

PART 1

confidential filing.

Nationalised Industry Board Salaries.

NATIONALISED

INDUSTRIES.

MAY 1980.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
7.80		16.6.81		20.11.81			
10.7.80		18.6.81		24.11.81			
22.7.80		23.6.81		25.11.81			
23.7.80		24.6.81		2.12.81			
30.7.80		1.7.81					
14.8.80		10.7.81					
23.1.81		10.7.81		-ends-			
28.1.81		16.7.81		X			
12.2.81		17.7.81					
16.2.81		24.7.81					
26.2.81		28.7.81					
3.3.81		5.8.81					
6.3.81		27.8.81					
10.3.81		3.9.81					
30.3.81		21.9.81					
6.4.81		26.10.81					
22.4.81		24.10.81					
8.5.81							
4.6.81							

PREM 19/545

PART 1 ends:-

3.12.81

PART 2 begins:-

4.12.81

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
LCA to E(80) 16th Meeting, Minutes	20.5.80
E(81) 72	25.6.81
E(81) 23rd Meeting, Item 2 and LCA	2.7.81
E(81) 87	11.9.81
E(81) 88	11.9.81
E(81) 28th Meeting, Item 1	21.9.81
E(81) 111 and addenda	5.11.81
E(NI) 181 3rd Meeting, Item 1	6.3.12.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed AWayland

Date 4 August 2011

PREM Records Team

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Top copy returned to
J. Hoskyns.
2 December 1981

POLICY UNIT

PRIME MINISTER

INCENTIVES FOR NI CHAIRMEN: E(NI) 3 DECEMBER 1981

1. You have pointed out the danger that a system of incentive payments could allow the Boards of energy-based industries to do well by price increases. This can be avoided by designing the scheme properly. For example, the bonus could be inversely related to price increases. It could also be related to physical measures of productivity and performance. It must be consistent with our privatisation aims.
2. Difficult though it will be, we think the principle is absolutely right. The strongest argument in its favour is that it will force the industries and the Government to be absolutely clear about their objectives. The central point in the CPRS report on nationalised industries is the need for such clarity. It will oblige Whitehall to develop a higher degree of competence and precision in its monitoring. Departments pay lip-service to this but are reluctant to accept that it must mean changes in staffing and organisation.
3. CPRS have recognised the complexity and suggested that the first step would be to talk to a suitable NI Chairman, and then work out a scheme with that industry. They suggest BT. We hear that this whole idea is quite widely resisted within Whitehall; it is thought to be "too difficult". It follows that if Ministers do decide to experiment it will be crucial to select as a guinea pig an industry whose Minister really believes the approach is worth trying. Keith has pioneered it (successfully) with Ian McGregor. We believe that Patrick Jenkin is personally enthusiastic about trying to make it work more widely. We therefore recommend you invite him to try.
4. As CPRS acknowledge at paragraph 23(i) it will be difficult to meet the requirements of public accountability. These pressures cannot help but conflict with the prime requirements for running a business successfully: high profit motivation; risk-taking etc. To put public accountability first would be to end up with NI managements that took no risks and behaved like the Civil Service itself.

/Yet no-one

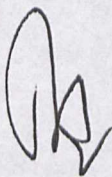
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Yet no-one believes that would be any answer to the problem of how to make NIs more efficient. It ought to be possible to explain to the PAC that the whole purpose of incentive payments is to act as a spur to efficiency. PAC difficulties are not a good reason for abandoning the attempt.

5. I am copying this minute to Geoffrey Howe, Robin Ibbs and Sir Robert Armstrong.



JOHN HOSKYNS

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Reference P.0606

PRIME MINISTER

Nationalised Industry Board Members' Salaries

Flag D - (Minute of 20 November from Mr Ibbs, CPRS,
to the Private Secretary to the Prime Minister)

BACKGROUND

Flag A — In his letter to you of 30 September Sir Robert Marshall complained on behalf of the Nationalised Industries Chairmen's Group (NICG) of the Government's decision to keep increases in board members' pay, with a few exceptions, to within 6 or 7 per cent this year. He argued that this was inconsistent with the new arrangements, introduced when the nationalised industries were removed from the ambit of the Top Salaries Review Body, whereby increases would be based on managerial and market considerations rather than on traditional comparisons and rankings.

Flag B — In your reply of 13 October, you said that you would ask a Treasury Minister to meet the chairmen. The Chancellor of the Exchequer, together with sponsoring Ministers, intends to hold a meeting with the NICG in mid-December.

Flag C — 2. As recorded in his Private Secretary's letter of 12 October to your office, the Chancellor of the Exchequer feels that it would be desirable to show willingness to allow a greater degree of flexibility in future years. He suggested that the chairmen might be told that the Government would like to discuss with them the best way of achieving this, together with the objective of relating pay at lower levels of management more directly to performance. You asked the Central Policy Review Staff (CPRS) to advise urgently on how the Chancellor of the Exchequer's wish to relate salaries more directly to performance, both individual and corporate, might best be put into effect. The outcome is the report circulated *Flag D* — under cover of Mr Ibbs' minute of 20 November to your Private Secretary.

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12/05/81 — 3. Mr Scholar's minute of 25 November records your scepticism of the CPRS recommendations and your fear that the oil based industries would do well from the scheme but that the rest would not, except by heavy increases in prices. I think that the CPRS would argue that your point would be met provided the scheme was related not to profits but to agreed objectives which would include meeting not only financial targets and EFLs but also performance aims (see paragraph 20 of their paper). The immediate question before the Committee is whether they are sufficiently persuaded that the CPRS' proposals are worth discussing with the chairmen and whether there should be a pilot scheme. It would not be necessary to enter into a firm commitment now. It is doubtful whether it would be worth calling for any further internal work on the CPRS proposals; if they are to be carried forward, it seems necessary to bring the nationalised industry chairmen in now.

4. It is an important feature of the CPRS scheme that it should not be seen as a substitute for paying 'a proper basic salary'; they point out that, in private sector schemes, bonuses are not used as a substitute for inadequate pay and conditions. The NICG may well respond to this by saying that while they are willing to look at the idea of a bonus scheme this is not much to do with their complaints over basic salaries in 1981 and, potentially, in 1982. They could, for example, point out that, apart from any industries subject to a pilot scheme, bonuses would not be applying in 1982. They could well ask whether the Government intends to apply a 4 per cent norm to them in 1982. This is not something which Ministers have discussed so far, and the meeting may well like to hear from the Chancellor of the Exchequer how he will handle such questions at his mid-December meeting. His answer will probably be that he will be there to listen to the chairmen but not, at this stage, to say what will happen in 1982.

HANDLING

5. After Mr Ibbs has introduced the CPRS paper you might ask the Chancellor of the Exchequer to reply and then hear the views of each of the sponsoring Ministers.



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6. The immediate question before the Committee is whether the Chancellor of the Exchequer at his mid-December meeting with the NICG can, without commitment, invite the chairmen to give their reaction to the CPRS ideas preparatory to arranging for a detailed scheme to be worked out for a particular industry - the CPRS suggest British Telecom. The Committee may also wish to hear from the Chancellor of the Exchequer how he will handle questions on the basic salary for 1982.

CONCLUSIONS

7. You will wish to record conclusions on whether there is to be further work on the lines proposed by the CPRS and on whether the Chancellor of the Exchequer can discuss the scheme, and the possibility of a pilot scheme, at his forthcoming meeting with the NICG.

PLG

P L GREGSON

2 December 1981



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Prime Minister

Act
J.R.

To note (Mr 1668)

paper will be for discussion

at E (NI) tomorrow

MUS 2/12

2 December 1981

Qa 05735

To: MR SCHOLAR

From: J R IBBS

Nationalised Industries' Board Salaries

1. Your letter dated 25 November to Mr Wright conveyed some initial doubts expressed by the Prime Minister on the effectiveness of a payment-by-results scheme for the nationalised industries. The Prime Minister's scepticism seemed to be based on two observations:

(i) a fear that rising world oil price might make it easy for the energy producing nationalised industries (e.g. BGC and NCB) to meet targets;

(ii) more generally, that industries would seek to meet targets through substantial price increases.

2. It should be possible to overcome both these difficulties in a well designed scheme. The essential steps are to define clearly the objectives that the Government wishes an industry to achieve; to express these in terms of targets (quantified wherever possible); and to specify any necessary constraints on how objectives are to be achieved and to embody these constraints in the scheme.

3. For example, if one objective were a particular financing requirement, not only would there be a target figure with a scale of bonus points related to achieving or bettering it, but the scheme could also take account of -

(a) the extent to which the target was to be approached by means other than price rises (e.g. cost reductions or disposals). Price increases above a specified level, or in excess of a specified index, could be linked to penalty points; achievement of the financing target with lower prices could be linked to additional bonus points.

(b) A formula for excluding from bonus calculations price changes that related wholly to external factors over which the management had no control, for instance world oil prices.



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4. It is because of the need to take account of matters of this kind that objectives must be properly defined, and the nature of the business clearly understood, when a scheme is constructed.

5. I am sending a copy of this minute to Sir Robert Armstrong.

SR

conqueror



cc AD
AW
J Wat Ind
cc CPRS
JS
E

10 DOWNING STREET

From the Private Secretary

MR. WRIGHT

NATIONALISED INDUSTRIES' BOARD SALARIES

The Prime Minister has seen Sir Robert Armstrong's minute to me of 24 November and also Mr. Ibbs' note of 20 November, together with the report attached.

The Prime Minister agrees that Mr. Ibbs' paper should be discussed at an early meeting of E(NI).

As I explained to Mr. Ibbs, she has herself some doubts about the approach in the CPRS paper. She commented as follows:

"I am very sceptical. I suspect the oil-based industries would do well because of the nature of the industry - the rest would not, except by heavy increases in prices."

I am copying this minute to Robin Ibbs.

M. C. SCHOLAR

25 November 1981

Ref: A06075

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Prime Minister

A.

MR. SCHOLAR

Ms 24/11

Nationalised Industries: Board Salaries

I have read with much interest Mr. Ibbs's note of 20th November and the Report attached to it on the possibility of relating the salaries of Nationalised Industry Board Members more directly to their performance.

2. I do not know whether a scheme of the kind proposed could be made to be workable, and paragraph 23 of the note sets out some formidable problems. To put a scheme into operation would certainly take a strong commitment by Ministers and a determination to deploy the necessary resources to overcome the problems.

3. But I see considerable advantage in discussing the proposals in E(NI) and then with the Nationalised Industries Chairmen's Group, before taking a final decision on whether to proceed in this direction. The Chairmen will not like the thinking in the CPRS paper, but I believe that it could have a very useful effect for them to know that the Government were thinking on these lines, and the resulting discussion could well help to open up thinking on the whole matter of Nationalised Industries Board Members' salaries.

4. I am sending a copy of this minute to Mr. Ibbs.

REA

Robert Armstrong

24th November 1981

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File

ds

CC HO CAB
 FCO MOT
 HMCT
 DES Mr. Hayhoe
 D/M CO
 MAFF
 DOT
 D/N
 CSO
 PGO
 MOD
 DOE
 NIO

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10 DOWNING STREET

From the Private Secretary

24 November 1981

Dear Ian,

British Shipbuilders Board Salaries 1981/82

The Prime Minister was grateful for your Secretary of State's minute of 17 November about salary increases for Board Members of British Shipbuilders.

She agrees the course of action proposed in the Secretary of State's minute.

I am copying this to the Private Secretaries to Members of E Committee, Adrian Carter (Barney Hayhoe's Office); and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Ian Ellison, Esq.,
Department of Industry.

