

# **Review of Parliamentary Pay and Pensions**

**by Sir John Baker CBE**





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**Presented to Parliament by the Prime Minister  
by Command of Her Majesty**

**June 2008**

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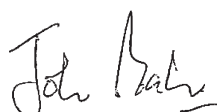
## Foreword

1. Parliament is sovereign and MPs rightly guard that sovereignty on behalf of us all as citizens. Hitherto, MPs have regarded determining their own pay and expenses (allowances) as an essential aspect of their exercise of sovereignty. But times have changed: very few people are able to set their own pay and expenses, and the practice of MPs doing so has properly been questioned, inside and outside the House of Commons.
2. MPs' pay is a highly sensitive issue. It receives substantial attention in the media and is accorded great significance politically. That has created an environment in which it has been difficult for the Government and MPs to reach decisions on MPs' pay. I have found, in the course of discussions with MPs, an increasing acceptance that they should not be determining their own terms and conditions and a desire for an independent, objective alternative.
3. In conjunction with a debate on MPs' pay in the House of Commons on 24 January 2008 in response to the Senior Salaries Review Body report on parliamentary pay, pensions and allowances<sup>1</sup>, the Government announced that it had asked me to review the options for determining MPs' remuneration and to identify an independent mechanism for doing so in future. Given the conflicting political and practical considerations, I did not underestimate the difficulty of the task but I believe it is something which needs to be done, not least to protect the reputation of the Commons, and I set out in this report what I see as the issues, the options and my recommended way forward.
4. There is never a good time to make changes to MPs' pay. The electoral timing may be wrong; public sector pay policy may argue against it; or the public mood may be unsympathetic. But unless there is a willingness to address this issue it will remain a problem for Parliament and individual MPs. The current position is:
  - there is a legacy of decisions taken for various reasons in the past that creates difficulty today, particularly where there has been some inflation of allowances to try to make up for restrictions on pay;
  - MPs have sometimes found it embarrassing to vote for independently proposed pay rises in full, with the result that their pay has fallen below what it would otherwise have been or what the evidence suggests it should now be. So there is a problem of catch-up;
  - the Government, in pursuing a wider public sector pay policy, finds it difficult to accept pay increases for MPs that have the appearance of being inconsistent with that policy; and
  - media reporting of MPs' remuneration is often misleading and exacerbates the difficulty of dealing with the issues.
5. Despite those difficulties, it is important for Parliament and ultimately the good governance of the country, that a sound and enduring basis for MPs' remuneration should be established in order to ensure a continuing flow of good candidates to stand for election, and that is what I try to provide, within the limits of my terms of reference, in this report. (I do not deal with MPs' allowances or Ministerial pay.) I aim to provide a solution that is independent, objective, robust and removes the need for MPs to vote on their own pay.

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<sup>1</sup> <http://www.ome.uk.com/downloads/Review%20of%20Parliamentary%20pay%202007%20volume%201.pdf>

6. For this to be achieved, certain conditions need to be satisfied:
  - MPs will need to be assured that the new system is objective, fair and sustainable; that it is overseen by an Independent Body; and it is immune from control or intervention by the Government;
  - the Government has a legitimate interest in pursuing a public sector pay policy that covers MPs as well as others. It needs to avoid misleading claims about MPs' pay being used to argue for higher pay increases elsewhere. This poses problems of communication and understanding, particularly about the difference between settlements and earnings which I describe in the report; and
  - public concern about MPs' ability to derive financial advantage from their expenses needs to be allayed. Although it is not part of my terms of reference, I am firmly of the view that consideration of pay and expenses should be brought back within the ambit of one Independent Body. Without a single body with an overview of both pay and expenses, the risks of future trade off and confusion between the two will remain.
7. It is not possible in this report to resolve all the issues around parliamentary pay and allowances that have accumulated over the years. The proposals I put forward will, however, provide a basis for determining MPs' pay that is fair to them and to the tax payer, as well as taking account of the Government's approach to public sector pay. They will protect MPs from continued relative decline in their pay, without enriching them. And, if there is agreement it should do so, the involvement of the Independent Body will enable the adjustments needed between allowances as they currently are and pay to be worked out over time.
8. My principal recommendation is for MPs' pay to be increased each year in line with the previous year's increase in public sector average earnings, to keep MPs' pay in line with the earnings of public sector workers generally. There are concerns that, because the link is to earnings, not settlements, it may give the impression that MPs are receiving a more generous pay award than the public sector as a whole. This cannot be the case since the link is to the average increase in public sector earnings that has already occurred, but I understand the concern about how increases in MPs' pay may be (mis)represented. I have set out a mechanism for dealing with this concern by realigning MPs' pay periodically. I do not favour this option, not least because political considerations at the start of a new Parliament will always be liable to make a relatively large catch-up increase in MPs' pay unacceptable. It is, however, there should Parliament wish to adopt it.
9. In addition, I recommend three annual uplifts of £650 to put MPs' pay at what the evidence suggests is the right starting level. The first uplift should take effect from 1 April 2008, with the second in 2009 and the third in 2010.
10. It will be for the House of Commons to decide on its response to my recommendations. It has an opportunity to begin to move on from the continual, damaging debate about MPs' pay and allowances. How it responds will have a significant impact on the climate surrounding this issue and on the calibre of the people who decide in future to enter – and remain – in Parliament. That in turn will determine the quality of the House of Commons itself.
11. I carry sole responsibility for this report, but I am most grateful to the Office of Manpower Economics for their assistance in its preparation.



30 May 2008

# Main Report

## Introduction and background

1. In July 2006, the Prime Minister asked the Senior Salaries Review Body (SSRB) to review the pay, annual uprating mechanism and aspects of pensions and allowances of MPs, Ministers and office holders in both the House of Commons and House of Lords. The SSRB submitted its report<sup>2</sup> to the Prime Minister in July 2007; the Government subsequently published it in January 2008.
2. The SSRB report made 34 recommendations (listed in Appendix 1 of this report). It found that MPs' pay was below that of a range of comparators in both the public and private sectors. It recommended that the MPs' salary be increased by a total of 2.56 per cent in 2007-08 (including the 0.66 per cent increase which had already taken place), and that between 2008-09 to 2010-11 the salary then be increased by the same percentage as the average percentage increase in the base salary of the Senior Civil Service (SCS) with an additional increase of £650 a year in order to close part of the gap between the pay of MPs and the average pay of the public sector comparators identified by PricewaterhouseCoopers (PwC) in the SSRB report. (Following a job evaluation exercise, PwC had identified six public sector comparators<sup>3</sup> and calculated that MPs' total reward, taking account of pension, was about 10 per cent lower than the average of that of the comparators.)
3. In the light of the wider public sector pay environment, the Government urged MPs to stage the increase for 2007-08, with the effect that MPs received a total increase of 1.9 per cent in that year, but their salary at the beginning of 2008-09 was £61,820, as recommended by the SSRB.
4. The Government proposed, and the House agreed, that it should not take decisions on any of the SSRB's other pay-related proposals such as the proposed additional increase of £650 a year for three years. The House also decided to refer most of the SSRB's proposals on expenses to the Members Estimate Committee and the SSRB's recommendations on the pay of Ministers and other office holders were not dealt with at all.
5. The SSRB report had noted the views of some MPs that they should not vote on their own pay and the report suggested ways in which this could be achieved. When the Government published the SSRB's report in January 2008, it asked me to conduct this review of MPs' pay and pensions (but not of expenses, nor of the pay of Ministers and other office holders) and make recommendations by the end of May 2008 for a new mechanism and comparator which would be independent of MPs and would remove the requirement for MPs to vote on their own pay and pensions. My terms of reference are set out in Appendix 2 of this report.

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<sup>2</sup> <http://www.ome.uk.com/downloads/Review%20of%20Parliamentary%20pay%202007%20volume%201.pdf>

<sup>3</sup> The six were: a police chief superintendent; a colonel or equivalent in the armed forces; a pay band 1 senior civil servant; a level 2 local authority executive; the headmaster of a medium-sized secondary school; and an executive director of an NHS trust – see paragraph 38 below.

## General principles

6. It is important to keep in mind the purpose of this exercise. It has not been prompted by a widespread view that MPs are underpaid or overpaid (although both views, often strongly held, exist), but by a general concern, shared by many though certainly not all MPs, that it is wrong in principle that MPs should set their own pay. Consequently, my most important objective is to develop and recommend a mechanism for setting MPs' pay which is independent, robust, fair, easy to understand and impossible to subvert. If such a system can be accepted by the House of Commons, this will create the opportunity for mature review, discussion and consideration of the issues affecting MPs' pay and pensions in the years ahead.
7. At present, there are 646 members of Parliament, of whom around 475 receive the basic salary alone (certain parliamentary office holders such as Committee chairmen, as well as Ministers, receive more to reflect their extra responsibility). MPs are not a homogeneous group: some, including Ministers, have significant extra duties to perform in addition to their role as MPs, some have significant additional earnings, some have personal wealth, and many neither. The hours worked by individual MPs differ considerably as do the ways they do the job; it is not practical, nor do I think it appropriate, to adjust salaries to reflect these differences. MPs' pay has to be set as if there were an 'average' MP and with such a uniform approach there will be some who believe MPs' remuneration is too high, and some that it is too low. My aim is to achieve an approach which is fair, on balance, both to the 'average' MP and to the taxpayer, and any fair system needs to be based as far as possible on facts.
8. I am also mindful that pay is not just about being fair to the incumbent MPs. It is also about finding an appropriate level of remuneration that will continue to attract people of quality and with a mix of backgrounds, experiences and skills to be future Parliamentarians. Several MPs are concerned that the current level of pay risks attracting only two main groups of people – young public sector workers for whom £60,000 seems a lot of money, and older professionals who have made a lot of money already and for whom pay is a secondary issue. They believe that pay is starting to deter professionals in 'mid-career', to the detriment of the skill base of the House. This certainly merits further analysis and consideration.
9. In conducting this review I have kept to the principles<sup>4</sup> on pay set out in the last SSRB report, as I still feel that these principles are valid:
  - pay should not be so low as to deter suitable candidates, nor so high as to make pay the primary attraction of the job;
  - pay should reflect levels of responsibility rather than workload. (Some find this concept hard to grasp, especially if they work long hours. But MPs can choose to some extent how much time and effort to devote to casework. They can employ staff, paid by the House authorities, to ease their personal workload);
  - whereas those with outside interests should not be deterred from entering Parliament, those who choose to make Parliament a full-time career should be adequately rewarded to reflect their responsibilities;
  - pay should not be augmented in an attempt to compensate MPs for job insecurity, which is not unique to MPs;
  - the value of an MP's pension should be taken into account when comparing the remuneration of MPs with that of other workers;

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<sup>4</sup> Similar principles were announced by the Committee on Standards in Public Life on 10 April 2008  
[http://www.public-standards.gov.uk/news/10\\_04\\_08.aspx](http://www.public-standards.gov.uk/news/10_04_08.aspx)

- the basic parliamentary salary should continue to be the same for all MPs (i.e. irrespective of the size and shape of their constituency or whether their constituency is in a country where, under devolution, other elected representatives have taken responsibilities from Westminster MPs);
  - there should be no pay progression linked to length of service (this has been the traditional view of MPs themselves, but it is noticeable that some now believe there should be time-related increments as one way of addressing what they see as the low current level of MPs' pay and I return to this in paragraph 70 below); and
  - a clear distinction must be made between salary and reimbursement of expenses. (Journalists are often guilty of lumping salary and expenses together to present a grossly distorted version of what MPs are actually paid. Whipping up public prejudice in this way makes it more difficult to take a rational approach to MPs' pay.)
10. I now add a further and, in my view, fundamental principle: that **if MPs are prepared to relinquish their control over their salaries, then the Government also has to forgo any possibility of directly seeking to intervene in the process** (although it can obviously still provide views or evidence). A system in which the Government retained the means to override independent recommendations would not deserve the support and trust of MPs or the public.

## Evidence

11. The timescale for this report was extremely tight. Nevertheless, I have been able to solicit sufficient responses to a consultation document<sup>5</sup> I prepared to believe that I have assembled a sound evidence base for my recommendations. In reaching my recommendations I have met the Speaker and representatives at all levels of the three largest parties. I have also met the Prime Minister and other members of the Cabinet who set out the Government's concerns about the possible signals sent by MPs' pay and the effects on public sector pay policy and expenditure. I have considered the debate on Members' pay in the House on 24 January, and drawn upon the significant amount of research conducted for and reflected in the 2007 SSRB report. I have examined how other countries address the issue of parliamentary pay. I am, of course, also aware of much media commentary on the subject of MPs' pay and allowances. In the time available, I have not been able to conduct my own public opinion research.

