

# Review of MPs' pay and pensions

## Consultation document prepared by Sir John Baker

### Section 1: Introduction

- 1.0 This consultation document is in four sections: Introduction; Terms of Reference; Review of Issues; and Questions on which I seek views.
- 1.1 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 Lords.
- 1.2 The SSRB submitted its report to the Prime Minister in July 2007 and the Government published it in January 2008<sup>1</sup>.
- 1.3 The SSRB report made recommendations on MPs' pay, pensions and allowances. 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 pay of the Senior Civil Service (SCS) with an additional increase of £650 a year in order to reduce the gap between MPs and the average of the public sector comparators.
- 1.4 The Government urged MPs to stage the increase for 2007-08 in the light of the wider public sector pay environment, 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 would be £61,820, as recommended by the SSRB. The Government proposed and the House agreed that it should not take decisions on the SSRB's other pay-related proposals such as the proposed increases in years two and three. (The House also decided to refer most of the SSRB's proposals on expenses to the Members Estimate Committee.)
- 1.5 The SSRB report reflected the views of some MPs that they should not vote on their own pay. The report suggested ways in which this could be achieved (see paragraphs 3.29 – 3.32 of the report). In the event, when it published the SSRB's report in January 2008, the Government asked me to conduct this review and make recommendations by the end of May 2008 for a new

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

mechanism and comparator which would be independent of MPs and would not require MPs to vote on their pay and pensions.

- 1.6 This consultation document is one of a number of exercises to gather evidence that will inform my recommendations. I am arranging meetings with key office holders (Mr Speaker, members of the Members Estimate Committee, the Chairman of the Pension Trustees, as well as with Party representatives). I will look at how other countries deal with the pay of members of their Parliaments. But I would welcome written submissions by 11 April 2008 from anyone who would like to respond to the questions posed in this consultation document or who wishes to raise any other issues or points.

## Section 2: Terms of reference

- 2.0 The terms of reference for the 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;
  - report by end May 2008.
- 2.1 It should be noted that the terms of reference do not cover the salaries of Ministers and other office holders in the House of Commons and the House of Lords, nor the expenses or allowances of members of both Houses. The House of Commons' Members Estimate Committee is conducting a review of allowances of members of the House of Commons.

## Section 3: Review of Issues

- 3.0 The terms of reference contain several different elements. This section briefly discusses each element and suggests some options for consideration. Section 4 invites views on those options and further suggestions.

### The mechanism

- 3.1 The review has been asked to recommend a mechanism for setting both pay and pensions which does not involve MPs voting once the mechanism has been established. The terms of reference use "mechanism" in the sense of "an independent body". But the term also seems appropriately to cover a formula or method of approach. Parliament cannot bind itself but it can agree – until such time as it decides differently – to apply without debate either the results of an automatic process of adjustment, e.g. by reference to a specified comparator post or to an index, or the proposals of a designated, independent body. I take it as axiomatic that, if Parliament is to give up its rights in these matters, it can only be on the understanding that Government itself does not seek to alter the outcome of the independent mechanism.
- 3.2 The means of removing the requirement for MPs to vote – whether legislative or otherwise – is of less importance than the mechanism itself and may depend on the comparator or uprating method recommended.

### Appropriate comparator / start point

- 3.3 The terms of reference require the review to make proposals on an appropriate comparator for pay. A comparator could be taken to be a particular occupation or position, for example a grade in the civil service, a rank in the police or armed forces to which the pay of MPs is pegged either precisely or possibly with an

adjustment (i.e. the MPs' salary could be expressed as percentage, fraction or multiple of the salary of the comparator post). However, this approach has been used in the past and has created problems because the comparator's pay may be affected by factors unrelated to MPs. For example, MPs' pay was linked for a time to that of Grade 6 (formerly Senior Principal), but this linkage broke down when the grade effectively disappeared on the introduction of delegated pay and the abolition of civil service-wide unified grading. This experience suggests that it is not sensible to take a single post as a comparator and it may be better to interpret the concept as a reference point. There are many ways in which such a reference point could be defined. For example, it could be:

- a point in the earnings distribution, e.g. the upper quartile threshold;
- the average of a basket of salaries; or
- a fraction or multiple of a known value, such as the minimum wage, median earnings, or the state retirement pension.