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ds



10 DOWNING STREET

From the Private Secretary

cc CDLO HMT MFJ
 NIO FCO
 DOE HO
 MOD CO
 PGO
 CS, HMT
 DN
 DOT
 MAFF
 DM
 DES
 DOI 24 November 1981

Nationalised Industries' Board Members' Pay: Messrs Bosworth
 and Reid

The Prime Minister was grateful for your Secretary of State's minute of 13 November, in which he sought the agreement of E Committee to the terms of reappointment of Messrs Bosworth and Reid.

The Prime Minister agrees with your Secretary of State's proposal in relation to Mr. Reid. But she does not agree to the proposed increase for Mr. Bosworth. She has commented that there is no reason why his salary should be higher than that of Chairmen of other nationalised industries (and that if he chooses to leave, so be it).

I am sending copies of this letter to the Private Secretaries to members of E Committee, and to the Chancellor of the Duchy of Lancaster, and to David Wright (Cabinet Office).

W.C. SCHOLAR

Anthony Mayer, Esq.,
 Department of Transport.

DSG

PRIME MINISTER

Nationalised Industries' Board Salaries

You have expressed doubts about this CPRS report on the possibility of relating nationalised industries' board member salaries to their performance.

On one point you have raised, that the board members would be able to engineer success through heavy price increases, the CPRS would argue that they are envisaging a number of success indicators, some of which are unrelated to profitability: performance aims in terms of reduced real unit costs and/or productivity aims; an assessment of service provided, whether by non-financial indicators or consumer survey, and qualitative assessment, by a panel, of performance against non-commercial objectives (see paragraph 20 of the report).

The CPRS report is, no doubt, open to a number of criticisms. But it is essential to make progress on this subject. Is not the best way forward to have the report circulated to E(NI) for discussion - obviously without any implied endorsement by yourself?

Do you agree to this?

Yes not

MCS

*Please also now see
Robert Armstrong's minute
at flag A. *ant**

24 November 1981



cc Joan Porter

Nak in J

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

The Rt Hon Patrick Jenkin, MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON

NBPM

24 November 1981

Patrick Jenkin

TPM

I have seen a copy of your minute of 17 November to the Prime Minister proposing a 16.7% salary increase for the Finance Director of British Shipbuilders.

I note that Barney Hayhoe supports your view that an exceptionally high increase for this position is justified by the high market value placed on financial ability and the need to provide for a satisfactory salary structure for the BS Finance Directorate. I see no reason to dissent from this view and agree that the proposed increase should be paid.

I am sending a copy of this letter to the Prime Minister, other members of E Committee, Barney Hayhoe and to Sir Robert Armstrong.

Joan Porter



Prime Minister

Pg. 10. J. Yarker (2)
MUS 30/11 A. Duguid
A. Walters

I have already
recorded your objection

to the increase proposed for Mr Bosworth.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

MUS 24/11

PRIME MINISTER

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS: MR BOSWORTH
AND MR REID OF BRITISH RAIL

David Howell copied ^{TPM} to me his minute to you seeking clearance
of his paper E(81)111 in correspondence.

2. The paper makes proposals for salary increases for
Mr Bosworth and Mr Reid of BR. The increase in Mr Bosworth's
salary is linked to the proposal to reappoint him for another
term as Deputy Chairman. I am bound to wonder whether
there is an opportunity here for a new appointment. One of the
major problems we seem to face with British Rail is getting
the Board itself to accept the need for rapid and far-
reaching changes. In these circumstances we need to give
especially careful scrutiny to the position of long-standing
Board members such as Mr Bosworth. I hope this is something
we can keep in mind even if reappointment in this case is
appropriate - and on this I am prepared to accept David Howell's
judgement, albeit with slight hesitation.

3. If Mr Bosworth is to be reappointed, I would not wish
to object to his being offered a salary of £46,000, provided
that this is not accompanied by any further improvement in
his pension arrangements.

4. I am also prepared to accept that Mr Reid should be
given a salary of £35,045 in order to give him parity with
the Vice-Chairmen of BR.



5. Provided other colleagues are content, I do not think that we need to discuss these proposals at E.

6. I am copying this minute to David Howell, Janet Young and other members of E and to Sir Robert Armstrong.

Peter Jenkins

(G.H.)

23 November 1981

(Approved by the Chancellor of the Exchequer and signed in his absence)

1 D.

Prime Minister

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Agree conclusions A-E,
subject to the views of
20 November 1981

Qa 05726

To: MR SCHOLAR

From: J R IBBS

I am very surprised. your colleagues?

I suspect the oil-based industries would do well because of the nature of the industry - other Nationalised Industries: Board Salaries next would not -

MCS 20/11

except by heavy increases in rules

1. Your letter of 29 October conveyed a request from the Prime Minister that the CPRS should produce a report, by 20 November, on the possibility of relating nationalised industry board members' salaries to their performance.

2. Our report is attached. The conclusions are summarised at the end (paragraphs A - D, page 11). In brief, we believe that payment-by-results schemes for nationalised industry boards should be feasible and useful, though they will need a sharper definition of performance objectives; some problems, particularly relating to accountability, will have to be overcome. If Ministers agree, they will need first to discuss with the Chairmen, then subject to their reaction to arrange for a detailed scheme to be worked out for a particular industry.

3. Your letter suggests that the Prime Minister may wish to have the report circulated for consideration in E(NI). Clearly Ministers will wish to reach a view as soon as possible, so that the pay issue does not complicate discussion of the broader issues arising out of the main CPRS report.

4. I am sending a copy of this minute and the report to those who received a copy of your letter.

JR

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NI Board Salaries: Payment by Results

1. The CPRS was given a remit, in a letter of 29 October 1981 from the Prime Minister's Private Secretary, to advise urgently on ways in which the concept of relating Board members' salaries more directly to their performance might be put into effect. The aim was to provide a basis for Ministerial decision on the line to be taken on Board Salaries which are shortly to be discussed with representatives from the Nationalised Industries Chairmen's Group.

2. During the three weeks available for the study the CPRS has confined itself to general principles, and has set out to answer two basic questions:-

(i) would it be possible to design a practicable system of payments by results for NI Board Chairmen and members?

(ii) if so, what are the wider implications that the Government needs to take into account before deciding to proceed?

In the course of the study, in addition to wider enquiries, we have had discussions in depth with two companies which operate payment by results schemes in this country and with one large company which after investigation has decided not to do so. We also had detailed discussions with management consultants, both here and in the United States, who have had experience of developing, introducing and monitoring such schemes. In addition we had talks with the Treasury, CSD and the Department of Industry.

Background to the Study

3. The Chancellor has suggested (his Private Secretary's letter to Mr Scholar of 12 October) that relating Board salaries more directly to performance could have a number of advantages in the present situation on Board remuneration. This stems from the decision to remove the salaries of members of nationalised industry Boards from the ambit of the Top Salaries Review Body as from April this year. Ministers wanted greater

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flexibility to base salaries on market considerations - that is on the need to recruit able enough people to the Board, whether from inside or outside the industry; the need to retain and reward Board members; the need to have adequate differentials between Board Members and Senior Management; the performance of the industry; and the general economic climate.

4. Subsequently E Committee decided (E(81)23rd Meeting, Item 2) that because of the difficulties of defending increases larger than those elsewhere in the public sector, the generality of Board members should be held to a 6% or 7% pay increase this year, with individual increases above that level requiring special approval. The number of exceptions so far approved has been very limited. Sir Robert Marshall's letter of 30 September 1981 to the Prime Minister expressed the dissatisfaction of the Nationalised Industries Chairmen's Group with this situation, and with the substantial decline in Board members' salaries in real terms over the last decade.

5. Clearly a scheme of payment by results would offer, among other things, a means by which total remuneration might be increased, and justified in public, without undermining the anti-inflation objective of general restraint of increases in basic pay not justified by performance. To achieve this aim it would be essential that any scheme should be soundly based and not merely be a way of disguising additional basic pay. The purpose of the present study is to enable Ministers to assess, before the possibility is raised with Chairmen, whether the concept of payment by results for Nationalised Industry Boards is worth pursuing.

Purpose of a Scheme of Payment by Results

6. The main aim of payment by results schemes is to act as a spur to improved performance. The overall effectiveness of any large industrial organisation depends heavily on a few Board members and senior managers. The Government is not generally satisfied with the performance of the nationalised industries, and if such schemes could give a sharper edge to Boards and senior management the return in terms of improved results would be very great.

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7. The purpose of such schemes is not to induce management to work harder; the major benefit claimed for them is that they encourage managers to work more effectively. This is because efforts are better focussed on the objectives built into the schemes. Hence those designing the schemes must be clear about objectives.

8. Such schemes also have the effect of increasing average remuneration. As already mentioned, this may be a useful by-product given the current situation on Board pay. But the schemes should not be seen as a reason for letting base rates remain permanently depressed.

Private Sector Executive Bonus Incentive Schemes

9. In the United States there are executive bonus incentive schemes of some kind in most large companies. In the UK a small but rising number of companies is now adopting such schemes. Their essential elements comprise:-

- (i) commitment at the top of the organisation to make the scheme work, since it sets the overall management style;
- (ii) pre-set targets, defined as precisely as possible;
- (iii) a clearly understood set of rules for the scheme involving a sliding scale of bonus payment levels from zero to an agreed ceiling depending on performance against the pre-set targets. To be effective, such bonus payments need to be substantial - a minimum of 20% of base salary if targets are achieved, with the opportunity of a higher pay-out, of up to 50% or more, as a reward for exceptional performance. At the same time it must be clear that the scheme will provide a nil payment for below-standard performance.
- (iv) bonuses are not used as a substitute for inadequate pay and conditions. The two UK companies operating bonus schemes, which we interviewed during this study, had base salaries in the top quartile. The theory is that salary relates to a man's overall market value and value to the company; above-standard performance year by year is rewarded additionally by bonuses. These are normally non-pensionable.

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10. Each scheme is tailor-made to suit the objectives of the management introducing it. The most important variations concern:-

- (i) whether the schemes are completely based on quantitative, non-discretionary criteria; or whether they include qualitative factors and a part-subjective assessment of performance. We found that in the more complex, comprehensive schemes qualitative and part-subjective elements are inevitable;
- (ii) whether the schemes are based only on collective performance, or relate at least partly to the performance of individuals;
- (iii) whether schemes based on annual targets are supplemented by longer-term schemes to ensure that longer-term objectives are not sacrificed to short-term success.

11. Companies operating such schemes appeared satisfied that they were effective in UK conditions and among UK managers, especially given the reduction of the marginal rate of tax to 60%. The effect was to align managers' objectives more closely with those of the company, to make sure that target objectives and individual responsibilities were clear, and to get painful decisions taken earlier.

12. We discussed the US experience with consultants in New York, with particular reference to utilities. Incentive schemes are not usual there in utilities. This is because the culture of utilities is very different from the general US business culture, and attracts a different and more risk-averse type of executive; and because public utility regulatory commissions would normally be reluctant to admit high bonus compensation as a valid element in the cost base.

13. However, we found of particular interest the experience of the major US telephone utility (AT and T). This company decided to change its management style in order to succeed in a future that it foresaw becoming less monopolistic and more competitive. Consultants advised on the introduction of an executive bonus scheme to sharpen up the management and attract higher calibre executives. The scheme was based half on return on capital and half on performance indicators such as consumer installation times and lapsed time to dial tone. Recently, however, the company decided

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to switch to direct sampling of consumer attitudes as a major element in the performance indicators, because they found this the only way of ensuring that the indicators reflected consumer preference properly and did not distort management efforts. We were advised that the introduction of the incentive scheme had been successful in achieving the cultural change the top management had wanted, and also in attracting more thrusting executives from outside the industry who otherwise could only have been attracted through "exorbitant" fixed salaries.