### *Evidence from Parliamentarians*

12. As is to be expected, MPs hold a wide range of strong opinions on what to do about their pay:
- some believe that the whole matter should continue to be left to Parliament;
  - some believe that MPs are considerably underpaid but treated to allowances that are too generous or contentious, and that this can be easily remedied by abolishing the Additional Costs Allowance<sup>6</sup>, leaving MPs to finance all their (non-office) accommodation costs, but increasing MPs' pay commensurately;

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<sup>5</sup> The consultation ran for a month and closed on 11 April 2008. The consultation document was available on the OME website and announced in a written ministerial statement to the House of Commons by the Leader of the House on 18 March (<http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080318/wmstext/80318m0002.htm#08031857000022>). In addition it was publicised via the Press Association newswire and picked up by a number of national newspapers.

<sup>6</sup> The Additional Costs Allowance is paid to reimburse MPs for necessary costs incurred when staying overnight away from their main home for the purpose of performing parliamentary duties. The maximum that can be claimed is currently £24,006 a year. Inner London Members do not receive this allowance.

- some, though not many, think that their current pay is adequate for what they do;
  - rather more consider it inadequate, in greater or lesser degree, for the long hours they work; and
  - most MPs sense their pay has fallen in recent years relative to other public sector workers – they tend to quote Head Teachers, Chief Executives of Local Authorities, GPs and Police Superintendents as their ‘equals’ – though job evaluation carried out for the SSRB tends to suggest that some MPs overestimate their own job weight.
13. I did, however, find a large degree of consensus, both amongst individual MPs and their representative groups:
- most MPs seem to agree that the time has come to cease to exercise their powers to determine their own pay and to rely wholly on determinations made by an independent mechanism overseen by a third party Independent Body;
  - these MPs also see as a prerequisite for relinquishing their own authority that Government must also be unable to intervene in the process. I found widespread dissatisfaction on all the back benches with the way the Government had dealt with the last SSRB report;
  - most are supportive of the work done by the SSRB, and supportive in particular of its opinion that MPs are somewhat underpaid but that the allowance and expenses regime needs tightening up. They consider that the SSRB is best placed to assume the role of the Independent Body that would regulate MPs’ pay, and they would like to see its authority enshrined in legislation so that while a future Parliament could exercise parliamentary sovereignty to take back control of their pay, it would take legislation to unpick the existing arrangements;
  - most see the need for a mechanism that would uprate pay annually and put an end to the systematic erosion of their pay compared to other public sector employees that has occurred in recent years. While several ‘pet mechanisms’ have been proposed, the key demand is that whatever is chosen should be readily understandable by constituents and the public, simple, immune to tampering and authoritative; and
  - on what to do about pay for the current year, the majority of MPs had modest expectations but they wanted to see an early implementation of the uplifts proposed in the last SSRB report.

*Memorandum from Sir Stuart Bell MP, Nick Harvey MP and Rt Hon David Maclean MP*

14. I was pleased to receive a memorandum, yet to be published, from Sir Stuart Bell MP, Nick Harvey MP and Rt Hon David Maclean MP. They are members of the Members Estimate Committee but their memorandum was sent on their own behalf and not from the Committee. The memorandum addresses three issues: the starting point, i.e. what the MPs’ salary should be now; the uprating mechanism; and an Independent Body to carry out occasional reviews.
15. On the starting point, the memorandum discusses the working hours of MPs, pressures on them and their belief that in many cases their earnings would have been higher if they had continued in previous occupations instead of becoming MPs. The memorandum agrees that the public sector comparators identified by PwC for the SSRB report (see paragraph 2 above) are correct, but it argues that the SSRB was wrong to suggest that MPs should be paid less than the average of the comparators. (The SSRB

report said “there are some non-financial benefits of being an MP ... which go some way to compensating for a lower salary and which help to ensure that there is little or no difficulty in recruiting sufficient suitable candidates to stand for election”.) The memorandum draws attention to the risk of narrowing the base from which MPs are drawn. It argues that the MPs’ salary should be increased by £650 a year (the figure proposed by the SSRB) above indexation for three years, with a final increase to £75,000 to take effect immediately after the next general election.

16. On the uprating mechanism, the memorandum discusses various options, identifies the problems in a linkage to settlements rather than earnings, and similarly in indexation by prices, and concludes that the best mechanism would be the Public Sector Average Earnings Index published by the Office for National Statistics.
17. The memorandum recognises that occasional reviews will be necessary, probably once a Parliament or every four years, and there should be a wholly Independent Body to carry out such reviews, which should be triggered by Parliament itself, not the Government.

### *Evidence from the Government*

18. I received a memorandum from the Government dealing with four issues: the starting point for MPs’ pay; the comparator, by which the Government means what I have termed the uprating mechanism; the review mechanism, i.e. what I call the Independent Body; and pensions.
19. The Government proposes that the new arrangements for setting MPs’ pay “should be sustainable, and have the effect that, in future, MPs would not be required to vote on their own pay; that Government would no longer be involved in the decision making process; and that the revised system must carry the confidence of the public and the House”.
20. On the starting point for MPs’ pay, the Government argues that it did not accept the SSRB’s proposals for a staged increase totalling £1,950 in addition to annual uprating, because of Government public sector pay policy and its approach to other groups of public sector employees. The memorandum states that on 24 January the House of Commons concurred with the Government’s view by accepting without amendment the motions tabled by the Government. Therefore **the Government believes that the current level of MPs’ pay should be adopted as the base line** for future annual uprating beginning with effect from April 2008.
21. On the comparator or uprating mechanism, the Government’s memorandum discusses the options of linkage to earnings, to headline pay settlements, to a specific group such as the SCS or to a basket of workforce groups. It argues that, “given the signalling position of MPs”, linkage to an earnings index would have the potential seriously to undermine the Government’s approach to public sector pay policy. Instead **the Government proposes that MPs’ pay should be uprated annually by the increase in the paybill per head of the SCS.**
22. On the review mechanism or Independent Body, the Government commends the New Zealand model whereby an independent Remuneration Authority determines MPs’ salaries and allowances annually on the basis of job evaluation and comparison across the public and private sectors (see Appendix 3). The memorandum recommends that **the linkage mechanism should be reviewed by an Independent Body from time to time but not more than once each Parliament.** The Government says it would not expect to be able to overrule the recommendations stemming from such reviews.

23. Finally, on pensions the Government notes that it is likely that a review of the Parliamentary Contributory Pension Fund will soon take place, as recommended by the SSRB, because the underlying Exchequer contribution to the Fund is likely to reach 20 per cent of the paybill. The memorandum states that pensions were included in the terms of reference for this review only so that any pensions consequences of the recommendations on pay could be considered. The Government therefore proposes that I should not consider any change to the pension scheme.

## International comparisons

24. I asked the Office of Manpower Economics secretariat to research different international mechanisms for setting the pay of Parliamentarians and their resulting experiences. A summary of the findings from thirteen different countries is at Appendix 3.
25. There is clearly no international consensus on the approach to setting pay and most mechanisms have arisen out of the differing expectations and circumstances in particular countries. A range of mechanisms is employed, including automatic indexation, automatic or moderated links to comparators, and determinations or recommendations by an independent review body. Some countries require their Parliamentarians to vote on their own pay, some allow them to do so (e.g. to reject a proposed increase flowing from an index or linkage) and in some countries Parliamentarians have no involvement in the process. It is noteworthy that in Germany, where the constitution requires members of the Bundestag (lower chamber) to determine their own pay, there has been controversy about Parliamentarians' pay, pensions and allowances while I was compiling this report. The coalition Government proposed an increase in the salaries of members of the Bundestag in line with increases for certain civil servants but this was dropped in the face of popular opposition and reluctance on the part of the members themselves to be seen to receive further increases at a time of economic difficulty. There have been calls for a change to the constitution to allow an independent mechanism for determining the pay of Bundestag members. The political problems of setting MPs' pay, allowances and pensions are strikingly similar in Germany and the UK.
26. I do not believe there are any ready-made solutions to be drawn from this evidence and I find it significant that few MPs with whom I have had contact in the course of this review have made reference to practice in other countries.

## Argument and conclusions

27. There are three main elements to identifying a new independent mechanism for determining MPs' pay:
- an uprating mechanism that will adjust pay automatically (either annually or at some other interval);
  - an Independent Body which can, as the SSRB has done from time to time, review whether MPs' pay remains adequate for the job and recruitment and retention, in line with suitable public sector comparators and appropriate in the light of any changes to the role and responsibilities of MPs. The Independent Body would also monitor the working of the uprating mechanism and change it if it ceased to be appropriate. Crucially, the Independent Body's recommendations on MPs' pay would be determining and not advisory. It would be for the House authorities to implement them without intervention by the House itself or the Government of the day; and
  - fixing the pay level for MPs as at 1 April 2008 as the base level for the uprating mechanism to kick in.

## **Need for and role of an Independent Body**

28. Whatever the uprating mechanism, there will be a need for an effective Independent Body to:
- take into account changing circumstances in the work of Parliamentarians – for example the role of MPs, the number of MPs or the implications of constitutional reform;
  - review the effectiveness and impact of the uprating mechanism;
  - monitor what is happening to public and private sector pay, determine from time to time by job weight analysis what the appropriate comparators are and if necessary to reset the level of the MPs' salary to which the uprating mechanism would continue to apply between reviews;
  - monitor the Parties' assessments of the quality of those putting themselves forward as candidates;
  - deal with any ad hoc issues as they arise, such as the creation of new office-holder posts;
  - review the value of MPs' pensions to establish the worth of MPs' total remuneration; and
  - take an overview of the total remuneration package and its interaction with the allowances/expenses regime.
29. It would be possible either to establish a new organisation to take on the role of the Independent Body or to give that role to an existing body. I have found strong support for the SSRB to continue to fill the role of the Independent Body overseeing MPs' remuneration. Originally known as the Top Salaries Review Body, it has been making recommendations on MPs' pay, pensions and allowances since 1971; it deals with the salaries of senior members of the judiciary, senior military officers and senior civil servants and has recently taken on responsibility for recommendations on the pay of certain senior NHS executives, thus providing a context for considering the pay of MPs. Nobody has identified to me any other existing body which appears to me to be suitably independent and qualified. I therefore recommend that the SSRB should exercise this strengthened role, serviced by the Office of Manpower Economics.
30. I have also found broad support for putting the Independent Body on a statutory basis so as to give greater authority to its work and make it more difficult for a future Government or Parliament to unpick the arrangements. I discuss this possibility in paragraph 55 below, together with the other practicalities such as the Independent Body's terms of reference, membership, appointment of members, and how it would need to interact with Parliament.
31. With the appropriate uprating mechanism in place, the Independent Body would normally not need to carry out reviews frequently. I suggest it should conduct a review in the first year of each Parliament provided that is at least two years after the previous review. MPs themselves should be able to mandate a review if they believed circumstances warranted it outside the normal rhythm.

## **Uprating mechanism**

32. The second key feature of a new system for MPs' pay is an uprating mechanism that will adjust MPs' pay between reviews without need for intervention by Parliament, Government or the Independent Body. It will need to keep MPs' pay broadly in line with external comparators. Some of the key criteria which should be applied to the uprating mechanism are that:

- it must be easy to understand, independent and authoritative, transparent and not capable of manipulation;
  - it should be sustainable over a number of Parliaments; no pay system lasts forever but what is wanted is stability, not constant up-rooting;
  - it should be based on pay comparators and not price comparators. Pay should be driven by issues such as job content, labour markets, recruitment and retention, not inflation. There is no case for linking pay to CPI, RPI or any other price index;
  - it should reflect movements in earnings and not settlements. This is a crucial point. For most employees, earnings rise faster than wage settlements. In the public sector pay scales are normally increased once a year as a 'settlement', but many employees will also receive increments, performance pay or bonuses that result in their individual total pay increasing by more than the percentage increase of the settlement. It has accordingly been the long-term pattern in the UK that earnings per head increase on average by 1–2 per cent more than settlement levels each year. Thus today settlements in the whole economy are typically around the 3 per cent level while earnings growth is nearer to 4 per cent. It is the earnings index which shows how employees' pay has actually increased, not settlements, which are only part of the story. However, MPs are paid a single, spot rate, with no increments for length of service, no performance pay or bonus, and no progression up a pay spine. Therefore, if MPs' pay were to be linked only to other people's settlements and not adjusted to take account of the increase in earnings that those other people received, their pay would systematically fall behind that of their comparators and earnings growth in the economy as a whole, eroding their pay in relative terms; and
  - it should be linked in some form to the public sector. The SSRB has noted that the MPs' role is essentially public sector in nature. Furthermore, I am required by my terms of reference to ensure that the mechanism takes account of public sector pay policy and that could not be achieved by a mechanism based on private sector earnings growth or growth in the economy as a whole.
33. I have considered a range of options for uprating mechanisms that meet the criteria; some of these are discussed in more detail in Appendix 6. There are three main options which I consider here, within the main report. These are a continuing link to the Senior Civil Service (SCS); a link to a basket of comparators; and indexation.
34. **Possible link to the civil service:** MPs' pay has been linked to that of the civil service in the past. A link to the old Senior Principal/Grade 6 level of the civil service broke down after 1995 when pay and grading below the SCS were delegated to departments rather than being determined centrally, and there was no longer a single, specific reference point. (This illustrates one of the problems inherent in trying to link MPs' pay to that of a single comparator.) Subsequently the system which applied until January 2008 (and still applies by virtue of legislation to Ministerial and certain other salaries) linked MPs' pay to movement in the mid-points of the SCS pay bands. This has produced erratic and unsatisfactory results in recent years because the introduction of performance-related pay and bonuses in the SCS has meant it is no longer necessary to adjust the bottom and top of the pay ranges in parallel each year. Consequently the increases generated by this formula for the last two years have been 0.66 and 0.28 per cent only.
35. The 2007 SSRB report recommended a different linkage to the SCS, namely that MPs' pay be uprated by the average percentage increase in SCS base salary. That would have been an earnings link, since the average pay is affected by performance related increases

as well as settlements. It is also influenced by the numbers joining and retiring from the SCS, and by their relative salaries.