3.4 On the other hand, it may be unwise to look for a reference point or strict comparator at all, but rather to define the comparator as a start point for MPs' pay, and the means for its automatic uprating. Thus the start point could be MPs' current pay as just voted on by the House, or MPs' current pay as changed by the SSRB's recent recommendations, or some other figure. This would then be regularly updated (see below).

## Uprating

3.5 Some of the possible pay comparators above would be self-adjusting, in the sense that the value could be recalculated each year. If, however, the review were to recommend a comparator which is not self-adjusting or one that would not take account of the Government's policy on public sector pay or target for inflation, then it would be necessary to identify another means of uprating MPs' salary at intervals.

3.6 There are a number of techniques that could be employed to undertake the process of uprating. These include:

- indexation by reference to an established, independently produced statistical series of either prices or pay, for example:
  - Consumer Price Index
  - Retail Price Index
  - Average Earnings Index
  - Average Public Sector Earnings Index

- adjustment by the same percentage as a known value such as
    - National Minimum Wage
    - State Retirement Pension
    - Median earnings
  - adjustment by the movement in a basket of public sector salaries.
- 3.7 Given some problems of inflexibility and precedent-setting in the use of indices, an alternative approach would be for an independent body to make a determination each year in the light of all the appropriate evidence and relevant considerations. This would lose the advantage of transparency and automatic effect, but such a body would be able to take account of the Government's policy on public sector pay and inflation, something that may be difficult to reconcile with an automatic uprating method.
- 3.8 MPs' pay has traditionally been uprated annually, in line with most other workers, but could conceivably occur less frequently e.g. once a parliament or over a fixed period. In order to avoid gross dislocations, it may be appropriate to uprate MPs' pay annually, but subject to periodic review by an independent body to ensure the system remains well-founded and is providing appropriate outcomes.

## Frequency of reviews

- 3.9 The terms of reference ask for a recommendation on the frequency of reviews of the use of the comparator and uprating method. Several approaches are conceivable, some of which could be combined. For example:
- reviews at fixed intervals, as currently recommended by the SSRB, e.g. every three or four years;
  - once a parliament, which would typically equate to once every four or five years but could occasionally be at a shorter interval;
  - when triggered by MPs themselves or the Government requesting a review; or
  - when a predetermined condition is met or a threshold has been broken, for example if two successive increases are below the rate of increase of the Consumer Price Index or above the Average Earnings Index.

Policy on public sector pay and inflation target

3.10 The terms of reference of the review say it must ensure that the independent mechanism takes account of the Government’s policy on public sector pay and its target for inflation. Some of the comparators described in paragraph 3.3 and 3.4 might achieve this, for example linkage to a basket of public sector salaries which are set by the Government or by use of an index related only to public sector pay which must be assumed to be generally capable of influence by the Government of the day. There is a balance to be struck here, since as noted below the terms of reference also require any independent mechanism to maintain the support and trust of the public and Members of Parliament. However, if a comparator or uprating method cannot be found which naturally takes account of all these factors, it seems possible that it would have to be an independent body which set MPs' pay year by year, taking account of the Government's public sector pay policy and inflation target and other matters, as is currently the case with the independent Pay Review Bodies.

International mechanisms and experience

3.11 As required by the terms of reference, I am looking at arrangements for setting the pay of members of parliament in other countries. I have asked for information on the countries listed below.

- |             |             |
|-------------|-------------|
| Australia   | Canada      |
| France      | Germany     |
| Ireland     | Italy       |
| Netherlands | New Zealand |
| Norway      | Singapore   |
| Spain       | Sweden      |
| USA         |             |

It is not possible to review all national arrangements, but I would welcome views whether there are any glaring omissions from this list.

Removal of the requirement for MPs to vote

3.12 One of the core aims of the review is to propose a means to remove the requirement for MPs to vote on their own pay and pensions and I am consulting legal and constitutional experts on this issue. This could be achieved through

primary legislation or the passing of a resolution in the House of Commons. However, the means by which MPs are removed from the process of voting may depend on the mechanism recommended for a comparator and/or uprating method and, in any event, since parliament is sovereign, whatever the selected mechanism it would be reversible by the House at any time. Obviously it is easier to proceed by way of a "gentleman's agreement", i.e. a Resolution, rather than primary legislation.

## Pensions

3.13 The terms of reference refer to the determination of pensions as well as pay. However, pensions are more complicated. The Parliamentary Contributory Pension Fund is tailored to the unusual pattern of service of MPs who in the past have tended to enter the Commons in their 40s or 50s, although this pattern may be changing. The terms of the pension scheme have been the subject of recommendations from the Senior Salaries Review Body although the Government and the trustees negotiate on the details and final decisions are taken by MPs themselves voting in the Commons.