Application of Bonus Incentive Schemes in the Nationalised Industries

14. One type of payment by results scheme has already been applied to a nationalised industry appointment. In April 1980 the then Secretary of State for Industry appointed Mr Ian MacGregor as Chairman-elect of BSC on the basis of an agreement with Lazard Freres Co. New York (LFNY) which provided for substantial payments to LFNY for Mr MacGregor's services, and in addition

"final payments of up to £1,150,000 to be determined by a Review Committee which is to base the decision on its opinion of the establishment under the Chairmanship of Mr MacGregor of a strong and healthy Corporation and the improvement (or deterioration) in the performance of BSC in the three years from 31 March 1981".

15. After initial amazement, the LFNY contract seems to have been accepted by public opinion and the BSC workforce, apparently due to the exceptional talents of Mr MacGregor and the widespread wish for him to succeed. The effect of the contract on his performance at BSC can, however, only be a very general one in terms of overall success or failure. This is because of the great uncertainties against which his performance will have to be judged. Because of these uncertainties it took eleven months to agree the criteria for the performance payments set out in the Annex. Mr MacGregor's first Corporate Plan was essentially an interim plan, and it is only now (nearly half-way through his period of office) that he is expected to put forward a firm Corporate Plan. It is clear that a very heavy weight of judgement will fall on the independent Review Committee when it comes to determine the final payments due to LFNY.

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16. The arrangements for Mr MacGregor's service are an important development and a valuable indication of what can be devised. But to be satisfactory a scheme for direct annual payments to individuals would need to be based on more closely defined initial objectives and to be less dependent on the discretionary judgement of assessors.

17. In the light of our review of bonus incentive payments schemes in the private sector, including experience in the United States as well as the United Kingdom, we believe that it would be feasible to devise workable schemes for each major nationalised industry, and that these might be expected to have a positive effect on performance. However, this would not be easy. As already emphasised, if a scheme is to be satisfactory, a substantial element of the payment needs to depend on clearly defined objectives, operating targets and performance aims. None of the industries yet has these in a form that would be adequate as a basis for⁹ good incentive scheme, although work which Ministers have already approved on objectives and the systematic review of corporate plans should in due course go a long way to provide them. One benefit of taking steps to set up bonus incentives schemes might be that it would create increased pressure for getting on with definition of objectives, targets and performance aims.

18. Each industry would need to be closely involved in the construction of the scheme that was to apply to it. Experienced consultants would be needed to advise in detail on the selection and specification of performance indicators and the setting of quantified target levels.

19. Even given good progress on quantified targets it is likely that there would have to be some element of subjective judgement in arriving at the specific payments to be made under the scheme. This would arise in order to make adequate allowance for the impact on performance of factors outside the industry's control, and in order to assess some aspects of performance which it may not be possible precisely to quantify by means of a formula. This need arises even in private sector schemes, but is likely to be a particular feature for nationalised industries because of the impact of non-commercial objectives. To provide subjective judgement, where this is unavoidable, a reasonably knowledgeable but independent small panel would be needed, as was set up for dealing with payments

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to LFNy for Mr MacGregor's services.

20. A crucial element in any scheme would be to strike an appropriate balance between the factors that relate to the various economic and social objectives for the industry. Definitions and relative weighting would have to be devised specifically for each industry, and would need to be settled by the Secretary of State in consultation with the Chairman. The indicators might include:-

- financial return on assets;
- cash generation (relating to EFL and disposals);
- performance aims in terms of reduced real unit costs and/or productivity improvements;
- assessment of service provided, whether by non-financial indicators or consumer survey;
- qualitative assessment by a panel of performance against non-commercial objectives.

21. In the first instance a scheme might be based on annual performance indicators for the industry as a whole, with the related bonus shared by the Chairman and executive Board members in agreed proportions. It should be possible to work out a straightforward scheme on these lines reasonably soon after the objectives for the industry have been settled, which it is hoped will be by early next year. But US experience suggests that, when a straightforward group scheme has been devised, it will then be worth developing it in two directions:-

- (a) The bonus for individual Board members might be related not only to the overall performance of the industry, but more specifically to their individual performance against targets set by the Chairman. This is clearly likely to have a stronger incentive effect.
- (b) There could be a medium-term as well as an annual element in the bonus so as to ensure that longer-term objectives are not sacrificed in achieving immediate targets. This could take account of performance against the Government's wider objectives for the industry - such as forming separate profit centres, privatisation, and introducing competition - as well

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as cumulative performance against annual targets.

22. We have considered whether a scheme could be introduced under existing statutes or would require new legislation. At present the statutes provide for the Secretary of State to determine Board salaries. Clearly the Board would want some assurance that the bonuses awarded by a panel would not be overridden by Ministers on wider economic grounds. We are advised that under the present legislation sponsor Ministers could not formally transfer to a panel their statutory power to determine salaries. A Bill to transfer to a panel the power to determine bonuses (but not basic salaries) would be legally straightforward, but might be politically controversial. The Boards might be satisfied instead by a firm Government assurance that bonuses will be paid as recommended, and that this will be treated as part of Board members' conditions of appointment.

23. Ministers will need to recognise that there are special problems in introducing a scheme in the public sector:-

- (i) The scheme will face the special requirements of public accountability. Ministers will not only have to defend the scheme initially, but answer questions on individual salaries as these are published (probably as basic salary plus bonus ranges beforehand, and in precise figures after the level of bonus has been determined). It may not always be easy to defend these figures, against Ministerial, public and political perceptions of the industry's actual performance. The PAC may well wish to probe the scheme, and the resulting salaries, in some detail. This degree of publicity is also likely to be unwelcome to Chairmen and Boards (and potential recruits) as against the confidentiality of private-sector schemes.
- (ii) To set realistic targets will require detailed business expertise. The basis for the targets must come from the industries themselves but their views will need to be probed and tested. The CPRS doubts whether Whitehall can at present muster the detailed knowledge and experience which will be needed to set the targets. Consultants might be used at the preparatory stage, but Departments will have to take the main responsibility for getting the targets right. This will require some strengthening in the resources of business judgement available to them.

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- (iii) Closely defined objectives impose constraints. Once bonus payments are dependent on objectives there will be reluctance to accept minor variations sought by Ministers that were not anticipated when the objectives were set. Any diversion of executive time from pursuit of the targets is likely to be resisted. Major new issues would certainly require revision of the objectives.
- (iv) Considerable staff time will be needed, at senior levels in Whitehall and the industries, in setting the targets, adapting them in the light of experience, measuring performance against them and presenting material to the panel. Some of this work would be necessary in any case, to define objectives and monitor performance; but it is likely to be more intensive and detailed, particularly when schemes relate to the specific responsibilities of each Board member.
- (v) The final doubt concerns the effect on Board members. This depends on whether the people concerned have the energy and capacity to respond to the incentive being offered them. No doubt outside recruits attracted by the scheme, and some of the more able insiders, will do so. But some Nationalised Industries have offered relatively low-paid, more secure careers than the private sector, so that it must be doubtful whether some of the executives they have been able to recruit and retain will be ready to respond to the new incentive. At least the schemes should ensure that those who fail to improve performance remain on or near their basic salaries and are clearly identified. (Fear of being seen to fail can be a powerful motivator).

24. In the CPRS view, none of these objections is insuperable. But Ministers should be aware of the difficulties. It will take a strong commitment by Ministers, and a determination to deploy the necessary resources to overcome the problems, if the scheme is to be effective in the public sector.

Attitude of Boards

25. It will be important that Ministers take into account the likely response of NI Chairmen and Board Members. The introduction of a bonus incentive scheme would make explicit the change in the Government's relationship with the industries that is implicit in the CPRS recommendations already endorsed

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by Ministers. It would be clear that Ministers not the Boards decided what the national interest was and that the pay of Board Members depended in part on meeting the specific objectives determined by Ministers.

26. A bonus incentive scheme is no substitute for paying Board members a proper basic salary. The Chairmen would probably therefore want some reassurance that its effect would not be to delay and depress increases in their base pay yet further. There is a related point on pensions. Bonus payments in the private sector are nearly always non-pensionable, because they are designed to fluctuate, and a pension based on high bonus payments in an executive's final years could prove very expensive in a case where there have been low pension contributions in earlier years. The same argument holds for the public sector. Thus Board members will be doubly concerned about the possible repercussions of bonus payments on basic pay, which will continue to determine their pensions. However, if such schemes are seen as the only way in which Board members' remuneration can be substantially increased the Chairmen may be willing to introduce them.

Next Steps

27. The CPRS believe that the benefits offered by bonus incentive schemes for nationalised industries are likely to be worth the effort that will be needed to devise them and to solve the additional problems that arise in introducing such schemes in the public sector. It must be recognised that to introduce such schemes extensively will take at least a year. If Ministers agree, the next stage will be to let the nationalised industry Chairmen know of the Government's interest in exploring in depth the feasibility of such schemes and their detailed implementation.

28. Thereafter, the immediate step would be to engage consultants to construct a scheme for a specific industry. They would need to work closely with the sponsor Department and the industry itself. The support of the Chairman would be important for this work to be fruitful. There would, however, be no point in starting until Ministers had agreed the objectives for the industry and there was reasonably good understanding with the

CONFIDENTIAL

Chairman of what the principal performance aims should be. The CPRS suggests that British Telecom might be a suitable industry for this purpose. The Government's immediate and longer-term aims for it are already reasonably clear and its size and complexity are sufficient to provide a good basis on which to judge whether to go ahead with schemes for all or most of the major industries.

Conclusions and Recommendations

- A. We consider that payments by results schemes could be devised for each nationalised industry Board, and should bring about some improvement in performance of the industries. This would arise in particular from closer focussing on objectives and performance aims. (We also believe that the introduction of payment by results for nationalised industries might be a useful lead in encouraging an increase in results oriented attitudes elsewhere in British industry.)
- B. Potentially a bonus scheme offers a means of providing a publicly justifiable substantial increase in remuneration by linking it with results.
- C. We consider that the key to implementing such schemes would be a close definition of objectives, and agreement on them between sponsoring departments and Boards; performance aims would also need to be defined. The support of the Chairmen concerned would be essential. As yet objectives and performance aims suitable as a basis for such schemes are not generally available; the intention to introduce payment by results might be a useful way of increasing pressure for getting on with much needed definition of objectives, targets and performance aims.
- D. There would be special problems in implementing such schemes in the public sector relating to accountability and staff resources. Ministers would have to be prepared for these and take the necessary action to overcome them.
- E. If Ministers decide to pursue further the possibility of introducing payment by results schemes, then the next step would be to seek the agreement of a nationalised industry Board (perhaps British Telecom) for experienced consultants to work out a detailed scheme with them and their sponsor department.

Payments to Lazard Freres and Co, New York, based on the Performance of the British Steel Corporation under the Chairmanship of Mr Ian MacGregor

On 29 April 1980 the Secretary of State for Industry entered into an Agreement with Lazard Freres & Co, New York (LFNY) for the release of Mr Ian MacGregor from his duties and obligations as a General Partner of LFNY in order that he should serve as Chairman of BSC for 3 years from 1 July 1980.

2. The terms of the Agreement provided that the Secretary of State would compensate LFNY for the release of Mr MacGregor, who has become a Limited Partner in LFNY in which he retains a greatly reduced interest. This compensation to LFNY was to take 2 separate forms:

(a) an initial payment of £675,000, part of which is returnable if Mr MacGregor does not serve the full 3 year term as Chairman;

(b) final payments of up to £1,150,000 to be determined by a Review Committee which is to base its decision on its opinion of the establishment under the Chairmanship of Mr MacGregor of a strong and healthy Corporation and the improvement (or deterioration) in the performance of BSC in the 3 years from 31 March 1981.

