs' pay was in 1980. An attempt to update it by reference to pay movements since then would not be satisfactory. A fresh review looks therefore like the best plan. If we were to announce it now and at the same time say that we expect it to be the first of a series of four-yearly reviews, we could fairly claim to have implemented the spirit of the first of the Select Committee's proposals.

#### INCREASES BETWEEN REVIEWS

5. The Select Committee's second recommendation, for a link with the New Earnings Survey (NES) between TSRB reviews, raises much greater problems. The idea of an NES link is not original to the Select Committee. The TSRB itself has said on two occasions that, while it disagrees with any form of linkage, if it were to be introduced, an NES link would be the most satisfactory. It takes this view because it argues that a more specific form of linkage would lead to misleading comparisons between MPs and the groups to which they were linked and to undesirable political pressures entering the negotiating process for the linked groups. The Select Committee endorsed the arguments for having as wide a comparator group as possible and commented that taking one year with another it was unlikely that this would lead to markedly different increases than those for public servants generally.

6. Against this it must be said that links of this sort elsewhere in the public sector (eg for the police) have turned out to be expensive and presentationally embarrassing. The Government has been pressing for pay increases well below the levels indicated by indexation with average earnings. If MPs were permitted to have such a link, numerous other public service groups would demand the same treatment. Whatever may be the relationship between average

earnings and public sector pay in the long term, at a time when the level of settlements is declining, links with indices, which inevitably reflect what happened some time in the past, sit very uneasily with the Government's stance on the current level of settlements.

7. If we reject the NES link, we must consider what could be put in its place. There are three main options:

i. To leave the Government completely unfettered to make proposals for interim increases in the light of the circumstances at the time.

ii. To ask the TSRB to undertake annual updating reviews in the years between their major reviews.

iii. To accept the principle of linkage, but to make the link with one or more public service groups rather than an index.

8. None of these options is without disadvantages. The first two involve a rejection of the principle of linkage. Although, like the TSRB, we have consistently expressed our doubts about linkage, in agreeing to set up the Select Committee we went some way to accepting it in a limited form. We would have difficulty in carrying the House with us if we were now to reject it completely.

9. The first option, which is what has been done this year, would be the most satisfactory from the Government's point of view but it is highly unlikely to be acceptable to the House of Commons as a permanent arrangement. The second is in effect a return to the arrangements we had until this year. It was because we felt unable to implement the TSRB's 1980 recommendations that the Select Committee was set up in the first place. There is little advantage in returning to this system.

10. The third option is one that we indicated to the Select Committee that we would be willing to consider. However it has serious difficulties. A link with a single public service group would mean that MPs' pay would become an issue in the negotiations for that group. For example, if the four yearly review by TSRB recommended a large increase for MPs, the linked group would use this as an argument for large increases for itself. Furthermore such a link would give MPs a direct financial interest in the pay of the group concerned. These difficulties would be less serious if the link were with a basket of public service groups. But MPs' pay would then be increased by the average increase for the groups in the basket and such an average would tend to be seen as the norm or going rate for the public services for the year in question. Some public service groups would inevitably receive less than this average and would tend to feel badly treated as a consequence. These feelings would colour their attitude to their next pay claim.

11. If we do go for a link with a basket, it could consist of the following groups:

- a. Non-industrial Civil Service
- b. National Health Service (NHS) doctors and dentists
- c. NHS nurses and midwives
- d. NHS administrative and clerical staff
- e. Primary and secondary teachers (England and Wales)

12. The increase for MPs would be the average, weighted by numbers in the groups, of the increase in basic pay for each of these groups as a whole. Although basic pay seems the most suitable measure for most occasions, we need to recognise that there are times when it increases by more than the increase in earnings and is not the figure that is publicised as the level of the settlement. All the groups in the basket have settlement dates of 1 April. MPs' pay is adjusted with effect from 13 June but the necessary resolution can be retrospective and can therefore be passed somewhat later. This leaves the groups in the basket a reasonable time in which to settle. However if one claim were still in dispute in July, the latest official side offer could be used to obtain the average for the basket. Unusual settlements, such as those which were staged, would have to be dealt with ad hoc.

13. The Select Committee favoured an automatic link, that is one which would operate in the years between TSRB reviews without any action by either the House or the Government being required. This would leave us with relatively little control in the event of unforeseen circumstances. We would prefer to proceed as at present with a Government motion each year on MPs' pay on which the House would vote.

14. Even if we conclude that we are driven towards some form of linkage and that an NES link would be unsatisfactory, there are arguments against going firm on a basket link at this stage. The method of determining the pay of two of the groups in the basket - nurses and civil servants - is still under consideration. It might be better to wait and see what transpires in these cases before we link MPs to them. One option would be to tell the House that we accepted the need for a TSRB review for next year (and every four years thereafter), did not agree with an NES link but felt that the decision about the best method of interim adjustment could best wait until we had the results of the first review when arrangements elsewhere in the public services would be clearer. However the House might suspect that we were attempting to shelve the linkage issue indefinitely and react accordingly.

NEXT STEPS

15. We will need to communicate our proposals to the House of Commons. The most suitable occasion will be the debate on the increase in MPs' pay this year. It is not absolutely necessary for us to table a Motion on future arrangements. We could simply announce our conclusions orally. However it is doubtful whether the House would consider it satisfactory if it did not have a Motion before it on which it could express a view. Furthermore it is highly likely that there will be an opposition or backbench Motion in favour of an NES link. The easiest way to counter this would be to have a Motion of our own. The terms of that Motion will depend on what we decide about the method of determining increases between TSRB reviews. However if we propose linkage to a basket and the House votes in favour of it, we must recognise that we could not lightly set aside the arrangement in future years.

MINISTERS' PAY, MPs' SECRETARIAL ALLOWANCE AND PEERS' EXPENSES

16. The pay of Ministers, MPs' Secretarial and Research Assistance Allowance and the Peers' Expenses Allowance are normally increased at the same time as MPs' pay. It would be essential to ask TSRB to continue to review these payments when it reviews MPs' pay. Between TSRB reviews we propose that we deal with them on an ad hoc basis. It is unlikely that there will be much objection to treating Ministers' pay or Peers' expenses in this way but we might come under pressure to provide a link for the secretarial allowance.

RECOMMENDATIONS

17. We accordingly invite colleagues to agree that we should:
- a. Accept the proposal by the Select Committee that TSRB should carry out a review of MPs' salaries and allowances in the fourth year of each Parliament and ask TSRB to undertake the first of these reviews in time for next year.
  - b. Accept the principle, as proposed by the Select Committee, of annual automatic adjustments of salaries between such reviews.
  - c. Reject the Select Committee's proposed use of NES as a means of determining such annual interim adjustments, but suggest instead a link with a basket of comparators as described in paragraph 11 above.
  - d. Agree that, notwithstanding the Select Committee's preference for automaticity, all annual increases in pay so arrived at should remain, as at present, subject to approval in each case by the House of Commons.
  - e. Seek the approval of the House of Commons for the Government's proposals by introducing a suitable Motion for approval in the course of the forthcoming debate on MPs' pay.

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f. Ask TSRB, at the same time as it reviews MPs' pay, to review Ministers' pay, MPs' secretarial allowance and the Peers' expenses allowance.

GH  
JB

Treasury Chambers

20 May 1982

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