36. In its evidence to me the Government proposed a new linkage, namely that the MPs' salary should increase by the same percentage as the paybill per head increase of the SCS. The memorandum also stated that "a link based on 'new money' in the SCS pay system would provide the best approach; specifically this should include increase to the SCS bonus pot but not 'recyclables'". ('Recyclables' are net savings in the paybill resulting from higher paid leavers being replaced by lower paid joiners while the pay of those remaining in post increases by less than the difference between the pay of the leavers and joiners.) However, 'new money' is not necessarily the same as the change in paybill per head. The latter may change as a result of changes in the composition of the SCS (more senior members and fewer junior would lead to an increase in the paybill per head; replacing internally promoted SCS with externally recruited people on higher salaries would have the same effect). The Government has recently proposed that there should be 7 per cent of 'new money' for the SCS paybill over the next three years. If its proposal to link MPs' pay to the SCS were accepted, then by definition MPs' pay would also increase by 7 per cent over the next three years. In other words, by determining the SCS increase the Government would also be setting MPs' pay. It is hard to see how such a system meets the Government's own proposition "that Government would no longer be involved in the decision making process; and that the revised system must carry the confidence of ... the House" (paragraph 6 of the Government's memorandum). Moreover, the Government's proposed formula would almost certainly mean that MPs' pay fell behind that of the public sector generally and of staff in post in the SCS, who will benefit from pay progression and the effect of the recyclables which the Government would specifically exclude for MPs.
37. Having considered the matter further, I no longer believe that any linkage to the SCS would be a sound, independent mechanism because:
- the Government will continue to determine SCS pay (since the SSRB only makes recommendations and the Government is free to stage, abate or reject those recommendations and has done so, most recently in 2007-08). If MPs' increases were linked to the SCS, then the Government would effectively determine MPs' increases in setting the SCS pay increase;
  - a fundamental review of the SCS workforce and reward strategy is being conducted by Sir David Normington and could recommend significant changes to the SCS pay and grading system with (unintended) knock-on consequences for MPs' pay if it were linked to that of the SCS; and
  - there are many ways in which the increase in SCS pay can be calculated and structured, and the Government would be able to choose its preferred method. In addition, the paybill per head could be affected by changes in composition, for example by an increase in the proportion of junior posts, and this would have unintended consequences for MPs' pay.

Thus it is clear that **linkage to the SCS does not satisfy the criteria of independence, transparency, simplicity or freedom from risk of manipulation** and would be unsuitable as an automatic uprating mechanism.

38. **Basket of comparators:** In its periodic reviews of MPs' pay, the SSRB has employed consultants to assess the work of MPs in terms of job weight, skills required, judgement needed and other criteria, and then to identify other public sector jobs of similar weight. In the SSRB's most recent exercise, these were identified as:

- Head teacher – L31
- Police Chief Superintendent – pay point 3
- SCS Grade 1
- County Council, 2nd Tier
- Armed Forces – Colonel
- Health – HR Directors and similar

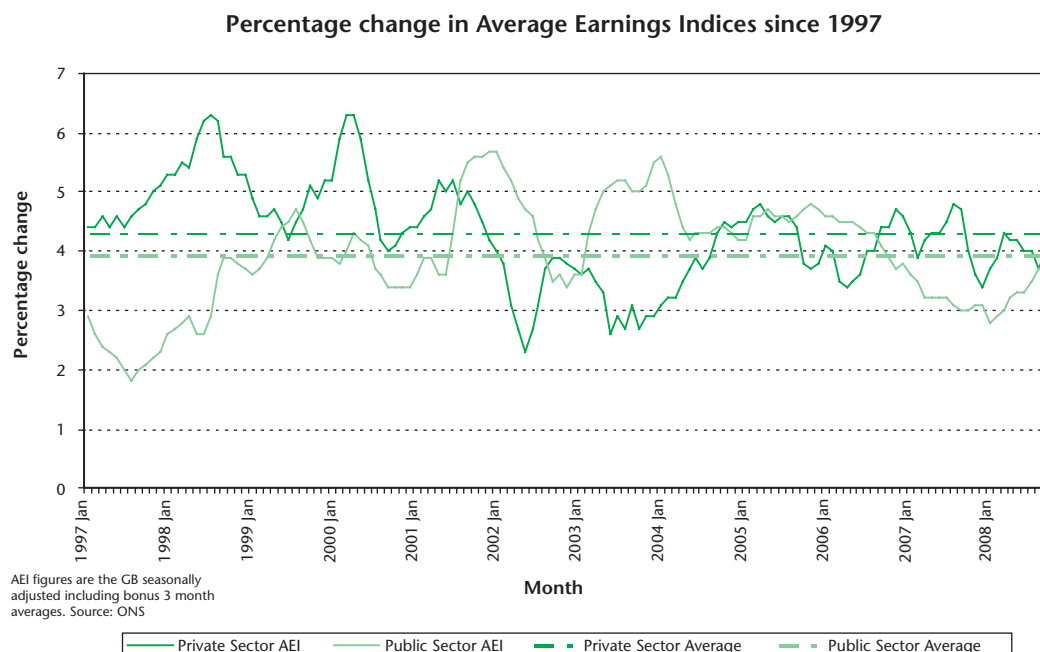
The SSRB was then able to compare the salaries of MPs with those in this basket of comparators, and it was from this analysis that the SSRB concluded that MPs' total remuneration (pay and value of pension) was some 10 per cent less than that of comparable public servants.

39. There are practical obstacles to the use of such a basket for an automatic uprating system. The Government directly controls the pay of at least four of the comparators. There is no official, independently produced means of tracking pay of the comparators in the basket. It would require a special exercise every year to collect the data and make the calculation. Even where the comparators are very precisely specified, as in the case of the last SSRB review, calculating their annual increases is not necessarily straightforward and may depend on assumptions, e.g. about the amount of performance pay received. Moreover, the relatively small size of such a basket means that specific factors affecting one of the comparators, for example restructuring of the pay system<sup>7</sup> or increases to address specific problems of recruitment and retention, would affect MPs' pay, despite not being relevant to them. As the memorandum from Sir Stuart Bell MP, Nick Harvey MP and Rt Hon David Maclean MP put it: "A specially constructed basket of jobs could lead to accusations of special pleading or worse. Transparency would suffer." Again I **conclude that an approach to uprating based on a basket of comparators cannot satisfy the criteria set out in paragraph 32 above.**
40. **Indexation:** The third main option is to use a readily available, independent index such as the Average Earnings Index (AEI) which measures the monthly change in the average earnings of employees. It is calculated from the Office for National Statistics' Monthly Wages and Salary Survey, a representative survey of 8,400 employers drawn from across the economy, and is respected as methodologically sound and authoritative. The Office for National Statistics (ONS) is now independent of Ministers and overseen by the UK Statistics Authority.
41. Such an indicator is essentially a 'big basket' and is more stable than a small selected basket of comparators. It is:
- large enough not to be disproportionately distorted by changes in one grade or profession;
  - an accurate record of what has been happening to pay, since it always works on actual events, not on forecasts; and
  - simple, robust, tamper-proof and readily understandable.

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<sup>7</sup> The SCS provides a clear example. In its research for the SSRB, PwC identified a member of the SCS Pay Band 1 paid at 90 per cent of the point in the range known as the Progression Target Rate (PTR) as one comparator of MPs. (The PTR is the point in the pay range, currently some 37 per cent above the minimum, which represents the normal maximum pay for most staff in that range.) The Government has hitherto set the PTR for Pay Band 1 at a level significantly lower than recommended by the SSRB but now proposes to abolish it, as it has already done for Pay Bands 2 and 3. Thus one of the reference points in the 'basket' used in the last SSRB review is likely to disappear only a year later.

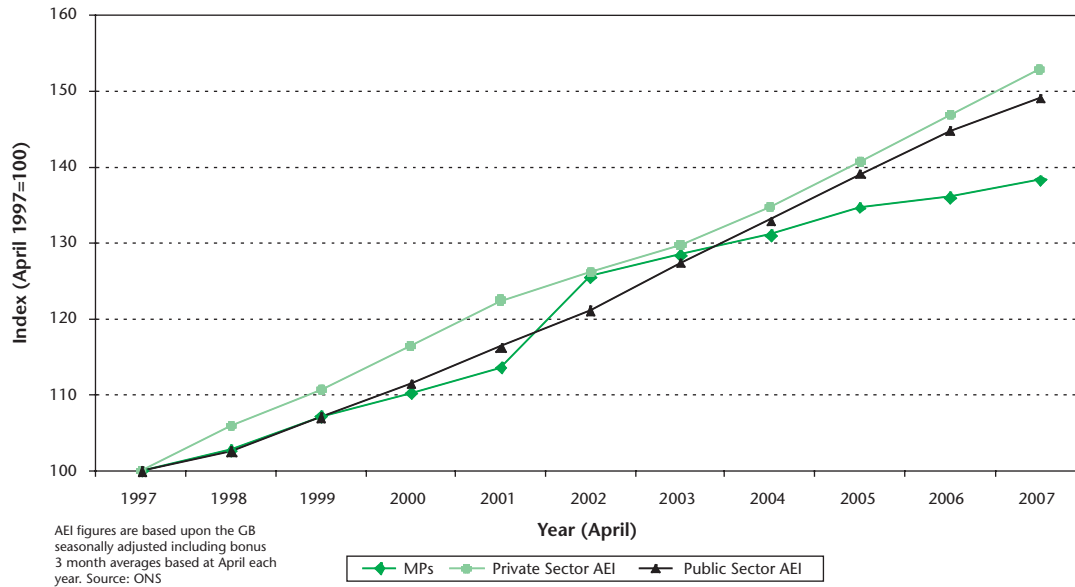
42. The ONS publishes average earnings indices each month. As well as the index covering the whole economy, the ONS produces separate private and public sector indices. The chart below shows the relationship between these measures since 1997.



43. The role of an MP is quintessentially a public sector post and my terms of reference require me to ensure any mechanism takes into account the public sector pay environment. This points to the Public Sector AEI (PSAEI) as the best link for adjusting MPs' pay to ensure that it moves in line with what has already actually happened to pay in the rest of the public sector. By definition, linking MPs' pay to the PSAEI would mean that once a year MPs received a percentage increase in pay equal to that already received by other public sector workers in the preceding year. There would be no basis for other workers or their negotiators to argue that they should receive a settlement at the same percentage level for the coming year since, as I have explained, there is usually a difference between settlements and earnings increases, and MPs would merely be catching up with the latter. MPs could explain to their constituents that their pay increases represent the actual earnings increases already enjoyed on average by nurses, teachers, civil servants, local authority workers and other employee groups in the public sector. And since these other public sector earnings increases will have already reflected the impact of Government pay policies for the public sector, MPs' pay will reflect the outcome of those policies, albeit with a short time lag.
44. In 2007 the SSRB's consultants, PwC, recommended that the PSAEI be used to uprate MPs' pay<sup>8</sup> and pointed to some of the problems that would be caused by an attempt to link MPs' pay to settlements. At that time the SSRB was reluctant to follow PwC's advice, but on reflection I believe PwC were right and, as I explain above, a new linkage to the SCS as previously proposed by the SSRB would not satisfy the test of independence that is fundamental to any new system for determining MPs' pay. MPs (and Ministers) are a special case, because of what they do, the fact that they are paid a spot rate and the exceptional media scrutiny on their pay. The graph below shows how MPs' pay has increased more slowly than average earnings in both the private and public sectors since 1997. If MPs' salaries had been uprated by the PSAEI from 1997, following the increases totalling nearly 30 per cent in 1996, then they would be nearly 8 per cent higher than they are now. Indexation would have resulted in a smaller increase for MPs in 2002 than actually occurred (over 6.3 per cent), but would also have prevented the relative decline in MPs' pay compared to that of other workers since 2003.