3. The final payments are to be made in two stages: a first performance payment of up to £700,000 to be determined when the results for the year ending March 1984 are known, and a final performance payment of up to £450,000 to be determined after the results for the year ending March 1985 are known.

4. The members of the Review Committee have already been announced. They are:

Chairman	Mr John Gardiner
Nominated by LFNY	Mr Albert Frost Lord Weir
Nominated by the Secretary of State	Mr K J Sharp Mr J R Steele

The Agreement provides that the Review Committee should be guided, in determining the performance payments to LFNY, by Agreed Criteria. These Criteria were to be determined by discussion between the Secretary of State, LFNY, Mr MacGregor and the Review Committee. These discussions have now been completed, and the attached document sets out the Agreed Criteria.

Payments to Lazard Freres, New YorkAgreed Criteria for the Review Committee

1 If Mr MacGregor serves a full 3-year term as BSC Chairman, the Committee has to determine a first performance payment of up to £700,000 soon after 31 March 1984, and second payment of up to £450,000 soon after 31 March 1985. This note sets out the Agreed Criteria required to be determined under Paragraph 3(c) of the Schedule to the Agreement of 29 April 1980 for the guidance of the Committee in determining the amount of the payments which in their opinion "reasonably reflects the establishment under the Chairmanship of IKM of the health and strength of BSC and improvement (or deterioration) of its performance within the period of three years from 31 March 1981". No suggestions are made for allocations of the payments to reflect the performance in particular years up to 31 March 1984. But in exercising its discretion, the Committee should recognise that the Government is looking for a progressive improvement in BSC's performance over the years in question, and that the effects of Mr MacGregor's chairmanship should be more apparent in the later years.

2 In assessing performance, the Committee should be guided in particular by the following.

Heading I - Profit and Loss Targets

3 This heading covers the achievement by BSC of the profit and loss targets (before tax and interest) agreed for each relevant financial year between BSC and the Government. Where targets are revised during a year, the revised targets should form the basis of the assessment. The Committee's assessment should take into account the attainment of the targets year by year, the need to achieve a progressive improvement during the period and the overall achievement over the period as a whole.

4 It is left to the discretion of the Committee to decide what shortfall from the profit and loss targets should disqualify LFNY from payments under this heading. In assessing performance under this heading, the Committee, in addition to the level of profit or loss achieved in relation to the targets, should also have regard

to the level of output of the Corporation in terms of total tonnage and in relation to the size of the UK markets it serves and the amount it exports; changes in the capital structure of the Corporation; and any variations in accounting practices adopted.

Heading II - Cost Reduction

5 Targets for cost reduction will include such aspects as reductions in manning levels, better plant utilisation, improved energy utilisation and other improvements in efficiency. A different balance between the different aspects of cost reduction may be appropriate in different years. The Committee should, in its assessment of performance under this heading, have regard to the extent to which cost reduction targets, agreed between the BSC and the Government (whether in a Corporate Plan or otherwise) have been met. To earn payments under this heading there should be improvements across the board in the indicators chosen, although failure to secure a significant level of improvement in one particular indicator should not prevent LFNY from receiving payment if the overall cost-reduction programme had gone well.

Heading III - Privatisation

6 The Government attach particular importance to reducing the size of the public sector involvement in the steel industry, and as a consequence to the transfer, wholly or partly, to the private sector of BSC assets and activities. In making an award under this heading the Committee should not make separate annual assessments but should take into account the extent to which BSC has been privatised over the period of Mr MacGregor's chairmanship.

7 Any transfers to the private sector which affect BSC's performance should not be a ground for a reduction of payments under other headings.

Heading IV - Broader Assessment of BSC's continuing Health and Strength

8 The Committee should take into account the qualitative factors reflecting BSC's longer term health and strength. These factors would include, but are not limited to, management structure, business organisation, financial control, management succession, technical developments, labour relations and general reputation, at all levels of the Corporation.

Assessment of Payments by the Committee

- 9 The Committee should, in determining payments under the Agreement, pay particular regard to the achievement of the profit and loss targets under Heading I and cost reductions under Heading II; about one-third of the money available under the Agreement should be allocated for consideration of an award under each of these headings.
- 10 The BSC will be expected to adhere to the External Financing Limit (EFL) as originally set for each relevant Financial Year by the Government after consultations with the BSC. Although cash discipline is an important indicator of financial performance, the Committee should regard adherence to EFLs as a normal and necessary part of the discipline to which all the nationalised industries are subject, and adherence to the EFLs should not be treated as an element meriting performance payments. The Committee should consider, however, whether success by BSC in achieving its objectives, whilst requiring less than the originally agreed EFLs, should be regarded as an element justifying an increased award under Heading I; and conversely whether failure to keep within the original EFLs should be regarded as justifying a reduced award under Heading I.
- 11 The effects of external economic circumstances will normally be taken into account each year by the BSC and the Government in setting profit and loss, EFL and cost reduction targets. Where unforeseen circumstances arise during the year, which are judged to be beyond the reasonable capacity of the Corporation to accommodate within their original targets, the appropriate response is for the Government and the BSC to reconsider the targets. As a general rule, therefore, the Committee should not take external economic circumstances into account in assessing performance. They should however take into account any directions given by the Government to BSC which may restrict BSC's ability to achieve its targets.
- 12 The Government will maintain and make available to the Committee a file of documents relevant to the Committee's task.

PRIME MINISTER

BOARD MEMBERS' SALARIES: BRITISH SHIPBUILDERS AND BRITISH RAIL

There are two current proposals for increases for specific nationalised industries' Board Members' salaries, relating to Mr. Hares (British Shipbuilders) and Messrs. Reid and Bosworth (British Rail).

Mr. Ibbs has expressed some doubts to me about whether Mr. Bosworth is worth the increase proposed, given what Mr. Ibbs describes as his somewhat peripheral role in BR's main task - running the railway system efficiently.

In his two notes (attached), Mr. Vereker argues that you should intervene in these individual cases only where a particularly large increase or a particularly sensitive Chairman is concerned; he suggests that you intervene in none of the current cases.

Content to agree to Mr. Howell's (Flag A) and Mr. Jenkin's (Flag B) proposals, provided other colleagues are also satisfied with what is proposed?

MUS

20 November 1981

I do not agree with £50,000 for Mr. Bosworth. There is no reason why he should go higher than other chairmen. If he chooses to leave - so be it. Otherwise agreed. not

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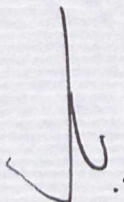
MR. SCHOLAR

cc. Mr. Hoskyns

British Shipbuilders Board Salaries

In his minute of 17 November, Patrick Jenkin seeks the endorsement of colleagues to a 16.7% rise in pay for the BS Finance Director.

Since the re-organisation, the agreement - which has been obtained - of Mr. Hayhoe to a proposal from a sponsored Department constitutes, of course, Treasury approval; and those in the Treasury's Industry and Employment Division who would normally second guess this kind of issue are no longer involved. It would, therefore, be consistent with the approach I have hitherto advised the Prime Minister should adopt on these nationalised industry board salary questions for you to indicate that she is content with the proposal, given that other colleagues concerned are too. I think the Prime Minister ought to intervene only in the case of a particularly large increase, or a particularly sensitive chairman.



J. M. M. VEREKER

17 November, 1981

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cc AD ✓
JV ✓ A.

PRIME MINISTER

BRITISH SHIPBUILDERS: BOARD SALARIES 1981/82

This year salary increases for Board Members of British Shipbuilders will, with one possible exception, all be kept within 7%.

2 The non-executive members recommend a salary for the Chairman of £55,000 (an increase of 14.6%) having taken into account his double function as Chairman and Chief Executive. Mr Atkinson has made determined efforts to improve the Corporation's performance over the past 18 months and I have some sympathy with this recommendation, but since other Nationalised Industry Chairmen are being kept to 7% I have decided to keep his increase to this figure.

3 I believe, however, there is a case for making an exception of the Finance Director, Mr Hares. A 16.7% rise is proposed for him from £27,000 to £ 31,500. Financial ability has a high market value and without a substantial increase there would be little headroom to offer the sort of salaries needed to attract high calibre staff to other positions in the Finance Directorate. For these reasons I think it is important that the salary of the Finance Member should be in the upper half of the Board salary structure - the proposed new range would be £27,500 to £34,500. Even with the proposed increase for Mr Hares the average increase for the BS Board would be only 6.3%.



4 I have consulted Barney Hayhoe about Mr Hares' salary. He accepts that financial ability has a high market value and recognises the problems involved in establishing the need for a satisfactory salary structure for the Finance Directorate of BS. He does not wish to object to my proposal.

5 In the light of these arguments, I hope colleagues will agree to the salary of £31,500 proposed for Mr Hares.

6 I am copying this to the members of E Committee, Barney Hayhoe and Sir Robert Armstrong.

P.J.

P J

17 November 1981

Department of Industry
Ashdown House
123 Victoria Street

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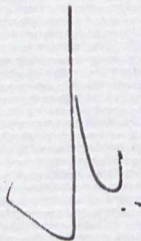
MR. SCHOLAR

cc. Mr. Hoskyns

Salaries of Mr. Reid and Mr. Bosworth

David Howell's note to the Prime Minister dated 13 November seeks agreement in correspondence to the proposals for Mr. Reid's and Mr. Bosworth's salaries he has circulated to "E". I told the Cabinet Office at the end of last week that I thought it ought to be possible to reach agreement without a meeting, since the "E" agenda is so crowded.

I think that, whatever the merits of the complicated salary and pension arrangements now proposed, the Prime Minister should leave it to her colleagues more directly concerned - David Howell and the Chancellor - to sort this out. I really do not think she should be troubled with the details of the exceptions to the 7% rule. So I suggest that the Prime Minister might wait until others have commented, and then to signify that she is content with the consensus reached.



J. M. M. VEREKER
16 November, 1981

CONFIDENTIAL

cc J. Verdu
A. Auguid

B.

has it for comments.

CONFIDENTIAL

Prime Minister

FLAG C

In my paper E(81)(111) circulated on 5 November I sought colleagues' agreement to the terms of reappointment of Mr Bosworth, as Deputy Chairman of the British Railways Board and to an increase in salary for Mr Reid, the Chief Executive (Railways) of some 15%.

Since I understand there is considerable pressure on the "E" agenda next week I wonder whether we might clear this paper in correspondence. Can I assume the way is clear for me to proceed as I propose if I do not hear to the contrary by 19 November.

I am sending copies of this to colleagues on "E", to the Chancellor of the Duchy of Lancaster and to Sir Robert Armstrong.

JH.
~

DAVID HOWELL
13 November 1981

CONFIDENTIAL

APPOINTMENTS IN CONFIDENCE



10 DOWNING STREET

From the Private Secretary

13 November 1981

Chairmanship of the Highlands and Islands
Development Board

The Prime Minister has seen your Secretary of State's minute of 12 November. She is content for him to appoint Mr. Robert Cowan to this post at a salary of £29,000 per annum. She has noted that the appointment will be for five years from 1 February 1982.

I am copying this to Jim Buckley (Chancellor of the Duchy of Lancaster's Office), Peter Jenkins (HM Treasury), Felicity Yonge (Chief Whip's Office), Jeremy Colman (Civil Service Department) and David Wright (Cabinet Office).

