



*Parliament  
members* JK

10 DOWNING STREET

*From the Private Secretary*

20 April 1982

CONFIDENTIAL AND PERSONAL

*Dear John,*

MPs' PAY

The Prime Minister discussed this morning the questions on MPs' pay raised in the Lord President's minute to her of 29 March and in the Chancellor's minute on the same subject of 31 March. The Chancellor of the Exchequer, the Home Secretary, the Lord President, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment and the Chief Whip were present.

The Lord President said that there were two issues to consider. The first was the 1982 settlement for MPs' pay; in June it would be twelve months since MPs' last pay increase. The second issue was the report of the Select Committee on Members' Salaries, and in particular their recommendation that between TSRB Reviews MPs' pay should be annually adjusted by reference to increases in the nearest percentile in the Department of Employment's New Earnings Survey (NES). The Lord President said that an announcement by the Government that they did not accept the Select Committee's recommendation on linking with the NES would, if it were unaccompanied by any positive statement about the Government's intentions, inflame opinion in the House. There was at present little interest in the House in the report. In these circumstances it seemed better to allow matters to rest, since he believed that many Members on both sides would, when it came to it, wish the conclusions of the report to be accepted. He would, accordingly, prefer to postpone any debate and any conclusion on this second issue until later in the summer.

In discussion it was argued that there were two reasons for the Government to take an early opportunity of making it clear that indexation of MP's pay was not acceptable:

- (i) it would be inconsistent with <sup>policy in</sup> the public services generally, where the Government was arguing for pay increases well below the levels that would be indicated by indexation, on the basis of market factors and affordability;

/ (ii)

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CONFIDENTIAL AND PERSONAL

- (ii) and it would make it very much harder to extricate the employers from indexation arrangements already in place and under review in the police and fire services.

It was further argued that there was a case for a rapid announcement of the Government's view, both as to this year's pay increase and towards the proposed NES link. Arguably, MPs should get an increase of less than 4 per cent, given that many civil servants were being offered no increase at all. So far as the NES link was concerned, this was a clearly inflationary proposal: indeed, by choosing the NES, the Select Committee had opted for the most expensive form of index-linking, and one which was particularly inappropriate for those whose pay increases could not be offset by increased productivity. Against this, it was argued that if a proposal for linkage came to a vote, the House would almost certainly vote in favour. Given the undesirability of this in relation to pay policy generally, the best course would be to put off for as long as possible the moment at which the matter came to any vote. There was an argument for simultaneously rejecting the NES link, and proposing instead a link with a particular Civil Service grade. But there were considerable problems about the point at which to make the linkage. A link with the Assistant Secretary grade in the Civil Service would mean an immediate hike in MPs' pay. On the other hand a link with the Principal grade would probably be unacceptable to many MPs. It would be better, as Mr. Pym had indicated in his evidence to the Select Committee, to devise a linkage to a basket of public sector posts, which might include the Civil Service, so as to avoid adding a new and unwelcome political dimension to Civil Service pay determination.

Summing up, the Prime Minister said that it was agreed that the Treasury should soon bring forward proposals to Cabinet on MPs' pay for 1982. They should also later bring forward proposals for responding to the Select Committee's report, encompassing the idea of a basket of public sector posts as a link point for MPs in the longer term. The aim would be to concentrate attention on the 1982 pay issue, and to deal with the Select Committee's report in a longer time scale. Meanwhile, if Ministers were asked, they should make it plain that the Government had not accepted the Select Committee's recommendations and, in particular, that they had strong reservations about the link with the NES. If it proved necessary to put proposals before Parliament to override the Civil Service arbitrator or the teachers' pay arbitrator, it would probably be necessary positively to reject the link proposal.

I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Lord President, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, and the Chief Whip, and to David Wright (Cabinet Office).

*Yours sincerely,*

*Michael Scholar*

John Kerr, Esq.,  
HM Treasury.



DRAFT LETTER FROM MICHAEL SCHOLAR TO JOHN KERR

CONFIDENTIAL AND PERSONAL

b.c. JV

MPs Pay

The Prime Minister discussed this morning the questions on  
MPs' pay raised in the Lord President's Minute<sup>to her</sup> of 29 March  
and in the Chancellor's minute on the same subject of 31 March.  
~~In addition to~~ The Chancellor of the Exchequer, the Home Secretary,  
the Lord President, the Chancellor of the Duchy of Lancaster,  
the Secretary of State for Employment and the Chief Whip were  
present.