<sup>8</sup> Review Body on Senior Salaries Report No. 64 Volume 2, Cm 7270-2, January 2008.

### Index of MPs' pay versus the Average Earnings Indices since 1997



45. As with other indices, the PSAEI tends to fluctuate through the year, but this can be smoothed to some extent by using the three month average calculated by the ONS. If the PSAEI were to be used on an annual basis to uprate MPs' pay, the month that has the lowest variance historically between years is January, and so I recommend that the PSAEI three month average (ONS series LNNE) for January, published in March, be used to uprate MPs' salaries from 1 April of each year.
46. I am sure, having considered and discussed the options extensively, that this is the best solution. It meets all the criteria in paragraph 32 above and I believe that, if implemented, it would be likely to last for many years. However, I also recognise that it has presentational difficulties for both the Government and MPs themselves:
- Other public sector workers may argue that it is unfair if MPs' pay is automatically indexed to earnings while they have to negotiate, often against a background of policies aimed at constraining inflation and public spending increases. Clearly MPs are not in a position to negotiate their pay, and I believe MPs genuinely are a special case for reasons I have explained. But many people may resist that proposition and the Government accordingly fears that indexation of MPs' pay could give rise to pressure for higher settlements from other groups of public sector employees. Such pressure could not be justified: by definition, indexation to the PSAEI will ensure that MPs' pay moves in line with that of the average public sector worker, but with a short lag, and could not move ahead of the average increase in public sector pay. Nevertheless the Independent Body should have in its terms of reference a requirement to review and, if necessary, replace the uprating mechanism in the event that, against expectations, evidence emerges to show that a different mechanism would be more appropriate.
  - In pay negotiations, attention is normally focussed on settlement levels – the 'headline' increase – not on what is happening to earnings. Indexation to earnings for MPs will result in 'headline' increases which **appear** to be higher than other groups' 'headline' settlements, particularly at a time when the Government is pressing for low increases in public sector pay. As explained in paragraph 32 above, earnings tend to rise faster than the level of settlements because most workers have some element of pay progression through increments, performance pay etc., none of which applies to MPs. **In reality**, MPs will not be getting a better deal.

- Indexation could be said to mean that MPs benefit from other workers' productivity increases and rising skill levels without having to improve themselves. However, this is true of the public sector generally. As the chart in paragraph 42 shows, in the longer term pay increases at much the same rate in the public and private sectors. If the public sector fell significantly behind the private sector, it would find it hard to recruit and retain workers. In other words, public sector workers share in the increase in productivity across the economy. Why should MPs be excluded from this?

My response to all these and other arguments against indexation has been to examine whether there was any alternative which achieved the objectives of removing the need for MPs to vote on their own pay, removing Government from involvement in setting MPs' pay and preventing their pay from falling behind that of the rest of the workforce year by year. The only possibility I can think of is to entrust the Independent Body with reviewing and adjusting MPs' pay each year, but I suspect the result would be virtually identical since the obvious evidence such a body would rely on would be what had happened to other public sector workers' earnings in the preceding year. In other words, either MPs' pay is adjusted in line with the rest of the public sector or it falls behind. If the latter, then there will from time to time be a need for catch-up increases, which will always be politically difficult and risk public opprobrium. My clear recommendation is for indexation despite its possible presentational problems. However, given that it is highly desirable in my view for MPs to take this opportunity to remove themselves from determining their own pay, I offer two further options at the end of this report. In my view both have disadvantages compared to my preferred option, but I put them forward for consideration in recognition that MPs' judgment of the political and presentational pros and cons of each option may differ from mine.

### **Pay for 2008-09**

47. The third element of the system is to set the level of pay to apply to MPs as from 1 April 2008, the pay of MPs having been fixed at £61,820 with effect from 1 November 2007 by resolution of the House on 24 January 2008. There are, broadly, three choices:
- to apply the uprating mechanism to the MPs' salary as it was on 31 March 2008;
  - to take account of the evidence and recommendations in the most recent SSRB report on MPs' pay, and to augment the salary by the further modest increases recommended by the SSRB. Most of the MPs to whom I have spoken have expressed support for this approach; or
  - to increase the pay to some other, higher level. Many MPs have argued in evidence to me for a significantly higher salary, on the grounds of workload and what they believe to be the comparators they identify. The memorandum from Sir Stuart Bell MP, Nick Harvey MP and Rt Hon David Maclean MP argued a case for £75,000 based on evidence similar to that available to the SSRB, while others have suggested that the salary should be £100,000 or more.
48. From my contacts with MPs during the course of this review, my impression is that many of them do not consider that they decided in January to leave the starting point for their pay at £61,820 and forgo the staged increases recommended by the SSRB. Rather, they believed they were postponing any decision pending the outcome of this review.

49. In terms of pulling a number out of the air, my own prejudices are no better (or worse) than the next person's. Fortunately I am able to draw upon the evidence provided by the SSRB, which is the best and latest available. Broadly, the evidence shows that MPs' total remuneration is some 10 per cent lower than that paid to credible public sector comparators (chosen on a job-weight basis). The SSRB, taking account of public sector pay policy considerations, concerns about the interaction between MPs' pay and allowances, and other relevant considerations, recommended that MPs' pay should be more closely aligned with that of the comparators but that the increases should be phased over the three years 2008-10 at a rate of £650 per year. It also recommended a further review at the end of that period to check whether its recommendations had been effective in moving MPs' total remuneration closer to the average of appropriate public sector comparators. (It is important to bear in mind that the appropriate comparators may change over time. MPs' relative job weight may change, for example as a consequence of devolution. Similarly the comparators' job weights may change. Head teachers' job weight has almost certainly increased in recent years as their financial management responsibility has increased. It is therefore not possible to peg MPs' pay permanently to that of a fixed group of comparators.)
50. The SSRB's approach still seems to me to be sound: it was based on evidence and took account of Government pay policy. To ignore the SSRB's evidence and recommendations would be to deny MPs progress towards an appropriate salary for the job and, in effect, to punish MPs in terms of both current income and subsequent pensions. On the other hand, to advance MPs' pay even further than recommended by the SSRB cannot, in my view, be justified in the current climate of public sector pay restraint, nor does the evidence suggest it is necessary.
51. I therefore recommend that the MPs' salary with effect from 1 April 2008 should be £64,634. This is the current salary of £61,820 plus 3.5 per cent (the annual increase in the three month average Public Sector Average Earnings Index (ONS series LNNE) in January) plus £650. The MPs' salary should increase again by the PSAEI annual percentage increase plus £650 on 1 April 2009 and 1 April 2010. Thereafter the salary should be increased each year simply by the PSAEI annual percentage increase unless the Independent Body determines differently following a review.

## Procedure

52. In my consultation document I stated that it was "easier to proceed by way of a 'gentleman's agreement', i.e. a resolution, rather than primary legislation". I still believe this to be the case. However, the point has been made to me by a number of people that the new mechanism and body need to be as independent as possible in order to encourage confidence amongst MPs and the public, and that the most favourable method of achieving this is through legislation.
53. In the first instance, I believe my recommendations could be implemented by the House of Commons passing a resolution to the effect that:
- with effect from 1 April 2008 the MPs' salary will be £64,634 (as explained in paragraph 51 above);
  - unless, in a particular year, the SSRB makes a different determination, then the MPs' salary will in future be increased on 1 April each year by the increase in the January PSAEI (three month average, ONS series LNNE), plus an additional amount of £650 in each of 2009 and 2010;
  - the SSRB is to review MPs' pay:
    - in the first year of each Parliament unless a general election takes place less than two years since the SSRB last completed a review, or

- when requested to do so by the House of Commons.

The purpose of such a review is to determine whether total reward is adequate for recruitment and retention, appropriate for the responsibilities and reasonable in relation to total reward for jobs of similar weight elsewhere in the public sector. The SSRB's recommendations on pay will be automatically implemented;

- the SSRB is also to keep MPs' pensions under review, having regard to total reward of MPs and similarly weighted comparator jobs in the public sector, and is to pass its recommendations to the Government and the Trustees of the Parliamentary Contributory Pension Fund for them to consider jointly. (I deal with pensions in paragraph 63 below.)

54. In order to give effect to such a resolution, the Government would have to table the necessary parallel money resolution. (This is because, under Commons procedure, proposals to give effect to the spending of public money in this way may be tabled only by the Government.) In theory the Government could refuse to do so but I understand that such an attempt to thwart the will of the Commons is thought to be unprecedented in recent times. Once these resolutions had been passed, there would be no need for further authority. The resolutions would remain in force until the House decided otherwise.

### Legislative basis for the Independent Body

55. It would be a relatively simple matter to legislate to create a new Independent Body to determine MPs' pay, although inevitably it would take some time to do so. However, as I set out in paragraph 29 above, I have found support for the view that the SSRB should continue to have responsibility for MPs' pay, pensions and, I believe, allowances. If this is accepted, the question then becomes whether to give legislative backing to the SSRB.
56. The SSRB (originally known as the Top Salaries Review Body) has existed since 1971. Its chairman and members are appointed by the Prime Minister following a recruitment procedure now supervised by the Office of the Commissioner for Public Appointments (OCPA). The Government sets its terms of reference. These arrangements have developed over time and the SSRB operates, and is maintained by Government, through a system of custom and practice.
57. This informal arrangement has worked well and has advantages, not least flexibility, for example to add to or amend the groups covered by the SSRB or to change the terms of reference to take account of new legislation or policy. SSRB members place great importance on their independence. Nevertheless, it would be understandable if MPs were reluctant to cede control of their own pay to a body which is created, appointed and subject to terms of reference dictated by the Government.
58. It is possible and, I think, preferable that such reluctance could be overcome by **the Government giving clear undertakings to maintain the SSRB's independence and to allow the SSRB's determinations in relation to MPs to be applied automatically.** For example, the Government could undertake that:
- the terms of appointment of SSRB members will make clear their independence;
  - the advertising of vacancies and selection of members will continue to be supervised by the Office of the Commissioner for Public Appointments;
  - the Government will continue to provide sufficient resources and independent support staff for the SSRB to carry out its functions properly; and
  - the Government will consult the House before any change to the SSRB's terms of reference in relation to MPs.

If this could be achieved to MPs' satisfaction, it would be a simple solution and need not await a suitable legislative vehicle.

59. Alternatively, the SSRB's independence could be anchored in legislation. This would be more complicated, not least because it might well be necessary to legislate for all of the SSRB's activities, not just those relating to MPs. If there were to be such legislation, then I believe certain safeguards should be built in, notably to guarantee the SSRB's independence, to require it to consult effectively with Parliament when considering parliamentary matters and to enable it to continue to work through sub-committees. Its terms of reference could also be placed in legislation although neither of the existing statutory review bodies has statutory terms of reference. Of the six pay review bodies which currently exist, two have a statutory basis: the Prison Service Pay Review Body and the School Teachers' Review Body. The former is established by a single section in primary legislation, with the detail of appointments, funding etc. in a statutory instrument. I think it should be possible to follow this model for the SSRB. However, given that MPs may well wish to have the opportunity to debate and amend legislation that affects them directly, it may be better to have more in primary legislation, since secondary legislation cannot be amended during its parliamentary passage, but only approved or rejected. In the time available to me I have not been able to do more than sketch out the structure I have in mind but I hope that the outlines are clear.
60. I have considered and consulted on whether extra members or 'active observers' with special knowledge of the Commons should be added to the SSRB when it is dealing with MPs' issues. However, I have concluded that this is neither necessary nor practical. The independent SSRB should be trustworthy in itself. It would be wrong for MPs to be directly involved since that would undermine the principle that they should not set their own pay and could cast doubt on the SSRB's independence. Instead, therefore, the SSRB should continue and develop its practice of consulting thoroughly when carrying out reviews and this should be included in its terms of reference. (I set out in Appendix 5 suggested amendments to the SSRB's terms of reference.) During the last review the SSRB wrote to all MPs inviting written views and held several days of oral hearings, as well as meeting the Advisory Panel on Members' Allowances on several occasions as its thinking developed.
61. If my proposals for the SSRB are accepted, I would look to the House of Commons to ensure that it has a suitable standing mechanism to channel representative views of MPs to the SSRB when periodic reviews are conducted.
62. The pay of Ministers and office holders in both Houses of Parliament is outside the terms of this review but I note that it was covered by the SSRB's last report on parliamentary pay, pensions and allowances. I hope the SSRB's recommendations will not be forgotten and I believe it should continue to deal with the pay of Ministers and office holders. I understand that office holders in the House of Commons such as Select Committee Chairmen and members of the Chairmen's Panel who receive additions to the basic MPs' salary have their pay increased by the same percentage as MPs without such offices, and this should continue.