(sgd.) W.F.S. Rickett

A.M. Russell Esq
Scottish Office

Original in Appls.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

APPOINTMENTS - IN CONFIDENCE

Prime Minister

Yes mb

Content for Mr Younger to
appoint Mr Cowan at
a salary of £29,000 p.a.?
The policy unit have no
comments.

WM
12/11

CHAIRMANSHIP, HIGHLANDS AND ISLANDS DEVELOPMENT BOARD

This minute seeks your approval to my inviting Mr Robert Cowan, who is at present General Manager of PA Management Consultants in Hong Kong, to accept appointment as Chairman of the Highlands and Islands Development Board (HIDB) for a five-year period from 1 February 1982. I have had very great difficulty with this appointment but after reviewing a large number of names I have concluded that Mr Cowan (who is 49 years of age) would be an excellent choice for the post. I have been keen to find a man with some private sector industrial experience and none of the other candidates who might be willing to serve seem to me to have the right qualities.

The present Chairman, Rear Admiral D A Dunbar-Nasmith, formerly the Vice-Chairman, took over the Chairmanship on an interim basis from Sir Kenneth Alexander, who demitted office on 31 January 1981 to take up the post of Principal and Vice-Chancellor of the University of Stirling. I am much indebted to Rear Admiral Dunbar-Nasmith who has helped me out of what could have been a very difficult situation. He has proved to be an extremely hard-working Chairman, but wishes to stand down as soon as possible and will welcome the early appointment of a successor.

Securing the right Chairman for HIDB is of considerable importance in Scotland but the stipulation in the relevant Act that the appointment is to be full-time effectively requires the Chairman to take up residence in or near Inverness. This has undoubtedly contributed to the difficulty in finding a suitable permanent replacement for Sir Kenneth. Another difficulty has been the level of salary. As the appointment is for five years only, with no guarantee of reappointment, and as acceptance of the post necessarily requires an upheaval of domestic arrangements, Janet Young has agreed to my offering a salary of £29,000 per annum (1981 rates) as being the market rate necessary to secure Mr Cowan's acceptance of the appointment. Mr Cowan will be offered the usual choice of pension by analogy with Board staff or, subject to cost considerations, continuation of his present pension arrangements.

I have no doubt that Mr Cowan has all the necessary qualities for the post which requires someone with an unusually broad background to match the very wide scope of the Board's economic and social development functions. His experience in dealing with companies' plans and problems

The current 1980 salary is £21,750, but the T&RB 14 recommendation is for £33,000 p.a.

WM
12/11

Original in Appls.

will be of particular assistance to him as Chairman; and as a Scot he understands the history and difficulties of the Highlands and Islands. He will bring to the Board an energetic and distinguished direction and although Mr Cowan is not a nationally-known figure I am confident that he will quickly overcome by his performance of the duties any initial criticism of his appointment. Sir Ian Bancroft and Sir Douglas Wass are content with this proposal.

I am copying this minute to Janet Young, Geoffrey Howe, Michael Jopling, Sir Ian Bancroft, Sir Douglas Wass and Sir Robert Armstrong.

A. Y.

12 November 1981



Civil Service Department
Whitehall London SW1A 2A7
Telephone 01-273 4400

Chancellor of the Duchy of Lancaster

9 November 1981

The Rt Hon George Younger, MP
Secretary of State for Scotland
Dover House
Whitehall
LONDON SW1A 2AU

HIGHLANDS AND ISLANDS DEVELOPMENT BOARD: APPOINTMENT OF NEW CHAIRMAN

Thank you for your letter of 20 October in which you propose inviting Mr Robert Cowan to accept appointment as chairman of the Highlands and Islands Development Board.

Given the very real difficulties you have experienced in finding a suitable successor to Sir Kenneth Alexander and your assurance that an offer of £29,000 pa is the minimum necessary to ensure Mr Cowan's acceptance, I am prepared to accept that, on market grounds, he should be paid £29,000 (1981 rates).

I understand that you are seeking details of Mr Cowan's present pension arrangements and confirmation of what he would want if he were to take the HIDB chairmanship. These details are needed in good time before Mr Cowan is finally offered the appointment. We must be satisfied that the cost is acceptable.

You will of course need to clear both the salary and the appointment itself with the Prime Minister.

On removal expenses, since Mr Cowan has already been given the expectation of full assistance, I agree that in this case you should honour that commitment. But I should be grateful if in all future cases the normal Civil Service practice could be applied.

I am copying this letter to members of E Committee and to Sir Robert Armstrong.

*Yours sincerely,
Baroness Young*

BARONESS YOUNG

Original in Appls.

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Nat Ind

HL



10 DOWNING STREET

cc HMT D/TRNS
DOE D/N
SO D/EMP
DOI CO
DOT *CSD*

29 October 1981

From the Private Secretary

BF 20.11.81

Nationalised industries: board salaries

I attach an exchange of letters between myself and the Chancellor of the Exchequer's Private Office about the salaries of board members in the nationalised industries.

You will see that the Prime Minister would be grateful if the CPRS as a matter of urgency and as an extension of their work on nationalised industries would advise on ways in which the concept of relating board members' salaries more directly to their performance might be put into effect. She hopes that for this purpose you would be able to consult management consultants who are expert on such schemes in private industry.

The Prime Minister would be grateful if you could produce this report by 20 November. It could then be circulated to E(NI) so as to provide the basis for agreement on the line to be taken with the nationalised industries chairmen's group on the subject of their salaries.

I am sending copies of this letter to Peter Jenkins (H.M. Treasury), David Edmonds (Department of the Environment), Muir Russell (Scottish Office), Ian Ellison (Department of Industry), John Rhodes (Department of Trade), Anthony Mayer (Department of Transport), Julian West (Department of Energy), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

M. C. SCHOLAR

Robin Ibbs, Esq.,
Central Policy Review Staff.

CONFIDENTIAL

SW



*cf A. Dignid
J. Verker
A. Walters*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 October 1981

Michael Scholar, Esq.,
Private Secretary,
10, Downing Street

Dear Michael

NATIONALISED INDUSTRIES: BOARD SALARIES

Thank you for your letter of 27 October.

This question was briefly discussed at an informal meeting the Chancellor held on 27 October with a number of nationalised industry sponsor Ministers - Mr. Jenkin, Mr. Howell and Mr. Gray (deputising for Mr. Lawson). There was general agreement that it would be highly desirable to find a way of relating the pay of nationalised industry Chairmen more directly to their performance in achieving the objectives which are set for them. It was agreed also that from the point of view of achieving the necessary co-operation with the Chairmen in the changes resulting from decisions on the CPRS report, there was a strong case for moving down the road towards greater flexibility on the lines suggested in my letter of 12 October.

The Chancellor is accordingly entirely content with the Prime Minister's proposal to invite the CPRS to advise on ways of putting this concept into effect in the nationalised industries.

I will leave you to circulate this letter with the other correspondence to the Private Secretaries of the nationalised industry sponsor Ministers.

*Yours ever
Peter*

P.S. JENKINS

Nat Ind.

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10 DOWNING STREET

From the Private Secretary

27 October 1981

af

Nationalised Industries: Board Salaries

Thank you for your letter of 12 October.

The Prime Minister is attracted by the Chancellor's suggestion that we should not just reject the protest by the Nationalised Industries' Chairmen's Group but show willingness to allow more flexibility; and she thinks that the general concept of relating salaries more directly to performance, perhaps by the introduction of a performance-related element into their remuneration, could be a useful development in that regard. But as expressed in your letter it is a very general concept. If it were to be discussed with the Chairmen, they would be bound to ask for more detail; and it could be less than helpful to raise the issue as a general idea but then find that there was no sensible and practicable way of giving effect to it.

She proposes therefore to invite the CPRS as a matter of urgency, and as an extension of their other work on nationalised industries, to advise on ways in which this concept might be put into effect in the context of the nationalised industries. For this purpose they would be able to consult management consultants who are experts on such schemes in private industry.

She will ask the CPRS to report by 20 November. The report can then be circulated to E(NI), either for discussion or as a basis on which a line to be taken with the Chairmen's Group can be agreed in correspondence.

If the Chancellor is content with these proposals, I will arrange to circulate copies of your letter and of this letter to the Private Secretaries to the Secretaries of State for the Environment, Scotland, Industry, Trade, Transport, Energy and Employment.

MS

P.S. Jenkins, Esq.,
HM Treasury.

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NBPM



Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State

Richard Riley Esq
Private Secretary to the
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

26 October 1981

Dear Richard

WHITE PAPER ON PUBLIC BOARDS

will request if required

Thank you for your letter of 13 October.

Mr Hayhoe has noted the Secretary of State for Industry's views. However, since the question of whether or not the salaries of the Boards of BL and Rolls Royce should be controlled by the Government is currently under consideration, the Minister of State takes the view that if it is eventually decided that the Boards' salaries should be controlled, then Rolls Royce and BL should be included in the new edition of the White Paper. Were he to do otherwise he would lay himself open to accusations of withholding information of a genuine public interest.

If the salaries of the Boards were not to be controlled by Government then the Minister of State would be content to leave these two companies out of the next White Paper.

Yours sincerely,

Adrian Carter

A A CARTER
Private Secretary

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Prime Minister

①

cc Mr Vercher

Mr Duguid

then return to me pl.

Ref. A05755 M/S 19/10

MR. SCHOLAR

Content to request a CPRS

study of performance-related pay

for Nat. Industries Board ~~members~~
members?

M/S 26/10

Yes
no

Nationalised Industries: Board Salaries

You asked for advice on the handling of the discussion proposed in the letter of 12th October from the Chancellor of the Exchequer's Private Secretary.

2. It would clearly be useful for whoever is going to see the Nationalised Industries' Chairmen's Group to have something positive to put forward, on the lines of introducing some element of performance-related payment into their remuneration, and I think many Ministers would welcome that possibility. But, as described in the Treasury letter, it is a very general concept indeed, and I should have thought that, before Ministers decided whether to launch it on the Chairmen's Group, it would be as well to have some study of the possibilities: the Chairmen would be bound to ask for more detail on what the Government had in mind. It would be worse than unhelpful if the concept was launched on the Chairmen and it was only after that that it was discovered that no-one could devise a sensible way of putting it into effect.

3. I therefore recommend that the Prime Minister should ask the CPRS, as an extension of its other work on nationalised industries, to report as a matter of urgency on ways in which this concept might be put into effect. They will be able to take the advice of management consultants who are experts on such schemes in private industry. On the basis of their report, which I suggest should be asked for by 20th November, Ministers will be able to consider whether the possibilities justify launching the idea on the Chairmen's Group.

4. I have discussed this with Mr. Ibbs, who would be ready to accept this remit.

5. The CPRS might be invited to prepare their advice as a report to the new Ministerial Sub-Committee on Nationalised Industries (E(NI)), of which the Prime Minister is Chairman. We can consider whether the report calls for a discussion, or whether the line to be taken with the Chairmen's Group can be agreed in correspondence, when we have the CPRS report.

6. If the Prime Minister agrees, you may like to write on the lines of the draft attached.

RA

ROBERT ARMSTRONG

CONFIDENTIAL

GR/
Pl type letter
MS 27/10

DRAFT LETTER FROM MICHAEL SCHOLAR TO
P.S. JENKINS, ESQ., PS TO CHANCELLOR OF
THE EXCHEQUER

Nationalised Industries: Board Salaries

Thank you for your letter of 12th^{mid 22nd} October.

The Prime Minister is attracted by the Chancellor's suggestion that we should not just reject the protest by the Nationalised Industries' Chairmen's Group but show willingness to allow more flexibility; and she thinks that the general concept of relating salaries more directly to performance, perhaps by the introduction of a performance-related element into their remuneration, could be a useful development in that regard. But as expressed in your letter it is a very general concept. If it were to be discussed with the Chairmen, they would be bound to ask for more detail; and it could be less than helpful to raise the issue as a general idea but then find that there was no sensible and practicable way of giving effect to it.