The Lord President said that there were two issues to  
consider. The first was the <sup>1982</sup> settlement <sup>for</sup> of MPs' pay in 1982;  
~~given that~~ in June it would be twelve months since MPs' last pay  
increase. The second issue was the report of the Select <sup>(the proposed)</sup>  
Committee, and in particular their recommendation that <sup>between TSRB Reviews</sup> MPs' pay  
<sup>annually adjusted by reference to increases in the nearest percentile in the Department of Employment's</sup>  
should be ~~linked to the~~ New Earnings Survey (NES). The Lord President  
said that an announcement by the Government that they did not  
accept the Select Committee's recommendation on linking with  
the ~~new~~ NES would, if it were <sup>unaccompanied</sup> ~~unaccompanied~~ by any positive statement  
about the Government's intentions, inflame opinion in the House.  
He believed that many Members on both sides would <sup>when it came to it,</sup> wish the  
conclusions of the report to be accepted. He would <sup>accordingly,</sup> prefer to  
postpone any debate and any conclusion on <sup>this second issue</sup> the ~~matter~~ until  
later in the summer.

TAKE IN NEW PARA ON P3.

~~In discussion,~~ It was <sup>further</sup> argued that there was a case for a  
rapid announcement of the Government's view, both as to this year's

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m Members Salaries

There was at present little interest in the House in the report. In these circumstances it seemed better to allow matters to rest, since



~~There was a case~~ Arguably, MPs should get an increase of less than 4% given that many Civil servants were

NES - 2 - being offered no increase at all. So far as the linkage was concerned, this was a clearly inflationary proposal: indeed, by choosing the NES, the Select Committee had opted for the

most expensive form of pay increase - say, a maximum of 4 per cent - and towards the proposed linkage. Against this, it was argued that if a proposal

for linkage came to a vote, the House would almost certainly vote in favour. Given the undesirability of this in relation to pay policy generally, the best course would be to put off for as long as possible the moment at which the matter came to any

vote. There were, however, considerable problems about the point at which to make the linkage. A link with the Assistant Secretary grade in the Civil Service would mean an immediate hike in MPs' pay. On the other hand a link with the Principal

grade would probably be unacceptable to many MPs. It would be better, as Dwyer had indicated in his evidence to the Select Committee, to ease for devising a linkage to a basket of public sector posts, including one from the Civil Service, so as to avoid adding a new and unwholesome political dimension to Civil Service pay determination.

Summing up, the Prime Minister said that it was agreed that the Treasury should bring forward proposals to Cabinet soon on MPs' pay for 1982. They should also, perhaps later, bring forward proposals for responding to the Select Committee's report, encompassing the idea of a basket of public sector posts as a link point for MPs in the longer term. The aim would be to concentrate attention on the 1982 pay issue, and to deal with the Select Committee's report on a longer time scale.

Meanwhile, if Ministers were asked, they should make it plain that the Government had not accepted the Select Committee's recommendations and, in particular, any relation to a link with the NES. If it proved necessary to put proposals

before Parliament to override the Civil Service arbitrator or the teachers' pay arbitrator, it would probably be necessary to take a firmer stance on this. reject the link proposal.

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There was an argument simultaneously for rejecting the NES link, and proposing instead a link with a particular civil service grade. But.

linking and one which was particularly inappropriate for those whose pay increases could not be offset by increased productivity.

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New para 3 :

In discussion it was argued that there were two reasons for the Government to take an early opportunity of making it clear that indexation of R.P. pay was not acceptable:

- (i) for the public service generally, <sup>where</sup> the Government was arguing for ~~the~~ pay increases will below the levels that would be indicated by indexation, on the basis of market factors and affordability;
- (ii) and it would make it very much harder to extricate the employers from indexation arrangements already in place and under review in the police and fire services.

It would be inconsistent with



~~for 12.15 meeting~~

Prime Minister

Parliament  
Members

PRIME MINISTER

X is relevant  
to Monday's meeting.

cc: Mr. Hoskyns  
Mr. Ingham

MUS 16/4

MPs PAY

*mt*

If your schedule tomorrow permits, I hope it will be possible for the meeting on MPs pay planned after Cabinet to take place - it can be short: but one decision really is needed which may be important in the wider context of public sector pay.

+ That is the need for an early statement that, whatever arrangements will be made for MPs pay as a result of the Select Committee's report, they are certainly not going to include indexation in any form. Indexation would tend to link MPs to that part of the private sector with larger than average pay rises, and to earnings rather than reported settlements: the effect would be a substantial upward pressure on public sector pay generally, which would be bound to be imitated elsewhere.

The difficult, but less urgent, issues of longer term pay determination arrangements for MPs, as well as the issue of whether MPs and Ministers should get a pay rise at all this year, can certainly wait until after Easter - and preferably until the dust has settled from the rest of this pay round, i.e. late summer.

*J.*

5 April 1982





10 DOWNING STREET

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Prime Minister

MPS pay

Meeting arranged for Tues 6 April.

Lord President, Chief Whip,

Chief Secretary (Chancellor in

Wales), Home Secretary, Cecil

Parkinson + John Verker.

Agree to add Norman

Tebbit ?

Yes not

MCS 1/4

Mike

He will be in  
Brussels - es.