## **Pensions**

63. The issue of pensions is more complicated than pay and I cannot recommend an automatic mechanism for dealing with pensions. The 2007 SSRB report made a number of recommendations:
- that Parliamentary Contributory Pension Fund (PCPF) members with retained benefits should be allowed to opt for a 1/60th accrual rate in return for reduced contributions to be calculated by the Government Actuary's Department, with any additional costs being met by the Exchequer;

- that any increase or decrease in the cost of accrual for MPs in service in the PCPF should be shared equally between the Exchequer and members. The SSRB considered the following to be some of the elements excluded from the cost of accrual:
  - payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund;
  - changes to allow members with retained benefits to opt for a 1/60th accrual rate (i.e. the consequence of Recommendation 6); and
  - changes to the assumptions about the investment return on assets;
- that the Exchequer contribution to the cost of accrual of benefits for MPs in service in the PCPF (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) should in principle be limited to 20 per cent of the payroll of scheme members; and
- that if it becomes likely that, unless action is taken, the Exchequer contribution to the cost of accrual of benefits for MPs in service in the PCPF (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) would rise above 20 per cent of payroll, then there should be a major review of the Fund.

It is difficult to envisage an automatic uprating mechanism or how determinations on pensions could be made under the current system given the legal responsibilities of the Trustees and the funding role of the Government. I therefore believe that the best solution would be for the Independent Body to continue to consider MPs' pension arrangements bearing in mind the unusual career pattern of MPs and the evolution of pensions in the public sector and wider economy. The Independent Body will need to examine whether features of the PCPF are necessary and justified for recruitment and retention and whether the scheme's costs and benefits are reasonable in comparison to pensions elsewhere in the public sector. It should then make recommendations to the fund Trustees and the Government. Although those recommendations could not be applied automatically, they should be regarded as compelling in principle. It would be for the Government and Trustees jointly to consider and act on them as they saw fit, with the consent of the House. However, in any event, the Independent Body must continue to take account of the value of MPs' pensions as part of total reward.

## London MPs

64. I believe that MPs representing inner London constituencies have been particularly disadvantaged by the way in which the SSRB's recommendations in its last report have been handled. MPs for outer London constituencies may choose whether to receive the (untaxed) Additional Costs Allowance (ACA) of up to £24,006 (it increased from £23,083 on 1 April 2008) or the (taxed) London supplement of £2,916 (previously £2,812). Inner London MPs automatically receive the latter and cannot claim ACA. The SSRB recommended that the London supplement be increased to £3,500 from April 2007 and then be increased in line with PSAEI. If that recommendation had been accepted, it would now be worth £3,623.
65. The SSRB recommended a further review of ACA because "this element of the expenses regime gives rise to more problems and misunderstandings, both within and outside the House, than any other" and a review would "provide an opportunity to re-examine the division of London constituencies into inner and outer zones" since that division appeared somewhat outdated and might not take account of improved public transport in London, nor of the modernisation of the Commons' sitting hours.

66. I understand that the Members Estimate Committee may deal in whole or in part with these issues as part of its review of MPs' allowances. If it does not, then I still believe a review of ACA is needed and should be carried out by the Independent Body. It follows from what I have said above about the starting point for MPs' pay, and about the need for a clear distinction between salary and reimbursement of expenses, that I do not support any proposal to remove ACA and increase MPs' salaries in compensation. I do, however, believe that the London supplement should be increased to £3,623 with effect from 1 April 2008 in line with the SSRB's recommendation.

## **Summary of recommendations**

67. In summary, I recommend that:

### **Independent Body**

- the current SSRB should become the Independent Body which determines MPs' pay. The House of Commons should identify a mechanism, such as an advisory panel, to represent the views of MPs to the Body;
- the Body should conduct reviews every four years or so, as far as possible in the first year of a Parliament, or when requested by MPs; and
- the simplest way to give effect to the role of the Independent Body is through a resolution of the House but consideration should be given to securing the independence of the Body by Government undertaking or in statute.

### **Uprating Mechanism**

- pay should be uprated annually by the three month average Public Sector Average Earnings Index (ONE series LNNE) on 1 April, using the published PSAEI figure for January of that year (unless and until the Independent Body adopts a different method).

### **Pay for 2008-09 to 2010-11**

- the MPs' salary with effect from 1 April 2008 should be £64,634. The salary should increase by the PSAEI annual percentage increase plus £650 on 1 April 2009 and again on 1 April 2010.

### **Pensions**

- the Independent Body should consider MPs' pension arrangements bearing in mind the unusual career pattern of MPs and the evolution of pensions in the public sector and wider economy. The Body will need to examine whether features of the PCPF are necessary and justified for recruitment and retention and whether the scheme's costs and benefits are reasonable in comparison to pensions elsewhere in the public sector. It should then make recommendations (which should be regarded as compelling in principle) for the fund Trustees and the Government to consider jointly and to act on as they see fit, with the consent of the House. However, in any event the Independent Body must continue to take account of the value of MPs' pensions as part of total reward.

### **London MPs**

- unless these issues have been dealt with by the Members Estimate Committee, the Independent Body should carry out a review of ACA, and the London supplement should be increased to £3,623 with effect from 1 April 2008.

## Other options

68. Throughout this review I have been keen to ensure that the new mechanism achieves the support and trust of MPs, Government and the public. I am clear that there will always remain a view amongst the public that MPs are overpaid. This will not change as a result of my recommendations. However, I hope that all of these groups will agree that by adjusting the salary of an MP in line with the movement in average public sector earnings, by removing the influence of Government and by ending the requirement for MPs to vote on their own salary, we are in a fairer and more transparent position than before.
69. The above recommendations are intended to be a balanced package which removes the need for MPs to vote on their own pay while putting that pay on a fair and sustainable footing. However, as noted in paragraph 46 above, I am aware that the above proposals, and in particular the uprating mechanism coupled to staged pay increases for the next three years, may seem politically and presentationally difficult. (As I have noted earlier, these issues have proven difficult for MPs to grapple with over many years.) MPs may feel that, for political reasons, they cannot accept a system that **appears** to give them higher increases than the rest of the public sector, even though **the reality** is that those increases in earnings will be exactly the same as the average public sector worker has already received. MPs may be especially reluctant to make such a change at a particularly difficult time for public sector pay policy when almost all of the public sector is being held to settlements, in some cases for the next three years, well below 3 per cent. I therefore offer the following options although I think they are inferior to my recommendations above. Each would nevertheless provide a means of moving to a position where MPs no longer vote on their own pay.

### *The pay progression option*

70. As I have explained, the reason MPs' earnings tend to fall behind those of other groups over time is that MPs have no pay progression. It is essentially this which makes them a special case. (The judiciary are also paid a spot rate and have no pay progression. For this reason the SSRB normally recommends that the judiciary's annual increase be some half a per cent higher each year than that of the SSRB's other remit groups. Even so, large further catch-up awards have been needed every four or five years to bring judicial salaries back into line with other senior salaries and to deal with issues such as recruitment and retention.)
71. If indexation is felt to be unacceptable on the political and presentational grounds set out above, then another way of addressing the problem would be to give MPs some form of incremental pay progression such that, for an individual MP, the combination of progression and annual increases kept his or her pay broadly in line with that of the rest of the workforce. There are many ways in which a system of pay progression could be implemented but most would breach the principle that all MPs without Ministerial or other additional responsibilities should be paid the same. Since performance related pay is not an option for MPs, the only possibility for progression would seem to be some sort of automatic increments, although such increments run counter to the principles of age discrimination legislation unless they are objectively justified, for example to reward increasing skill levels.
72. So if MPs feel unable to accept my recommendations on the salary and uprating mechanism, they could request the proposed Independent Body to develop a pay system based on pay progression coupled to annual increases, pre-determined by the Independent Body for the duration of a Parliament but lower than would be produced by linkage to the PSAEI. One possibility might be to give an increment of the order of 5 per cent of salary to an MP each time he or she is re-elected at a general election provided that at least four years has elapsed since that MP's previous election (and possibly subject

to a maximum number of increases – say four or five). Thus at each of its periodic reviews the Independent Body would review the levels of MPs' pay as described in paragraph 28, making any adjustments that it deemed necessary, and also prescribe the level of the automatic increases to apply each 1 April until the next review. The effect of such a system could be that MPs received 'headline' increases more akin to those of other public sector workers while an MP who was re-elected would see his or her **earnings** increasing roughly in line with those of other workers, albeit less smoothly, with small increases every year and a bigger increase after each general election. Of course such a system would mean that long-serving MPs were paid much more than those recently elected for the first time. This arrangement could also have implications for pensions.

73. MPs themselves would probably want to give more time for debate amongst themselves about the merits of departing from the current principle that all are paid the same, and it would take time to work out the details of the pay progression. I therefore doubt this option can deal with the immediate situation.

### *The periodic realignment option*

74. A second, more practical, option could be for MPs to agree that their pay should increase at roughly the same level as public sector settlements, say an arbitrary 2.5 per cent plus the £650 a year recommended by the SSRB, for each of the next three years. Then, early in the next Parliament, the Independent Body should determine the new MPs' salary taking account of the increase in the PSAEI in the meantime, as well as of public sector pay policy and other matters set out in the terms of reference. Having realigned MPs' pay at the beginning of the Parliament, the Independent Body would then set the level of increase for each of the following years until the next periodic review, when it would again realign the salary. Whilst the precise figure to be set for the annual uprating mechanism would in one sense be arbitrary, i.e. not derived from any index, the Independent Body would be able to take a forward view of all the relevant issues, including broad indications of the likely level of future public sector pay settlements. This mechanism could continue indefinitely with the Independent Body carrying out reviews and realignment as far as possible in the first year of each new Parliament and setting the rate of increase for the rest of that Parliament.
75. This option would have the benefit of certainty in the longer term that MPs' pay would regularly catch up with earnings elsewhere in the public sector. I believe it would address some, though not all, of the concerns I have heard from members of the Government. However, it would also have disadvantages. It would mean that MPs' **relative** pay continued to fall over the next three years. When the moment came for a catch-up increase, that could well be at least as difficult politically as indexation now. For example, if the Independent Body decided to restore the value of MPs' pay relative to that of other public sector workers and PSAEI had increased at its long term average rate of just under 4 per cent a year over the next three years, then at the end of that period, assuming increases of 2.5 per cent plus £650 a year, the MPs' salary would be nearly £3,000 lower than if it had been increased as I recommend in paragraph 51 above. MPs would need an increase of 4 per cent in addition to the annual uprating, so probably around 8 per cent in total, to bring their pay back in line with the movement in wider public sector pay. This could be at a time when the Government was still trying to bear down on public pay generally. Thus the presentational pain may be deferred but also increased when it finally arrives.
76. A further disadvantage is that MPs who retire at the next general election would have pensions lower than if their pay had been increased in line with the PSAEI. However, on the last point, other public sector workers on final salary pensions who retire during a period of public sector pay restraint will also suffer in the same way, so MPs would not be alone in that.

77. Both the pay progression and periodic realignment options would have the effect that, broadly, MPs' pay fell behind during a Parliament then caught up at the beginning of the next one (though the pay progression option would treat newly elected MPs worse than those already in the House). And, of course, the aggregate earnings of MPs during a Parliament would be lower than if their pay were indexed to earnings annually, since their level of pay would be 'right' only early in a Parliament once adjustments had been made by the Independent Body in the light of a periodic review. This reinforces my message that fundamentally there are only three options on MPs' pay:
- it can be updated annually in line with other public sector workers' increases in earnings;
  - it can be updated at longer intervals, falling behind in intervening years; or
  - it can fail to keep pace altogether with other public sector workers' increases in earnings.
78. Which of these options to choose is ultimately a political decision. The Government will have a view but MPs must decide. I urge them to adopt a solution which removes them from the need to vote on their own pay while putting the determination of that pay on a fair and sustainable basis.



# Appendix 1: Recommendations from the 2007 SSRB Report

The following are the recommendations made in the Senior Salaries Review Body Report on parliamentary pay, pensions and allowances published in January 2008.

## The salaries and pensions of Members of Parliament and Committee chairmen

**Recommendation 1:** We recommend that for 2007 the salaries of MPs be increased by a further 1.9 per cent of the salary payable from 1 November 2006, taking the new salary to £61,820, and that this increase be backdated to 1 April 2007.

**Recommendation 2:** We recommend that, instead of the existing annual uprating mechanism, the pay of MPs be uprated on 1 April each year, beginning in April 2008, by the average percentage increase in base salary of the senior civil service (SCS), or of Pay Band 1 of the SCS if that figure is identified separately.

**Recommendation 3:** We recommend that for three years, beginning in April 2008, MPs' salaries be increased by £650 a year, in addition to the increase resulting from the proposed uprating mechanism, in order to achieve a more sustainable relationship between the remuneration of MPs and relevant public sector comparators.

**Recommendation 4:** We recommend that, subject to the adoption of Recommendations 1 to 3 above, future reviews of parliamentary pay, pensions and expenditure should henceforth normally take place at four-yearly intervals (rather than every three years as at present).