She proposes therefore to invite the CPRS as a matter of urgency, and as an extension of their other work on nationalised industries, to advise on ways in which this concept might be put into effect in the context of the nationalised industries. For this purpose they would be able to consult management consultants who are experts on such schemes in private industry.

She will ask the CPRS to report by 20th November. The report can then be circulated to E(NI), either for discussion or as a basis on which a line to be taken with the Chairmen's Group can be agreed in correspondence.



If the Chancellor is content with these proposals, I will arrange to circulate copies of your letter and of this letter to the Private Secretaries to the Secretaries of State for the Environment, Scotland, Industry, Trade, Transport, Energy and Employment.

Chancellor

Nationalised Industries' Chairmen's Group

Chairman
Sir Robert Marshall KCB, MBE †

PO Box 403
33 Grosvenor Place
London SW1X 7JG

22.10.81

01-235 1212

The Prime Minister, The Rt. Hon Margaret Thatcher PC MP
10 Downing Street
Westminster
London SW1

Dear Prime Minister

*R23/10
MP*

Thank you for your letter of 13th October. I understand why you feel unable to see us yourself given the very heavy calls on your time. We look forward instead to discussing with the Chancellor of the Exchequer the questions raised in my letter.

However I owe it to Nationalised Industries Board Members to draw your attention to the fact that the argument of wider economic and political considerations has been used on every occasion since the TSRB's first report in 1972 as a reason for not paying Board Members the salaries recommended and, this year, for not implementing your Government's new procedures. I cannot believe that you regard this as right or efficient. We think it unfair and damaging.

*Yours sincerely
R. B. Marshall.*



Nat Ind. 89
B

cc: Mr. Vercher
Mr. Duguid

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

BF 23/10

NATIONALISED INDUSTRIES: BOARD SALARIES

I attach recent correspondence between Sir Robert Marshall and the Prime Minister about nationalised industries board salaries. I also attach a letter from the Chancellor of the Exchequer's Private Office dated 12 October.

I think the Prime Minister would be grateful to have advice on the handling of the discussion which the Chancellor is proposing. I have discussed this with Mr. Jenkins in the Chancellor's Office, and it may be that a meeting of the Ministers concerned will not be essential, if there is general agreement to the line set out in Mr. Jenkins' letter. On the other hand, since the matter was discussed by E Committee last time round it would perhaps be appropriate for there to be a collective discussion of the line the Chancellor is now proposing; and it may be that there is a convenient meeting of E(NI) at which it would be possible to consider this issue.

MS

13 October 1981



10 DOWNING STREET

THE PRIME MINISTER

VB

cc HMI
CO
COT
Enor
Scottish
Trade

Transport
CST
Energy
Employment

13 October, 1981

Dear Sir Robert,

Thank you for your letter of 30 September which was awaiting me on my return from Australia and Pakistan. I appreciate that the Government's decisions on salary increases for nationalised industry board members will have been a disappointment to many Chairmen. However, we made it clear when the new arrangements for determining board pay were being discussed with you that general economic circumstances would have to be one of the factors taken into account and at present the need for pay restraint must in our view take priority. Nevertheless, we have been prepared to authorise significant increases where there is a particularly strong case for these.

I agree that it would be helpful to have discussion of these matters. Unfortunately the pressures on my time over the coming weeks really make it impossible for me to see you myself, and so I have arranged for one of my Treasury colleagues to be in touch with you to fix such a meeting.

Yours sincerely
Margaret Thatcher

Sir Robert Marshall, K.C.B., M.B.E.

KB



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

12 October 1981

Michael Scholar, Esq.,
10, Downing Street

Dear Michael,

NATIONALISED INDUSTRIES: BOARD SALARIES

The Chancellor has seen Sir Robert Marshall's letter of 30 September to the Prime Minister, enclosed with your letter of 1 October to Jim Buckley seeking advice. He has also seen Jim Buckley's reply of 9 October, and agrees that while it would be useful if the Prime Minister could find time to see the nationalised industry Chairmen, there might be advantage in his doing so at one of his regular meetings with them.

However the Chancellor does think that the Government's line on this question needs to be carefully thought out before the meeting.

He does not think it would be right to be seen to reverse the E Committee decision taken in July that the generality of Board Members should be held to a 6 per cent or 7 per cent pay increase, with individual increases above that level requiring special approval. However he feels it would be desirable to show willingness to allow a greater degree of flexibility in future years. This was after all our original reason for breaking away from the rigidity of the TSRB, and is important in itself if the Government is to achieve its object of relating salaries more directly to performance, both individual and corporate. We might tell the Chairmen that the Government would certainly like to discuss with them the best way of achieving this - perhaps adding at the same time that the Government would like to see pay at lower levels of management in the nationalised industries related more directly to performance, and proposing that this should be discussed as well.

At all events the Chancellor does not believe that the Chairmen's protest should simply be rejected. The issue is a delicate one which could have an important bearing on our relations with the Chairmen, and in particular could make it more difficult to secure their co-operation - which we shall need - in the

/implementation



implementation of the proposals emerging from the CPRS report on nationalised industries. He suggests that as the next step the Prime Minister might like to arrange a talk about the problem with Lady Young, himself and the Secretaries of State for Industry, Energy and Transport.

Yours ever,
Peter

P.S. JENKINS



Chancellor of the Duchy of Lancaster

Prime Minister

Civil Service Department

Whitehall London SW1A 2AZ

Telephone 01-273 4400

Given the pressures on your
time at present perhaps the
best course would be to

From the Private Secretary

9 October 1981

steer Sir R Marshall's

request for a meeting towards

the Chancellor. If you agree

perhaps you would sign the attached

reply to Sir R Marshall.

Michael Scholar
10 Downing Street
LONDON SW1

Dear Michael,

MCS 9/10

NATIONALISED INDUSTRIES: BOARD SALARIES

You asked for advice on the letter which Sir Robert Marshall sent to the Prime Minister on 30 September about the salaries of Chairmen and Board Members of nationalised industries.

As the Prime Minister will recall the salaries of members of nationalised industry boards were removed from the ambit of the Top Salaries Review Body in 1980 so that Ministers would have greater flexibility in determining them. New arrangements for settling these salaries were then agreed in Government, discussed with the Nationalised Industries Chairmen's Group and announced by the Prime Minister on 7 April. These new arrangements provided for salary increases to be based on managerial and market considerations rather than on traditional comparisons and ranking. The announcement went on to list the factors which would be taken into account - these included the general economic climate. Subsequently E Committee decided (E(81)23rd Meeting, Item 2) that the generality of Board Members should be held to a 6% or 7% pay increase this year, with individual increases above that level requiring special approval. The number of exceptions so far approved has been very limited.

In consequence nationalised industry chairmen and their boards feel badly let down by the Government's decisions and Sir Robert Marshall's letter reflects this. We have no doubt that they must be given the opportunity of making representations at a high level and the Prime Minister is the natural recipient of such representations. On the other hand a meeting with Sir Robert Marshall and a few colleagues confined solely to pay could attract adverse publicity. Apart from the pressures on her diary, the Prime Minister may want to consider whether that risk is worth running. An alternative might be to invite them to discuss their pay with the Chancellor of the Exchequer when next they meet him, as they do from time to time, to discuss wider economic and industrial matters. The Chancellor of the Exchequer's office may have a suitable occasion for this in prospect; if not it may be possible to manufacture one.

... The attached draft reply to Sir Robert Marshall has been written on the assumption that the Prime Minister will agree to meet him and his colleagues herself. If it goes in this form, and given that Sir Robert's letter touches on wider issues, the Treasury will no doubt wish to brief the Prime Minister for the meeting as well as us. You may also want to consider copying Sir Robert's letter to the main sponsor Ministers (the Secretaries of State for Energy, Environment, Industry, Scotland, Trade and Transport) in case they have comments.

I am copying this letter to John Kerr (Treasury) and David Wright (Cabinet Office).

*Yours sincerely,
Jim Buckley.*

J BUCKLEY

DRAFT LETTER FROM THE PRIME MINISTER TO
SIR ROBERT MARSHALL

NATIONALISED INDUSTRIES: BOARD SALARIES

which was awaiting me on my return from Australia and Pakistan

Thank you for your letter of 30 September. I appreciate that the Government's decisions on salary increases for nationalised industry board members will have been a disappointment to many Chairmen. However, we made it clear when the new arrangements for determining board pay were being discussed with you that general economic circumstances would have to be one of the factors taken into account and at present the need for pay restraint must in our view take priority. Nevertheless, we have been prepared to authorise significant increases where there is a particularly strong case for these.

2. I agree that it would be helpful if we met to discuss these matters and my office will make arrangements for this as soon as other commitments permit.



NBPM
NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

A A Carter Esq
Private Secretary to the
Minister of State
Civil Service Department
Whitehall
LONDON

9 October 1981

WHITE PAPER ON PUBLIC BOARDS

Thank you for copying to me your letter of 14 September to Willie Rickett.

We agree that the White Paper is a useful document and should be continued, with the next edition coming out early in 1982.

We share MAFF's view that an entry for the Sea Fish Industry Authority would not be appropriate.

Copies of this letter go to all recipients of yours.

A M RUSSELL
Private Secretary

MR. SCHOLAR

cc: Mr. Hoskyns
Mr. Ingham o.r.

REQUEST FROM THE NATIONALISED INDUSTRIES CHAIRMEN'S GROUP TO SEE
THE PRIME MINISTER

Robert Marshall's letter of 30 September to the Prime Minister poses the difficult question of whether she should receive the Nationalised Industries Chairmen's Group.

The NICG do have some cause for complaint, although the facts are not as stark as set out in Robert Marshall's letter. There is no decision to raise all Board members' salaries by 7%. But certainly the E decision to limit most of them to that figure was scarcely consistent with their understanding of what would happen after their salaries were taken out of the TSRB. And with such a senior group of Chairmen in such key industries it would look a little odd if the Prime Minister refused to receive them.

On the other hand, there is not much to be gained from our point of view from such a meeting. There is little by way of assurances that the Prime Minister can offer, since it is undoubtedly true that we are trying to keep their salaries down; and any meeting between the Prime Minister and the NICG can scarcely avoid addressing wider and more difficult issues, such as nationalised industry pay and what to do about their enormous losses. Such a meeting would also undoubtedly turn into a media event: today's column in the FT by John Elliott, for instance, already shows clear signs of briefing from the NICG.

I think the balance of argument falls against the Prime Minister receiving a NICG delegation. I think the advice that you are likely to get from the Treasury is that this is not really a problem for the Chancellor, since the CSD are supposed to be coordinating Board members' salaries; and that the advice

/ from

from the CSD will be that they ought to see the Chancellor. I do not think they will be satisfied by a meeting with Lady Young, whose role is a purely coordinating one; one possible way out would be to suggest that the issues could be put on the agenda for the Chancellor's next regular meeting with the NICG.

Ju

6 October 1981



10 DOWNING STREET

From the Private Secretary

1 October 1981

NATIONALISED INDUSTRIES: BOARD SALARIES

I enclose a copy of a letter from Sir Robert Marshall dated 30 September about the salaries of Nationalised Industries Board Members. As you will see, the letter also goes on to a number of wider issues.

I would be grateful for your advice as to the reply the Prime Minister should send; I would also be grateful for advice as to whether the Prime Minister should agree to a meeting with Sir Robert Marshall and his colleagues. I should add, whatever the advice is on this latter point it may prove very difficult, given the pressures on the Prime Minister's diary, to arrange such a meeting in the near future.

