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PRIME MINISTER

TSRB REPORT ON PARLIAMENTARY PAY AND ALLOWANCES

I have seen the Lord Privy Seal's minute to you of 24 June which we are to discuss tomorrow.

2. I confirm what the Lord Privy Seal says about the costs of the TSRB proposals for both MPs and Ministers. But I have reservations on some of his detailed suggestions.

3. On allowances other than pensions, I am prepared to accept what is proposed, although this is relatively costly (£5½-£6 million per annum) and could give rise to some controversy. I am anxious, however, that control over allowances should be tightened as the TSRB recommend, and I hope we shall be able to insist on this, unpopular though it may be with some MPs. The money spent by both Houses of Parliament is one of the least satisfactorily controlled areas of public expenditure and I shall be taking this up in the near future.

4. On pensions, the Lord Privy Seal suggests adopting the TSRB recommendations of a 1/50th accrual rate combined with an 8 per cent contribution rate. I am prepared to accept the new accrual rate. But in my view the contribution rate should be higher than 8 per cent. While there is no actuarially "right" way of demonstrating what the figures should be, we must take account of our general policy of increasing employee contributions to reach, in the words of the Manifesto, "realistic pension contributions". The general run of civil servants pay 8 per cent for a 1/60th accruals scheme, actuarially worth 20 per cent. Since the MPs' scheme is actuarially worth 22 per cent, I believe they should pay at least 9 per cent. If we were to accept 8 per cent for MPs, it would make it much more difficult to bring the other public service schemes even up to the Civil Service level, thus putting at risk several hundred million pounds of public expenditure.



5. On pay itself, I am not happy with the Lord Privy Seal's staging proposal. It seems to me only just to square with your remarks before the Election about the unacceptability of the TSRB recommendations - staging in effect accepts that the recommendations are right but comes to them gradually. Moreover, as Annex B to the Lord Privy Seal's minute makes clear, we could be storing up for ourselves an annual problem as each year MPs appear to get above average increases.

6. In an ideal world, my own preference would be to accept the £19,000 proposed but to make it clear that we would expect that figure to last for the whole Parliament, with no interim increases. This would help to show the public that they must stop thinking in terms of annual pay increases and demonstrate our confidence that inflation is under control. However, I am not sure that this approach would be consistent with our reply last year to the Select Committee on Members' Salaries when we accepted the Committee's recommendations in broad terms but proposed that annual increases should be guided by the average change in the rates of pay for appropriate groups in the public service. Once we move away from the figure the TSRB have recommended, there is no obviously "right" alternative. On the assumption that we are looking for a significantly lower increase than that proposed by the TSRB, I am inclined simply to split the difference between their recommendation and the current position. This would produce a figure of £16,750 which we would expect to uprate annually in the way we described to the Select Committee. It would represent an increase on current rates of 15.4 per cent, which, if coupled with a pension contribution rate of 9 per cent, would give an effective increase of 14.4 per cent.

7. I believe the Resolutions we table should be those which we wish to see implemented. The House may reject them but I think it is our job to make our own views clear from the start.

8. Finally, the Lord Privy Seal has suggested that we should tie up the question of Ministerial salaries with whatever decisions are taken on MPs' pay and allowances. Clearly the two issues are related but I am not convinced that it is necessarily right to adopt exactly the same treatment for Ministers as for MPs.



9. We could simply decide to increase Ministers' salaries (including the Parliamentary salary component) by the same percentage as we recommend for MPs. This would be in line with your statement before the Election that Cabinet could not accept the TSRB recommendations as they stood. But a straight percentage increase across the board would preserve the existing differentials between junior and senior Ministers. The TSRB have proposed that the current differentials should be widened. I take the opposite view. The problem at present does not seem to lie in persuading Ministers to join the ranks of the Cabinet but in finding able Members who are prepared to take on junior Ministerial posts, with the loss of income this often entails.

10. I therefore wonder whether we might consider making no increase at all in the salaries of Ministers, qua Ministers, but awarding Ministers in the Commons a rather larger proportion of the backbench MP's pay than they get at present. Ministers in the Lords could be given an annual allowance which would reflect the special demands of Ministerial work. Such a scheme would narrow differentials by ensuring that the largest percentage rises went to the most junior Ministers and the increases could be constrained to produce much the same average percentage rise in total Ministerial salaries as we recommend for MPs.

11. If you and other colleagues think this proposal worth pursuing, officials can produce the detailed figures in light of the decision we take on MPs' salaries.

12. I am copying this minute to the Lord President, the Lord Privy Seal, the Lord Chancellor, the Secretary of State for Defence, the Secretary of State for Employment, the Chief Whip and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.' with a small flourish at the end.

(N.L.)

29 June 1983