**Recommendation 5:** We recommend that with effect from 1 April 2007 the salary supplements paid to chairmen of Select and Public Bill Committees should be increased in April each year by the same percentage as the overall increase in the MP's salary resulting from our recommendations on MPs' pay.

## MPs' Pensions

**Recommendation 6:** We recommend that Parliamentary Contributory Pension Fund members with retained benefits should be allowed to opt for a 1/60th accrual rate in return for reduced contributions to be calculated by the Government Actuary's Department, with any additional costs being met by the Exchequer.

**Recommendation 7:** We recommend that any increase or decrease in the cost of accrual for MPs in service in the PCPF should be shared equally between the Exchequer and members. We consider the following to be some of the elements excluded from the cost of accrual:

- payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund;
- changes to allow members with retained benefits to opt for a 1/60th accrual rate (i.e. the consequence of Recommendation 6); and
- changes to the assumptions about the investment return on assets.

**Recommendation 8:** We recommend that the Exchequer contribution to the cost of accrual of benefits for MPs in service in the PCPF (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) should in principle be limited to 20 per cent of the payroll of scheme members.

**Recommendation 9:** We recommend that if it becomes likely that, unless action is taken, the Exchequer contribution to the cost of accrual of benefits for MPs in service in the PCPF (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) would rise above 20 per cent of payroll, then there should be a major review of the Fund.

Pay and pensions of Ministers, Speakers and certain other office holders

**Recommendation 10:** We recommend that the salaries for the Prime Minister, Ministers and other office holders (excluding Select and Public Bill Committee chairmen) in the Commons be set as ratios of the MP's salary, and that the ratios be increased in stages as set out in the table below:

| Post  | Current Salary £ | Current ratio to MP's salary | Ratio from 1 April 2007 | Ratio from 1 April 2008 | Ratio from 1 April 2009 | Ratio from 1 April 2010 |
|---|------------------|------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Prime Minister  | 188,848          | 3.11                         | 3.20                    | 3.30                    | 3.40                    | 3.50                    |
| Speaker, Cabinet Minister, Government Chief Whip  | 137,579          | 2.27                         | 2.30                    | 2.40                    | 2.50                    | 2.60                    |
| Leader of the Opposition  | 131,172          | 2.16                         | 2.20                    | 2.25                    | 2.30                    | 2.35                    |
| Solicitor General   | 127,683          | 2.10                         | 2.15                    | 2.20                    | 2.23                    | 2.25                    |
| Minister of State, Government Deputy Chief Whip, Opposition Chief Whip, Chairman of Ways and Means (Deputy Speaker) | 100,567          | 1.66                         | 1.70                    | 1.75                    | 1.80                    | 1.90                    |
| First Deputy Chairman of Ways and Means (Deputy Speaker), Second Deputy Chairman of Ways and Means (Deputy Speaker) | 95,736           | 1.58                         | 1.62                    | 1.66                    | 1.70                    | 1.75                    |
| Parliamentary Under Secretary of State  | 90,954           | 1.50                         | 1.53                    | 1.57                    | 1.60                    | 1.65                    |
| Government Whip, Assistant Government Whip, Deputy Opposition Chief Whip  | 86,348           | 1.42                         | 1.44                    | 1.46                    | 1.48                    | 1.50                    |

Lord Speaker

**Recommendation 11:** We recommend that the salary of Lord Speaker be pegged at its current rate on a 'mark time' basis until the next review of parliamentary pay and allowances or until reform of the House of Lords.

Lord Chancellor

**Recommendation 12:** We recommend that where the post of Lord Chancellor is held by someone who also holds another ministerial post, that person should receive only the salary for that ministerial post.

### Ministers in the House of Lords

**Recommendation 13:** We recommend that with effect from 1 April 2007 Ministers in the House of Lords receive the same **percentage** increase in their salaries as Ministers of the same rank in the Commons.

**Recommendation 14:** We recommend that the Leader of the Opposition, Opposition Chief Whip and Chairman of Committees in the House of Lords continue to be paid the same as, respectively, a Parliamentary Under Secretary, Government Whip and Minister of State, all in the Lords. The Principal Deputy Chairman of Committees should receive the same percentage increase in salary as the Chairman of Committees.

### Ministerial severance payments

**Recommendation 15:** We recommend that:

- where a Minister or other office holder is reappointed to a salaried Government or parliamentary post within three months of leaving office, the severance payment should be reduced pro rata and the balance repaid;
- the age restriction on ministerial severance payments should be abolished; and
- the Prime Minister, Lord Chancellor and Speaker should be covered by the scheme if and when they cease to be entitled to their special pension arrangements.

### Pensions for the Prime Minister, Speaker and Lord Chancellor

**Recommendation 16:** We recommend that the special pension arrangements in place for the Prime Minister, the Speaker of the House of Commons and the Lord Chancellor not be extended to new incumbents of these offices after the passing of the necessary legislation to end the existing arrangements. Instead those three office holders should be covered by the PCPF and arrangements for ministerial severance payments.

### House of Commons expenses

**Recommendation 17:** We recommend that the House agree that the ceiling for reimbursement of unreceipted expenditure be set at £50 per member per month.

**Recommendation 18:** We recommend that the House of Commons request the National Audit Office to audit the expenses of a representative sample of MPs each year.

### Staffing

**Recommendation 19:** We recommend that the Staffing Allowance be renamed Staffing Expenditure, and Temporary Secretarial Allowance be renamed Temporary Secretarial Expenditure.

**Recommendation 20:** We recommend that the Staffing Expenditure ceiling should increase to allow MPs to employ up to 3.5 full-time (or equivalent) members of staff.

**Recommendation 21:** We recommend that the ceiling on Staffing Expenditure for the equivalent of 3.5 full-time staff where all those staff are based outside London should be £96,630.

**Recommendation 22:** We recommend that the ceiling on Staffing Expenditure for the equivalent of 3.5 full-time staff should be increased by £1,720 for each full-time equivalent member of staff based in London, up to a maximum of £102,650 where all staff are based in London.

#### Expenditure on offices

**Recommendation 23:** We recommend that office and 'surgery' lease or rental costs should be met in full up to a maximum area of 800 square feet, this area to be reduced by 100 square feet for each member of an MP's staff who is based on the parliamentary estate. Before renting or leasing premises an MP must obtain a certificate from an independent chartered surveyor stating that the premises are suitable for the purpose and that the cost is reasonable in relation to typical office premises in the constituency.

**Recommendation 24:** We recommend that Incidental Expenses Provision should be renamed Other Office Expenditure and that the ceiling be reduced by £2,500 for each member of an MP's staff with a workstation on the parliamentary estate.

**Recommendation 25:** We recommend that the ceiling for Other Office Expenditure (before any reduction for staff based on the parliamentary estate) should be £13,839.

#### Communications Expenditure

**Recommendation 26:** We recommend that the Communications Allowance be renamed Communications Expenditure and be confirmed at £10,000 a year. It should be updated in April each year in line with movement in RPIX.

#### Expenditure on travel and accommodation

**Recommendation 27:** We recommend that partners of MPs who are named in the PCPF as sole beneficiaries should be entitled to the same travel arrangements available to spouses and civil partners.

#### Accommodation Costs

**Recommendation 28:** We recommend that Additional Costs Allowance should remain at its current rate and should be renamed Personal Accommodation Expenditure.

#### London Supplement

**Recommendation 29:** We recommend that the London Supplement be increased to £3,500 and henceforth adjusted in line with the Public Sector Average Earnings Index in April each year.

#### Compensation on leaving office

**Recommendation 30:** We recommend that, with effect from the general election after next, Resettlement Grant should be paid at a rate of one month's salary for each year of service as an MP, up to a maximum of nine months' salary, to MPs who lose their seats at a general election or whose seats disappear as a result of boundary changes.

**Recommendation 31:** We recommend that the Winding Up Allowance be renamed Winding Up Expenditure and that, after the next general election, the ceiling be calculated as one third of the relevant annual Staffing Expenditure, plus one third of the limit on Other Office Expenditure and one third of the actual annual office rent or lease claimed by each MP concerned.

### House of Lords allowances

**Recommendation 32:** We recommend that the House of Lords consider whether the current definition of parliamentary business for the purpose of subsistence allowances covers all activities which are carried out wholly, necessarily and exclusively in the course of parliamentary duties.

**Recommendation 33:** We recommend that Spouses', Civil Partners' and Children's Travel entitlement be extended to include a named partner where a member does not have a spouse or civil partner.

**Recommendation 34:** We recommend that the House authorities review the IT support that is provided to members.



## Appendix 2: Terms of Reference

The terms of reference for my review were announced by the Leader of the House of Commons, the Rt. Hon. Harriet Harman MP, in a Written Ministerial Statement on 23 January 2008. They are:

- to examine options and make recommendations for a mechanism for independently determining the pay and pensions of MPs which does not involve MPs voting on their own pay; the appropriate comparator; and the frequency with which reviews of the use of the comparator take place;
- to ensure that the independent mechanism takes account of the Government's policy on public sector pay and its target for inflation;
- to have regard to the need for any independent mechanism to maintain the support and trust of the public and Members of Parliament.

The review should also seek to:

- examine comparable international mechanisms and the resulting experience;
- address the constitutional framework alongside legal and legislative considerations;
- consider the range of evidence that should be considered by the recommended independent mechanism in determining an appropriate comparator;
- consider the membership and remit of any Independent Body that may be part of the pay setting process;
- give due consideration to consistency with other public service wage setting mechanisms and wage settlements across the public service;
- outline a recommended timetable for transition to any new system; and
- report by end May 2008.



## Appendix 3: Summary of International comparisons

|                  | Indexation  | Comparator  | Review Body  | Do MPs Vote?   |
|------------------|---|---|--|--|
| <b>Australia</b> |   | Linked to reference point in the Remuneration Tribunals' Principal Executive Office structure                                       | Annual determinations by Remuneration Tribunal   | Can disallow determination   |
| <b>Canada</b>    | Adjusted each year on April 1 based on the index of the average percentage increases negotiated in the private sector |   |  | No. An automatic process, Members are informed of the indexed amount by a letter from the Speaker  |
| <b>France</b>    |   | Aligned to salary of senior civil service   |  | No. Increases are applied automatically when applied to SCS  |
| <b>Germany</b>   |   | In principle linked to salaries of junior judges at Higher Federal Courts and Governing Mayors of smaller cities and municipalities |  | In principle the Bundestag votes on adjustments (usually near to the beginning of the legislative term). Salary is then normally set at that level for the entire legislative term. Members' salaries were increased in January 2008 and will increase again in January 2009. Further increases in line with civil service pay movements have recently been discussed but rejected |
| <b>Ireland</b>   |   | Linked to pay awards for Civil Service Principal Officer grade  | Principal Officer pay decided through National Wage Agreement and periodic independent benchmarking body reviews | No. National Wage Agreement is agreed between unions, employers and the Government. It is not passed through Parliament  |
| <b>Italy</b>     |   | Set with reference to the annual gross salary of Magistrates serving as Presidents of Department within the Supreme Court           |  | Majority decision on whether to accept or not taken by Presidency Council for the Senate and Presidency Office for the Chamber – on which all Parliamentary Groups are represented proportionately   |

|             | Indexation  | Comparator   | Review Body  | Do MPs Vote?   |
|-------------|---|--|--|--|
| Netherlands |   | Equal to the highest scale of civil service pay grade 16 (Deputy Director)                           |  | Yes. Voted on by Parliament  |
| New Zealand |   |  | Annual determinations by Remuneration Authority  | No, determination is Authority's decision  |
| Norway      |   |  | Recommendations of Salaries Commission (3 members)   | Yes. Voted on by Parliament  |
| Singapore   |   | Annual remuneration package of MPs pegged to the SR9 Administrative Officer grade (currently at 56%) |  | No   |
| Spain       |   |  | The Parliamentary Board is responsible for establishing salaries and pensions. As far as possible pay is linked to that of the Spanish Junior Minister equivalent (which is set by Government) | No, decision taken by Parliamentary Board  |
| Sweden      |   |  | Determination made by a Parliamentary Board, compares MPs wage with pay environment and similar jobs   | No. Determination automatically accepted   |
| USA         | Annual adjustment formula, is based on movements in the Employment Cost Index minus 0.5% (but cannot exceed base pay adjustments for General Schedule – "white collar" civil service – employees) |  |  | Increase applies automatically subject to General Schedule maximum unless Congress votes to reject or amend it. Members must accept the salary set in law but may choose to return some of the salary if they wish |

## Australia

- Since December 1999 the pay for Members and Senators has been linked to the Remuneration Tribunal's Principal Executive Office (PEO) structure. This was linked by regulation to the Remuneration and Allowances Act. When undertaking reviews the Tribunal has regard to a range of factors including (but not limited to):
  - key economic indicators;
  - specific indicators such as the Wage Price Index series;
  - wage outcomes in the public sector and (to a lesser extent) the private sector; and
  - wage setting decisions of the Australian Fair Pay Commission.
- Each year on 1 July, the Remuneration Tribunal (an independent statutory body that handles the remuneration of key Commonwealth Offices) makes a determination setting the salaries for the PEO structure.
- All determinations are instruments and are disallowable by Parliament. This means that Members or Senators can move that the determination/rates are disallowed and therefore not to be paid. To date this has not occurred.
- Prior to the current system Members' and Senators' pay was linked to the salary level of a Senior Executive Service (SES) Band 2 in the Public Service. Prior to July 2000 (when the first determination was made by the Remuneration Tribunal) Members and Senators had not received an increase since October 1996. This was due to SES staff moving away from a centralised salary fixing process towards obtaining pay increases through negotiated agreements.