It would be most helpful to have a draft reply by Friday, 9 October.

I am sending a copy of this letter to John Kerr (HM Treasury).

MICHAEL SCHOLAR

Jim Buckley, Esq.,
Office of the Chancellor of the Duchy of Lancaster.

1 October 1981

In the Prime Minister's absence in Melbourne, I am writing to thank you for your letter of 30 September.

I will show this to the Prime Minister on her return and a reply will be sent to you as soon as possible.

MICHAEL SCHOLAR

Sir Robert Marshall, KCB, MBE



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON, SW1A 2HH
TELEPHONE: 01-839 7711, EXT.

From the Minister's Private Office

A A Carter Esq
Private Secretary
Minister of State's Office
CSD
Whitehall
SW1A 2AZ

✓ NBPM

1 October 1981

Dear Mr Carter,

WHITE PAPER ON PUBLIC BOARDS

in PM's Box
en route to Malbone

Thank you for copying to me your letter of 14 September to Willie Rickett.

Our concern is with the question of whether the Sea Fish Industry Authority should be included in any further White Papers. My Minister agrees that this Authority is not a body of a commercial character and should not be included.

I am copying this letter to the Private Secretaries to members of E, to those to the Secretaries of State for Defence, Transport, Scotland, Wales and Northern Ireland, and to Sir Robert Armstrong's Private Secretary.

Yours sincerely
Kate Timms.

KATE TIMMS
Principal Private Secretary

✓ Mus

Nationalised Industries' Chairmen's Group

Director
James Driscoll

PO Box 403
33 Grosvenor Place
London SW1X 7JG

30th September, 1981.

01-235 1212

W.F.S. Rickett, Esq.,
Private Secretary,
Prime Minister's Office,
10, Downing Street,
LONDON, S.W.1.

Dear Mr. Rickett,

I am writing about the letter on Board salaries which Robert Marshall has today sent to the Prime Minister. In the hope that it may simplify matters for you when passing that letter on to colleagues, I am enclosing extra copies of the coloured graph which was attached.

We are, of course, handling Marshall's approach as a strictly confidential matter. However, we are having to lie valiantly to do so, since the Press is now clearly smelling a story about the 7% limit, and is pressing us hard.

Yours sincerely,

Jim Driscoll

Nationalised Industries' Chairmen's Group

Chairman
Sir Robert Marshall KCB, MBE†

30th September, 1981

The Prime Minister, The Rt Hon Margaret Thatcher PC MP
10 Downing Street
Westminster
London SW1

Dear Prime Minister

NATIONALISED INDUSTRIES: BOARD SALARIES

Most Chairmen of Nationalised Industries have by now received replies from their Ministers on the proposals about Board Members' salaries which they had put forward under the new arrangements introduced on 1 April. The replies are to the effect that salaries of Board Members are to be raised by 7%. Chairmen are greatly concerned about the stark inconsistency between this decision and the more flexible and realistic proposals for determining Board salaries which you announced in the House. They have asked me to write to you about it.

Part of our concern is about detailed practical considerations to do with the efficient conduct of our businesses, such as the enforced constriction or even reversal of the proper pattern of pay differentials at and below Board level. Once again this has become a matter of major practical consequence, affecting management efficiency, morale and appointments. It has been a perennial difficulty, which we have repeatedly impressed on Ministers.

A second very troubling matter is that many Chairmen have made calls on their busy part-time members (who include leading private sector industrialists) to seek their help in preparing salary proposals in accordance with your new arrangements. These non-executive directors now find their experienced judgments completely ignored and it would be surprising if this did not reinforce their dismay at the way in which Board appointments and salary matters in the public sector are so often handled by Government.

1110
Copy to John Vereker

Andrew Duguid

A.

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

cc ENW
Scottish
Trade
Transport

CST
Energy
Employment

The Prime Minister, The Rt Hon Margaret Thatcher PC MP

However, our particular concern is about the implications of the Government's decision for the future of the market-related and performance-related system for determining salaries which you foreshadowed in your statement in July 1980 and announced formally last April. Chairmen were willing to give the system a fair trial despite certain misgivings which they had expressed during the consultations on the new arrangements. We have been waiting expectantly to see how the system would work in practice and we reminded the Chancellor of the Exchequer of this when we met him and other Ministers in July. We now find that first time round, Ministers have backed away from the problems inherent in their own proposals; and instead of allowing market and performance factors to operate, they have resorted to across-the-board pay limits just as has happened so often in the past.


Chairmen and their Boards fully appreciate the economic difficulties facing the country and the importance that you (and we) attach to moderation and good sense in pay settlements as an essential ingredient of economic recovery. But the fact is that little or nothing has changed in this respect since you told Parliament in April about your new market-related Board salary arrangements. We had assumed, surely with justification, that the Cabinet had fully considered the implications of the new proposals before you made your statement, and had decided to bear with any short-term repercussions in order to secure the wider and longer term advantages to be gained from a proper system of remuneration for those charged with the management of these major businesses. It baffles and concerns us that you have instead reached the same sort of decision as your predecessors have on so many occasions in the past.

I enclose a graph and table which illustrate the results for Board members over the last ten years or so. They may help you to understand our particular sensitivity about the deplorable way in which our salaries have been handled.

The Prime Minister, The Rt Hon Margaret Thatcher PC MP

I should appreciate an opportunity to call on you with one or two of my colleagues to put these matters to you personally and to discuss with you how this intractable and longstanding problem might be resolved on an acceptable and efficient basis. I make this request with great diffidence in view of the tremendous pressures on you. But the history of the handling of Board salaries in the public sector industries is such that it tends to become a cause of friction and distrust between Government and ourselves. We regret this very much indeed. We share your desire to achieve high levels of efficiency in our businesses so that we can contribute to the maximum to the nation's wellbeing. Contrary to your views, we believe our industries have often been successful in this, sometimes in the face of great difficulties - political, industrial and managerial. Perhaps, time permitting, you might allow us to put to you our views on these wider matters too. We have the national interest at heart as vividly as anyone else, wherever he or she may work.

Yours sincerely,

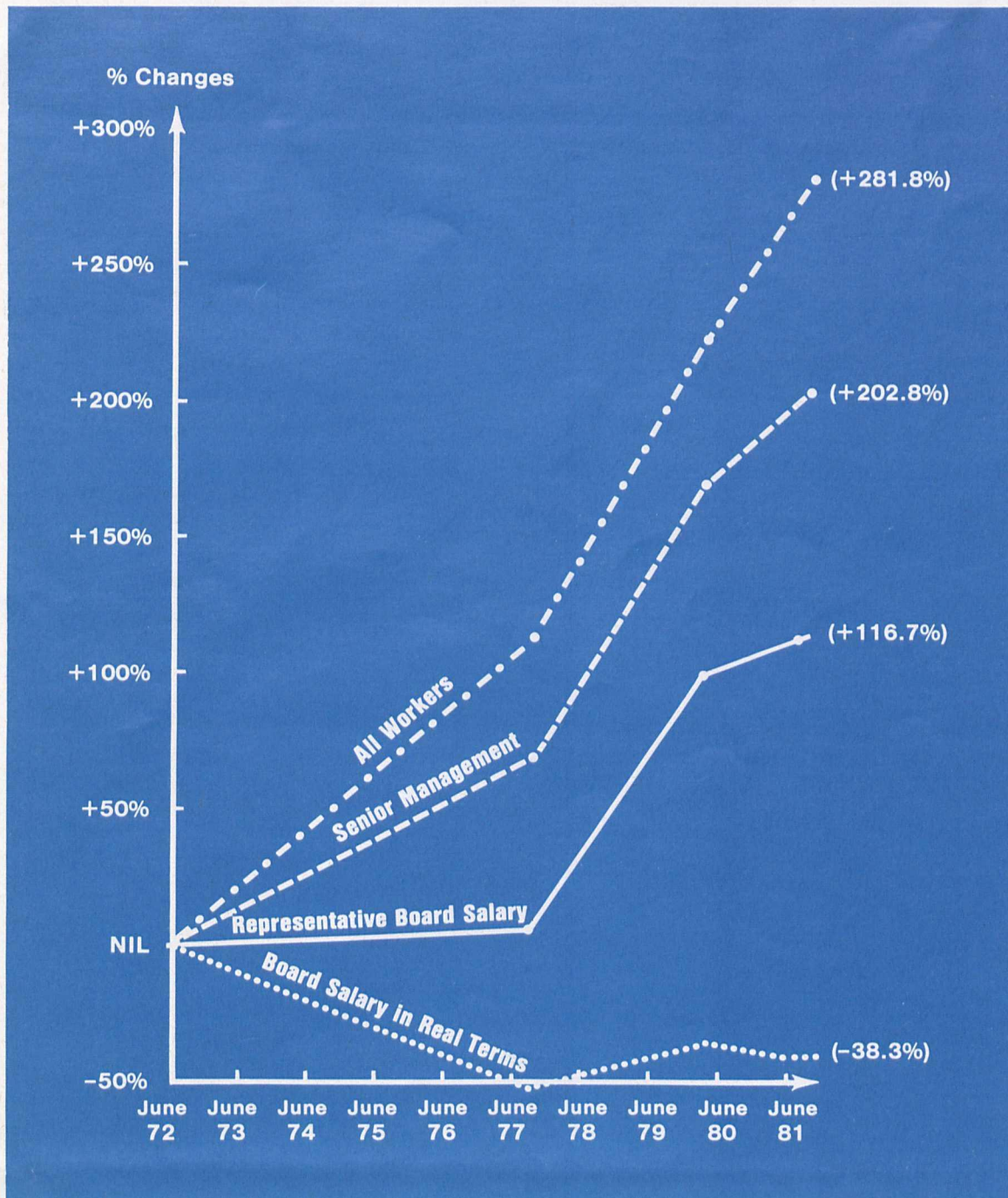
A handwritten signature in blue ink, appearing to read "A. B. Hancock". The signature is fluid and cursive, with a large initial "A" and "B".

Chairman.

PUBLIC SECTOR BUSINESSES

PAY OF A REPRESENTATIVE BOARD MEMBER

PERCENTAGE CHANGES SINCE JUNE 1972



Notes:

1. The line for a "representative Board salary" is based on the pay of a full-time Board Member in a large Corporation, (British Rail, British Gas, NCB, etc.), whose salary stands at the mid-point in the appropriate salary scales at all time. It allows for the application of the 7% increase at present being discussed.
2. The line for "Board salary in real terms" is based on the relevant gross salaries derived as in note 1, converted to a constant price basis, with June, 1972 = 100, using the Retail Price Index.
3. The line for "all workers" is based on the Government's average earnings index for the whole economy; and the line for "senior management" is based on Hay/MSL data for median salaries in jobs immediately below Board level in all the companies involved in their Annual Surveys.

BOARD SALARIES

APPROPRIATE AND ACTUAL LEVELS

The Top Salaries Review Body was established in 1971 to consider what levels of salary were appropriate for the Chairmen and Members of the Boards of the public sector businesses, among others. The Government committed itself "to accepting the recommendations of the Review Body, save where there are clear and compelling reasons to do otherwise". However, although its initial interim report was fully implemented, every single set of conclusions which it subsequently reached about the appropriate level of Board salaries was either wholly or largely rejected, or was applied only after considerable delays. The table below shows the pattern for two particular levels of appointment.