3.14 Given the complexity of pensions, it is difficult to envisage any kind of automatic comparator or adjustment mechanism. The best solution would appear to be for an independent body to continue to consider the benefits of the pension scheme and members' contributions as part of their total reward, and to make recommendations. The Government and the House could agree to accept those recommendations, though with the trustees being responsible for detailed implementation.

## Support and trust

3.15 Putting in place an independent mechanism which removes the need for MPs to vote on their pay and pensions should help to improve public confidence. However, it is also important to maintain the confidence of MPs themselves. The terms of reference require that both of these groups are satisfied. Some obvious considerations here are: the status and composition of an independent body; the validity of any comparator/start point; the transparency of any automatic uprating system. Although not the subject of this review, confidence in the system for reimbursing MPs' expenses is also vital.

## An independent review body

3.16 The terms of reference require me to consider the membership and remit of any independent body that is to be part of the pay setting process, as well as the range of evidence that should be considered by it. I am also required to

give due consideration to consistency with other public service wage setting mechanisms and wage settlements across the public service. This could be a wholly new body, with new terms of reference. Alternatively, given that the SSRB, working through a sub-committee, has made recommendations on MPs' pay, pensions and allowances for over 30 years and is involved with setting the pay of other groups of senior public sector workers, it could be adapted to this new role in relation to MPs' pay and pensions. However, its remit may need revision and it could be given more formal status, e.g. through legislation or endorsement in a resolution of the House. Its membership could also be revised<sup>2</sup>, for example to include someone with experience of the House of Commons (though not a current MP, who could be seen as having a conflict of interest).

## Timetable for transition

3.17 Finally I am required to recommend a timetable for transition. I am currently minded to recommend that any new arrangements should be backdated to April 2008, with the new uprating and review procedures taking effect from 2009, subject to the necessary measures being passed by the House of Commons. However, other arrangements may have advantages, for example for the House of Commons to adopt the new arrangements during this parliament but with implementation from the beginning of the next.

## Section 4: Issues on which I seek views

In the light of the above discussion I should welcome responses to the following questions:

Q1 What is to be understood by the identification of a "comparator"?

It could be an occupation with which MPs' pay would keep in step or a basket of jobs, or indices such as CPI, RPI, average public sector earnings, etc. What view do you take and why? What do you rule in and what do you rule out? And what are your criteria for so doing, e.g. transparency, objectivity, etc?

Q2 What is the most appropriate way of uprating MPs pay?

It could be by annual review by an independent body. It could be by reference to other pre-selected salaries, by reference to published indices of prices, earnings or

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<sup>2</sup> Appointments to the SSRB are currently made by the Prime Minister following open competition, supervised by the Office of the Commissioner for Public Appointments. Some pay review bodies are already enshrined in statute, but not the SSRB.

settlements. What advantages/disadvantages do you see in these (or other) options?

Q3 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?

Again, what considerations in your mind are most relevant?

Q4 Should MPs' pay be uprated annually or at less frequent intervals, e.g. once a Parliament? Why?

Q5 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?

What in your view are the main considerations here?

Q6 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?

Strictly interpreted, this seems to imply regular intervention by an independent body. But there may be indices or "read across" to some possible comparators which are themselves responsive to public sector pay policy at one remove.

What are your views on this point?

Q7 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.

Q8 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? A resolution of the House to accept whatever the new system and its outcomes would produce? Enshrining an independent body in statute? Are there any further mechanisms which you would suggest?

Q9 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?

Q10 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?

Or might it be best to make use of the SSRB's expertise by ring-fencing the sub-committee which deals with remuneration of the elected assemblies, perhaps giving it a new status in law, additional membership, and a new title?

Please explain your preferences in detail.

Q11 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?

Q12 Do you have any views on the transition arrangements?

## How to respond

Please send any responses to this consultation document by 11 April 2008 to:

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Bay 665  
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London  
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or by e-mail to:

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I do not propose to publish responses received.

## Confidentiality and Data Protection

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you wish other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of

Practice with which public authorities must comply and which deals, among other things, with obligations of confidence.

In view of this it would be helpful if you could explain why you regard the information you have provided as confidential. If the Office of Manpower (which is supporting me in this review) receives a request for disclosure of the information, it will take full account of your explanation but cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Office of Manpower Economics.