## Canada

- Allowances and salaries are adjusted each year on 1 April based on the index of the average percentage increases negotiated in the public sector. The index is published by the Department of Human Resources and Social Development.
- This mechanism is enshrined in the Parliament of Canada Act. The Speaker informs Members by letter what the uplift will be based on the index.
- The current system came into force in 2005. Between 2001 and 2005 MPs' pay was linked to the salary of the Chief Justice of Canada.

## France

- MPs' pay has been directly linked to the pay of the senior civil service since 1958. MPs' pay is automatically increased by the average of the highest and lowest rates of SCS pay increase. Reviews of SCS pay (conducted by the Ministry of the Civil Service) are sporadic but generally occur once a year and can be triggered for a number of reasons.
- MPs' pay comprises a basic allowance, housing allowance (3%) and job allowance (25%).
- MPs do not vote on the level of their own or SCS pay.

## Germany

- The members of the Bundestag set their own pay and pensions. The Constitutional Court has ruled that they must undertake this task themselves and may not delegate, e.g. to an independent body.
- Pay is in principle linked to comparators from the public sector – the salaries of junior judges at higher Federal courts and (Governing) Mayors of smaller cities and municipalities with 50 to 100 thousand voters. Bundestag constituencies cover 160 to

250 thousand voters (members are elected by a system combining constituencies and proportional representation using party lists).

- Traditionally pay is updated during the first sitting of a legislative term. The decision is then valid for the entire legislative term and there is no possibility of a second adjustment of pay. However in reality the Bundestag has chosen not to take increases in some recent years and so pay is below that of the comparators.
- In 2007 the Bundestag agreed to increases payable in 2008 and 2009. Following the pay settlement for the civil service, further increases in 2009 and 2010 were proposed but these proved controversial and have now been dropped.

## Ireland

- Since 2000, the pay of Irish Members of Parliament has been linked to the pay awards for the civil servant Principal Officer grade (standard scale). Principal Officer pay is decided through the National Wage Agreement and independent Public Service Benchmarking Body reviews. Neither of these processes is set in legislation.
- The National Wage Agreement brings together Government, employers' representatives and unions (the social partners) to agree pay increases in the private and the public sector. The agreements last for periods ranging from around eighteen months to three years before being renegotiated.
- An independent Public Service Benchmarking Body reviews salaries periodically (2002 and 2008) to decide whether public sector employees should receive an uplift in comparison with private sector wages.
- The National Wage Agreement is not passed through Parliament.
- Prior to 2000, Members' salaries were recommended by the Review Body on Higher Remuneration in the Public Sector. The body continues to set the level of senior salaries such as the Taoiseach, Ministers and other office holders. Such reviews are conducted every four years or so following a reference from the Minister for Finance. The Review Body submit their report to Government who are able to accept in full, accept in part or reject the recommendations.

## Italy

- Regulated by a law dating from 1965 which sets MPs' salaries on the basis of the annual gross salary of Magistrates serving as Presidents of Department within the Supreme Court. Annual increments to MPs' salaries are linked to those of the Magistrates; however, there is no legal requirement to stay at this level.
- The decision on whether to approve increments is taken by the *Presidency Office* (for the Chamber) and *Presidency Council* (for the Senate). These Boards of Management include proportional representation of all political parties. Decisions are taken by a majority of Board members.
- The Chamber and Senate are free to take separate decisions.
- The salary of Magistrates is set by Government.

## Netherlands

- Pay and pensions are regulated by the 1990 Act on the Remuneration of Members of Parliament.
- MPs' basic pay is equal to the highest point of civil service pay grade 16 (Deputy Director level). This linkage is set purely for reasons of administrative simplicity rather than due to job weighting. MPs' pay is adjusted each time the civil service pay scales are amended – usually every two years.

- The Dutch Parliament is currently debating a major change to the existing pay system: the Bill currently before Parliament sets a Minister's salary at 100 per cent and an MP's at 55 per cent of this level, indexation is in accordance with changes in civil service pay. Under the proposed system the Government (on the basis of independent advice) would propose pay levels but Parliament would take the final decision.

### **New Zealand**

- Since 2003, salaries and allowances of Parliamentarians have been determined annually by the independent statutory body, the Remuneration Authority; the Authority consists of three members appointed by Governor-General by Order in Council.
- The Remuneration Authority was established from 1 April 2003 in the Remuneration Authority (Members of Parliament) Amendment Act 2002. Prior to 1 April 2003 the Authority was known as the Higher Salaries Commission (Remuneration Authority Act 1977).
- The Authority's jurisdiction also includes a wide range of statutory officers, members of the judiciary and elected members of local authorities (they completed and issued 89 determinations in the financial year 2006-07). The Authority uses public and private comparators established by survey and job evaluation and looks to maintain consistency and appropriate relativities across the salaries paid to Parliamentarians, the executive, the judiciary, and the public service. There is an indirect linkage to the private sector as the salaries of the judiciary take into account (but cannot fully reflect) the external relativities in the legal profession. Public sector salaries generally reflect salary levels elsewhere in the economy.
- The current legislative provisions are intended to keep the Government at arm's length from the setting of pay and pensions; although the Authority can receive submissions from stakeholders, including both the Government and MPs, the final decision i.e. the determination is their responsibility.

### **Norway**

- The President of Parliament (the Speaker) appoints an independent 'Salaries Commission' for a five year period, and the issue is reviewed annually on 1 October. The Commission has three members, who are the Head of the National Arbitration Tribunal, a judge and a professor.
- The Salary Commission convenes two or three times during the autumn. The Storting's administration has placed the Head of the Finance and Administration Section at the Commission's disposal as its secretary. The secretary ensures that general information about wage developments and other relevant social indicators is available to the Commission. In addition, the secretary obtains any other information that the Commission needs in order to do its work.
- The Storting's Salary Commission presents its recommendations to the Presidium, which then submits the proposal as a separate item of business to the Storting. This is voted on in the usual manner. Since the Salary Commission's creation in 1996, its recommendations have always been adopted by the Storting.

### **Singapore**

- The annual reward package of MPs is pegged to the SR9 Administrative Officer Grade (currently at 56%). The salary benchmark for the SR9 grade is the 15th highest earner aged 32 amongst a group of six professions (bankers, accountants, engineers, lawyers, local manufacturing companies and multinational corporations).

- The annual package of MPs includes a GDP Bonus, which can be up to two months (of normal salary) dependent on economic performance (calculated on increases in GDP from 2% upward).
- MPs do not vote on the level of their pay or pensions.

## Spain

- The Spanish Constitution sets out that Deputies and Senators will receive a salary that is established by both chambers. The Parliament Law states that the Deputies receive a salary that allows them to carry out their work with efficiency and dignity.
- As far as possible an MP's basic salary is equated to that of a "Secretario de Estado" (SdE – Junior Minister equivalent), whose salary is set by Government (it would be unusual to find this rising above CPI). In practice, an MP would usually earn less than a SdE as SdEs can, by law, be remunerated members on the boards of several public companies.
- The Parliamentary Board is ultimately responsible for establishing salaries and pensions. The Parliamentary Boards' composition is voted on at the beginning of the Legislature and all parties are proportionately represented. A decision is taken behind closed doors and by consensus, unless there is disagreement, in which case a vote is taken.

## Sweden

- Pay of members of the Riksdag is determined by an Authority (chairman and two members) appointed by the Riksdag Board (comprised of the Speaker and ten Members' of the Riksdag). Members of the Authority are non-political and often senior judges; the Authority is appointed for a two-year mandate.
- When the Authority decides whether or not to increase salaries, it makes a determination which is accepted without Government involvement or a vote by MPs.
- When making its judgement the Authority compares levels with cabinet ministers and some civil servants and takes account of the wider economy.

## United States of America

- The Ethics Reform Act of 1989 established an annual adjustment formula for Members' pay adjustments and a quadrennial review of the salaries of officials by a Citizens' Commission on Public Service and Compensation (this body has never met). The Act also banned honoraria and revised the rules governing outside earned income and employment after Government service.
- The current pay for members is the result of a number of adjustments – both those tied to the index, and stand alone increases. Stand alone legislation was last used to provide increases that were effective in 1990 and 1991; since then any adjustment has been pursuant to the formula established by the Ethics Reform Act 1989.
- The annual member pay adjustment is determined by a formula using the Employment Cost Index (ECI). The ECI measures quarterly changes in compensation costs for private industry wages and salaries (not seasonally adjusted). The Ethics Reform Act of 1989 specifies that the percentage change reflected in the quarter ending December 31 for the two preceding years is used, minus 0.5%. Member pay may not exceed neither the percentage adjustment in base pay for General Schedule ("white collar" civil servants) employees nor 5%.
- This change is automatically applied to Member salaries each year unless legislation is enacted that will revise or deny this percentage.
- Since 1989 the annual adjustment formula has led to the acceptance of increases twelve times and rejection of increases six times (in 1994, 1995, 1996, 1997, 1999 and 2007).

The formula has or would (if it had not been rejected) have required adjustment downward so as not to exceed the increase for General Schedule employees on nine occasions (in 1994, 1995, 1996, 1998, 1999, 2001, 2003, 2007, and 2008).

- The executive branch could have an indirect role in congressional pay in two ways. First, the President decides whether or not to sign any piece of legislation. Secondly, the President has a role in determining increases in the rate of pay for General Schedule employees.
- A number of amendments to Members' pay have been passed or proposed over the years, including:
  - Legislation to prevent Members who vote against an increase from receiving one, if the prohibition does not become law.
  - Proposals to link increases to certain economic factors or congressional actions e.g. the budget – with prevention of an increase if there was a deficit in the previous year, or a prevention if the appropriations bills were not enacted by a certain time in the fiscal year.
  - Proposals to give Members a more direct role and accountability for allowing pay increases.



## Appendix 4: Summary of written responses to the consultation document

### Introduction

I launched a month long public consultation on 17 March. The consultation document was placed on the OME website ([www.ome.uk.com](http://www.ome.uk.com)) where it remains, and its publication was announced in a written ministerial statement<sup>10</sup> to the House of Commons by the Leader of the House on 18 March. In addition it was publicised via the Press Association newswire and reported by a number of national newspapers. It provided the framework for the discussions I held with MPs representing various groups and bodies in the House. I also received over 40 written responses and held telephone calls with some ten MPs.

I am grateful to respondents for their time and careful consideration of the questions I posed. I have carefully analysed the views that were expressed and this appendix seeks to summarise them briefly.

### General Comments

A number of respondents did not reply specifically to the questions posed in the consultation but wrote more widely about the issues surrounding MPs' pay.

There was a consensus of opinion that the new mechanism had to be robust, transparent and easy to understand. A small number of respondents argued that MPs should continue to vote upon their pay and that they should not seek to pass this difficult issue on to others, nor should the Government relinquish control over taxpayer funded salary costs.

A number of respondents described the long hours which the job demanded and the pressures of being constantly 'on call'. There was a concern expressed that the quality of Parliamentarians was declining and that the inadequate salary made it increasingly difficult to attract 'mid career' professionals to enter politics. The suggestion was that there would need to be a significant uplift in parliamentary salaries to remedy this.

### Responses by question

#### Question 1. What is to be understood by the identification of a "comparator"?

I received twenty one responses to this question. There was agreement that there was no such thing as a precisely comparable role to that of an MP but there were different views on what were the most appropriate comparators. Suggestions ranged from military ranks, to the Chief Executive of a Local Authority, senior civil servants, multiples of the average wage in an MP's constituency, GPs, and media figures such as political editors.

The majority agreed that a basket of comparators would be preferable to a single comparator as a single linkage would be more likely to break down or suffer from unintended consequences.

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<sup>10</sup> <http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080318/wmstext/80318m0002.htm#08031857000022>

**Question 2. What is the most appropriate way of uprating MPs' pay?**

The responses to this question were split between those who believed that pay should be increased in line with the comparators or basket of comparators they had suggested in responses to question one and those who believed that uprating should be achieved by an earnings index.

**Question 3. What should be the start point for any new system, e.g. MPs' current salaries; MPs' current salaries & the further increases recommended in the recent SSRB report; some other reference point?**

There were fifteen responses to this question. A number of respondents felt that the Additional Costs Allowance should be absorbed into salary, while a similar number felt that this was not appropriate. Several different starting points were suggested including the recommended uplifts in the SSRB report, the chosen comparator, the basket of professions from which MPs are drawn, the current salary and some proposed significant increases to levels of £100,000 or more.

**Question 4. Should MPs' pay be uprated annually or at less frequent intervals, e.g. once a Parliament? Why?**

Over two-thirds of respondents agreed that the most appropriate frequency to uprate salaries was annually, in order to maintain the real value of salaries. Others suggested uprating in line with the chosen comparator, every three years or once a Parliament.

**Question 5. Should an Independent Body review the comparator and the uprating method every year, or when it believes need arises because of changes in circumstance, or when requested by Parliament (or Government) to do so, or regularly say every three or four years?**

There were fifteen responses to this question. Several options were suggested including when requested by Parliament, annually, when there was an alteration to the basket/mechanism/comparator, and that there would be no need to review if the right mechanism had been put in place. The majority of respondents felt it was preferable to leave the mechanism in place for as long as possible without tampering, or to review at most once a Parliament.

**Question 6. How can the requirement in the Terms of Reference to "ensure that the independent mechanism takes account of the Government's policy on public sector pay and its target for inflation" best be achieved?**

Almost all of the thirteen respondents to this question agreed that the mechanism would need to be linked to the public sector in order to achieve the objective in the terms of reference, either through the public sector earnings index, or via the chosen basket/comparator. One respondent suggested that increases should be subject to public sector limits.

**Question 7. Are you aware of systems for setting the pay of Parliamentarians in other countries which could form a model for the UK? If so, please provide as many details as possible.**

Four responses were received to this question, all mentioning the US system.

**Question 8. Parliament is sovereign. Whatever it decides today it can rescind tomorrow. What is the most appropriate method for removing from MPs the need to vote on their own pay and pensions?**

Just over half of respondents to this question felt that a Resolution was the most appropriate method for removing MPs from the need to vote. They argued on grounds of simplicity and a desire not to create any further statutory bodies. The second most popular option was to place the new mechanism on a statutory basis in order to provide greater independence and to encourage public confidence.

**Question 9. As regards pensions, it is hard to see that any formulaic approach would be appropriate given the complexities of pension law and regulation, the role of the Trustees, etc. Do you agree that an Independent Body should make recommendations to the Trustees and the Government on MPs' pensions? If not, how do you think pensions should be determined?**

Sixteen responses were received to this question with widely diverging views. Some advocated ending the current pension arrangements in favour of a defined contribution scheme, but rather more wanted to keep the status quo. Most respondents felt that recommendations on pensions should continue to be made by an Independent Body. Some suggested that parliamentary pensions should be automatically linked to those of a comparator occupation.

**Question 10. The SSRB has been reviewing and recommending on Parliamentary pay and expenses for some 30 years. But it is empowered only to make recommendations to Government (which, as we have seen, has sometimes substituted its own preferences). Should an Independent Body be entirely separate from the SSRB? If so, how should it be constituted?**

Most of the fourteen respondents to this question believed that an Independent Body was still required, and that the SSRB was the most appropriate body to continue in this role. Other organisations were mentioned, such as the Electoral Commission and a new independent secretariat at arm's length from Government. It was also suggested that the body should report straight to Parliament rather than Government.

**Question 11. Can you suggest any further steps or actions that would help to maintain the support and trust of the public and MPs in setting MPs' pay?**

A number of general points were made for further steps that could be taken to maintain support and trust – in particular by making the uprating mechanism as simple and transparent as possible. It was also suggested that a public referendum could be held on the issue to improve understanding and engagement.

**Question 12. Do you have any views on the transition arrangements?**

Of the ten responses to this question the majority favoured rapid transition to the new system, although some suggested it should take effect after the general election or be staged over a transitional period.

## Appendix 5: Suggested amendments to the SSRB terms of reference

### Review Body on Senior Salaries

The Review Body on Top Salaries (TSRB) was appointed in May 1971 and renamed the Review Body on Senior Salaries (SSRB) in July 1993, with revised terms of reference. The terms of reference were revised again in 1998 as a consequence of the Government's Comprehensive Spending Review, in 2001 to allow the devolved bodies direct access to the Review Body's advice and in 2007 to add certain NHS managers to the remit.

The chairman and members of the SSRB are now appointed by open competition, supervised by the Office of the Commissioner for Public Appointments. Vacancies are advertised in the national press and on the public appointments website. The practice is to seek members with a mix of skills and experience including private sector experience at board level, economics, law, HR and, of course, pay and reward systems.

The current terms of reference are:

The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Secretary of State for Defence and the Secretary of State for Health on the remuneration of holders of judicial office; senior civil servants; senior officers of the armed forces; very senior managers in the NHS<sup>11</sup>; and other such public appointments as may from time to time be specified.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. If asked to do so by the Presiding Officer and the First Minister of the Scottish Parliament jointly; or by the Speaker of the Northern Ireland Assembly; or by the Presiding Officer of the National Assembly for Wales; or by the Mayor of London and the Chair of the Greater London Assembly jointly; the Review Body also from time to time advises those bodies on the pay, pensions and allowances of their members and office holders.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;

regional/local variations in labour markets and their effects on the recruitment and retention of staff;

Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;

the funds available to departments as set out in the Government's departmental expenditure limits;

the Government's inflation target.

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<sup>11</sup> NHS Very Senior Managers in England are chief executives, executive directors (except medical directors), and other senior managers with board level responsibility who report directly to the chief executive, in: Strategic Health Authorities; Special Health Authorities, Primary Care Trusts; and Ambulance Trusts.

In making recommendations, the Review Body shall consider any factors that the Government and other witnesses may draw to its attention. In particular it shall have regard to:

differences in terms and conditions of employment between the public and private sector and between the remit groups, taking account of relative job security and the value of benefits in kind;

changes in national pay systems, including flexibility and the reward of success; and job weight in differentiating the remuneration of particular posts;

the need to maintain broad linkage between the remuneration of the three main remit groups, while allowing sufficient flexibility to take account of the circumstances of each group; and

the relevant legal obligations, including anti-discrimination legislation regarding age, gender, race, sexual orientation, religion and belief and disability.

The Review Body may make other recommendations as it sees fit:

to ensure that, as appropriate, the remuneration of the remit groups relates coherently to that of their subordinates, encourages efficiency and effectiveness, and takes account of the different management and organisational structures that may be in place from time to time;

to relate reward to performance where appropriate;

to maintain the confidence of those covered by the Review Body's remit that its recommendations have been properly and fairly determined; and

to ensure that the remuneration of those covered by the remit is consistent with the Government's equal opportunities policy.

The Review Body will take account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

## **Amendments to the terms of reference**

I believe the SSRB's terms of reference should be amended to provide that, in addition to the above, when dealing with the pay, pensions and allowances of MPs:

- The SSRB is to report to the Speaker;
- The SSRB is to commence a review of MPs' pay, pensions and allowances within three months of a general election, with a view to reporting by the anniversary of that election, provided that the election took place at least two years since the SSRB last submitted a review of MPs' pay, pensions and allowances;
- The SSRB is also to carry out a review of MPs' pay, pensions or allowances when requested by the Speaker of the House of Commons;
- In carrying out such reviews the SSRB is to have regard to:
  - the need to reward MPs fairly and for their pay to be maintained broadly in line with that for comparable public sector jobs;
  - the need to maintain an effective mechanism for uprating MPs' pay between reviews;
  - the value of MPs' pensions and those for comparable public sector jobs;

- the need to consult and seek evidence from MPs, their representative bodies, political parties and the House of Commons authorities;
- any changes to the role and responsibilities of MPs; and
- the need to maintain the support and trust of MPs and the public.



## Appendix 6: Options for the uprating mechanism

### The uprating mechanism

In paragraph 33 of the main report I make reference to the three main options I have considered for the uprating mechanism: continuing the linkage to the SCS, a link to a basket of comparators, and the option I go on to recommend – indexation to an earnings index. The following appendix sets out some of the other mechanisms I have considered and discounted as part of this review.

### Movements in percentile of earnings distribution

- i. Currently MPs are paid £61,820 which is roughly equivalent to the 95th percentile of the earnings distribution. This means that around 27 million people in the UK are paid less and 1.5 million people more than MPs. If it were agreed that MPs' salaries should be maintained at this position, then salary would be adjusted annually based upon the salary level at the 95th percentile.
- ii. Pegging salary to the earnings distribution would be simple to explain and relatively simple to calculate, linking MPs to the increases (or decreases) in earnings of the economy as a whole (although this would move away from the proposition that an MP's job should be linked to the public sector). It would, however, have presentational problems given that, at least in recent years, the 95th percentile has increased at a faster rate than the median salary, although the very highest earnings have increased even faster.
- iii. Unsurprisingly, I have not received any support for this mechanism in any representations I have received as part of this review. Although I have heard some complaints that MPs' relative position in the pay distribution has declined, this is only marginal and the £650 catch up payments were designed to address this gap. I see no logic in trying to fix MPs' position in the earnings distribution and I doubt whether such an arrangement would be easily understood by MPs' constituents, none of whom have their pay set in this way. I have therefore discounted this approach as an option but it will be useful for the SSRB to check MPs' position in the earnings distribution in future reviews, among other indicators.

### Performance related pay

- iv. Performance related elements of pay are now widespread across the public and private sectors, indeed the introduction of performance related pay in the SCS is one the reasons that the 1996 linkage to MPs' pay needed reform. Introducing a performance related element to pay would represent a fundamental change to the way we remunerate our Parliamentarians. It would be impossible to measure MPs' relative performance objectively. Therefore I have considered whether a proxy could be used as a measure of performance. Possibilities include: percentage majority won at election, percentage of parliamentary votes attended, responses to constituency enquiries or an annual constituency evaluation. While I have no doubt that the Party Whips would be willing to assess MPs' performance, few would have confidence in them doing so impartially and objectively. None of these comes near to measuring objectively the performance of an MP in the key roles of legislator and representative of constituents and they all appear likely to have unintended and undesirable consequences.
- v. In Singapore, MPs receive a basic salary as well as a performance related element based on increases of GDP above 2% (see Appendix 3). An economic indicator such as this is a more attractive option were one to consider introducing a performance element to salary. Clearly individual MPs cannot influence GDP. This would be another proxy.

## Increments based on experience

- vi. In order to bring the MPs' pay structure into line with other pay systems and as a potential method of bridging the gap between settlements and earnings, I have considered a system in which MPs were awarded increments based on their time spent in office. Increments would be awarded on the principle that those Members with a greater length of service would have gained experience that increases their skills and competence in performing the role of an MP.
- vii. There are many possible designs for an incremental system. Typically such schemes provide for annual or biennial increases but larger increments could be awarded after re-election (generally every four or five years). I have included such an arrangement in the option set out in paragraph 70 of my main report and Irish members of parliament (TDs) receive increments of some €3,000 after four and eight years' service.
- viii. However, there are many disadvantages to incremental systems which have largely disappeared from the private sector because they can be seen as rewarding poor performance. Moreover, long incremental scales are almost certainly contrary to the principle of age discrimination legislation and although such legislation does not apply to MPs (because they are office holders, not employees), it would be wrong for them to adopt an arrangement which is effectively prohibited in most workplaces. In the public sector, organisations with long incremental scales are generally moving to shorten them or replace them with objective, competence or performance related pay systems.

## Multiple of figure

- ix. During the debate of 24 January a number of MPs suggested that I should consider an uprating mechanism linked to a well known reference, such as the National Minimum Wage or the State Retirement Pension. While I can see the attraction of this in terms of simplicity, transparency and comprehensibility, I do not believe that either of these measures is an appropriate way to uprate pay.
- x. The National Minimum Wage is set by the Government on the advice of the Low Pay Commission – this would allow the Government to retain direct control over MPs' pay. Such a link would be difficult to justify as increases in the NMW have been proportionately higher than earnings, and there is no compelling reason why MPs should receive the same percentage increases as the very lowest paid in the workforce.
- xi. The State Retirement Pension is increased at the same rate as RPI<sup>12</sup> although the uprating mechanism will change to earnings from around 2012 (subject to affordability and the fiscal position at this point<sup>13</sup>). For reasons I explain in paragraph 32 of the main report, I do not believe that a prices comparator such as RPI is an appropriate mechanism for uprating pay.
- xii. In addition the Government retains control of the mechanism for the State Retirement Pension and could conceivably seek to change that mechanism, with consequences for MPs' pay. Regardless of the perceived likelihood of this occurrence, for Government to have such control goes against the principles I have set out. The new Independent Body may wish to review whether a link to the State Retirement Pension is more attractive when the uprating mechanism for pensions changes to average earnings.

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<sup>12</sup> But may not fall below 2.5%.

<sup>13</sup> But in any case by the end of next Parliament.





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