Dates	TSRB Reports concerned	Chairman, Group B Corporation		Executive Member, Group A Corporation	
		Salary level considered appropriate by TSRB	Salary level fixed by Government	Salary level considered appropriate by TSRB	Salary level fixed by Government
		£	£	£	£
June 72.	TSRB 2	19,000	19,000	14,500	14,500
Jan. 75	TSRB 6	24,000	19,600 *	20,000	15,100 *
Jan. 78	TSRB 10	28,000	22,000	23,500	17,100
Apl. 79	TSRB 11	31,000	28,000	26,000	21,550
Apl. 80	TSRB 14	37,000	34,000	32,000	29,375

* nil increase

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Not
Ind.

PRIME MINISTER

E: NATIONALISED INDUSTRIES BOARD MEMBERS' PAY

We do not think that significant pay policy issues - such as the need to pay market rates for incoming chairmen, or the presentational effects of the salaries paid - arise from either of the two papers on the E Agenda. The points for decision are rather detailed ones, which only come to the Committee because E agreed in the summer that exceptions to the 7% rule must come back; they can safely be left to be argued out among the Chief Secretary, the Chancellor of the Duchy and the sponsor Ministers.

You might, however, want to remind your colleagues that there is no automatic entitlement to the 7%: there may well be a case for some of the board members in the loss making industries getting considerably less.

Jr.

18 September 1981

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

Nationalised Industry Board Members' Pay
(E(81) 87 and 88)

BACKGROUND

At their meeting on 2nd July (E(81) 23rd Meeting, Item 2) the Committee invited Ministers sponsoring nationalised industries to approve increases in the salaries of nationalised industry board members no higher than 6 - 7 per cent in 1981 and, in consultation with the Lord President of the Council [now the Chancellor of the Duchy of Lancaster], to put forward for collective discussion proposals for any increases higher than that.

2. The new Secretaries of State for Energy and for Transport are willing to speak to their predecessors' papers recommending higher increases for area Electricity Boards and for three cases in the transport industries; whether they will take precisely the same line on all the details remains to be seen.

3. In E(81) 88, the Secretary of State for Energy reports that increases for British Gas Corporation and Atomic Energy Authority board members were limited to 7 per cent and that the same is proposed for National Coal Board members and for most Electricity Board members. He asks that, exceptionally the Deputy Chairmen of Area Electricity Boards should be paid 13.3 - 17.5 per cent more to remove an inverse differential between them and senior management which has existed for five years and, at worst, is now £5,820. If this was approved, he recommends a consequential increase of 6.9 - 9.5 per cent for chairmen of the area boards in order to prevent the creation of a new inverse differential between them and their deputies.

4. The Secretary of State for Transport reports, in E(81) 87, that nearly all his board members are to get 7 per cent. He asks the Committee to agree to:-

- (i) the re-appointment of Mr. Bosworth as Deputy Chairman of British Rail with his salary increased by 25 per cent to £50,000 (this increase being seen as necessary to retain him,

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and as the best way of making good the disadvantages in his present pension arrangements);

- (ii) an increase of 15 per cent to £35,000 for Mr. Reid, the Chief Executive of British Rail, to put him on the same level as the two Vice Chairmen, and to keep him above the pay of some of his executives;
- (iii) 15 per cent to give £23,250 to Mr. Williams of British Transport Docks Board so as to keep him in line with other board members and senior officers;
- (iv) the extension to British Rail board members of death-in-service benefits for which 300 senior staff are eligible. The Civil Service Department are opposed to this; they fear that the benefit would then have to be made available to other public sector boards.

HANDLING

5. You might ask the Secretary of State for Energy to speak first: his paper raises a general question of whether there should be exceptional increases to deal with inverse differentials, and the answer to it is relevant to two of the proposals made by the Secretary of State for Transport. You will then wish the Secretary of State for Transport to present his proposals. On each you will need to hear in particular the advice of the Chancellor of the Duchy of Lancaster, in view of the Civil Service Department's co-ordinating role in this area, and to hear from the other Ministers sponsoring nationalised industries whether the proposals would have repercussions for their boards and whether they see similar problems coming up. Any detailed points over the precise arithmetic of percentage increases could be cleared out of Committee.

6. The main questions you will wish to cover are:-

(i) Area Electricity Boards

In this particular case does the problem of inverse differentials justify the higher increases proposed?

More generally, should the Area Boards, and other boards, be warned that the Government will not necessarily take

CONFIDENTIAL

steps to remove inverse differentials and that they should take account of the problem of differentials, along with other factors, in their future salary policy for senior staff? Otherwise the Boards might be tempted not to be as rigorous as they might be in determining senior staff salaries, in the expectation that the Government would not or could not withhold consent for the increases for board members that would have to follow, if new inverse differentials were to be avoided.

(ii) Mr. Reid, British Rail, and Mr. Williams, BTDB

Is it agreed that their salaries should be increased so as to remove inverse differentials and any other anomalies?

(iii) Mr. Bosworth, British Rail

Is it worth paying a 25 per cent increase to ensure this particular re-appointment?

(iv) Death-in-Service Benefit for British Rail Board Members

Should this be turned down (as the Civil Service Department advise) on the grounds that similar benefits would probably have to be made available throughout the public services?

7. The Secretary of State for Transport's paper records the view of the CSD on the particular question of death-in-service benefits. You may think it worth suggesting that, as a general rule in future papers, the CSD's view should be briefly stated for each proposal put forward. This would be consistent with their co-ordinating role and could be helpful to the Committee in dealing with what are, inevitably, detailed and somewhat technical proposals. The procedure would be similar to that for public expenditure proposals and the requirement on Departmental Ministers to include a paragraph recording the Treasury's views.

CONCLUSIONS

8. You will wish to sum up with reference to the detailed proposals listed above. If you think that it would be helpful, you might also record the Committee's wish that in future cases sponsoring Ministers should include a note of the Civil Service Department's comments on their proposals.

RA

Robert Armstrong

18th September 1981



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

Kenneth Baker's Office

APPOINTMENTS: IN CONFIDENCE

10 September 1981

Mike Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

Anni Huwale

*Mr Dearing's salary
has been agreed by
CSD. Are you content?*

Yes not.

Dear Mike

12/1/9

Further to Jonathan Hudson's letter of 20 August I am now writing with our salary proposals for Mr Dearing when he takes up his appointment as Chairman of the new Post Office.

We have taken the opportunity of this year's salary review to produce, in agreement with the CSD, a revised salary structure for all the members of the new Post Office Board. The ranges agreed are proportionately lower than those approved for the members of the British Telecommunications Board which were based directly on the previously agreed ranges for the old Post Office Corporation. This revised structure is in recognition of the fact that the new Post Office, whilst still a very large and complex organisation with banking and huge cash handling responsibilities, is not as weighty an assignment as British Telecommunications.

My Minister has proposed a revised salary for the Chairman of the new Post Office of £53,650 per annum. This is £4,000 per annum less than the rates already approved by the Prime Minister for Sir George Jefferson as Chairman of BT and (pro rata) for Sir Henry Chilver in his role as caretaker Chairman of the 'old' Post Office until 30 September 1981. The proposal has been agreed by the Minister for the Civil Service.

I should be glad to know that the Prime Minister is content that this new salary should be implemented for Mr Dearing when he takes up his appointment on 1 October 1981.

Copy in App's.



I am copying this letter to Jill Rutter at the Treasury and to Adrian Carter at the CSD.

Yours ever

L. Riley

MRS LIZ RILEY
PRIVATE SECRETARY

Not Ind

UCSD

r#



10 DOWNING STREET

From the Private Secretary

2 September 1981

New Arrangements for Determining Pay
of Board Members: Scottish Transport
Group

The Prime Minister was grateful for Mr. Younger's minute fo 28 August. She is content with his proposals.

I am sending a copy of this letter to Adrian Carter (Civil Service Department).

W. P. S. RICKETT

Godfrey Robson, Esq.,
Scottish Office.

26



1.
NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Prime Minister

Content?

PRIME MINISTER

Yes not

MA 1/1x

NEW ARRANGEMENTS FOR DETERMINING THE PAY OF BOARD MEMBERS: SCOTTISH
TRANSPORT GROUP

In accordance with the new arrangements the Group has submitted its recommendations for the pay, from 1 April 1981, of the Chairman, Executive Deputy Chairman and Non-executive Board Members.

In recognition of the present economic climate I am recommending an increase of 7% the effect of which is shown in the attached table. In the case of the Executive Deputy Chairman I propose to increase his range by 7% and it will be for the Group to decide where on the new range he should be placed.

I have the agreement of Barney Hayhoe (in Christopher Soames' absence) to these proposals and I would be glad to know whether you approve the increases for the Chairman and the Executive Deputy Chairman.

C. Y.

28 August 1981

SCOTTISH TRANSPORT GROUP

	TSRB 14 RATE	Full-time rate/range at 1.4.80	Actual salary at 1.4.80 rates	Proposed full-time rate/range at 1.4.81	Proposed Actual Salary at 1.4.81
Chairman	£16,500	£30,500	£15,250	£32,600	£16,300
Executive Deputy Chairman	£23,500 - £30,500	£22,000 - £27,500	£24,750	£23,500 - £29,500	To be determined by the Group
Board Members	£19,500 - £25,000	£20,250	£2,530	£21,600	£2,700

Original in Appointments

N-2

1201

27 August 1981

Thank you for your letter to Mike Pattison of 20 August about the salary increases to be awarded to Sir George Jefferson as Chairman of the new Telecommunications Corporation and Sir Henry Chilver as part-time Chairman of the Post Office. The Prime Minister is content with the proposals set out in your letter.

She notes that you will be writing separately with your proposals for Mr. Dearing's salary when he takes up his appointment as Chairman of the new Post Office; and she has commented that she doubts whether any increase on the revised Chairmen's rate will be necessary for Mr. Dearing.

I am copying this letter to Jill Rutter (HM Treasury).

W. F. S. RICKETT

J.C. Hudson, Esq.,
Department of Industry.

Copy in Appels.



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY'S office

Kenneth Baker MP

Mike Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

Prime Minister

Content to allow a 7% increase
in the pay of the Chairmen of
British Telecom and the Post Office?

20 August 1981

WM
26/8

Yes
M

Dear Mike,

~~The new arrangements for determining the pay of nationalised industry Boards require that the consent of the Prime Minister should be obtained for proposals for salary increases for chairmen and chief executives.~~

I am now writing about ~~the increases to be awarded to Sir George Jefferson as Chairman of the new British Telecommunications Corporation, and Sir Henry Chilver as part-time chairman of the Post Office.~~

My Minister has proposed a ~~revised Chairman's rate of \$57,650pa with implementation date deferred from 1 April to 1 July. This represents an increase of 7% on an annual basis.~~ Sir Henry Chilver, whose term of office will expire on 30 September, the day before Vesting Day, will receive one-fifth of the Chairman's rate, ie pro-rata to the time he is devoting to the job. Sir George Jefferson will receive his new salary from 27 July when his appointment as Chairman of BT was made effective. He will receive the same percentage increase on his salary as Chairman Designate for the period 1 July to 26 July inclusive. ~~These proposals have been approved by the Minister for the Civil Service.~~

I should be glad to know that the Prime Minister is content that these increases should be implemented.

~~I shall be writing separately with our proposals for Mr Dearing's salary, which will become effective when he formally takes up his appointment as Chairman of the new Post Office on 1 October.~~

Don't shelter that needs
any work
M

I am copying this to Richard Tolkien in the Chancellor's office.

Yours sincerely,
Jonathan Hudson
Jonathan Hudson
Private Secretary

JONATHAN HUDSON

Copy in Apples.



cc: Angwin (or)
J. Hodgins
Max
hd

10 DOWNING STREET

From the Private Secretary

5 August 1981

TRANSPORT - NATIONALISED INDUSTRY
BOARDS

The Prime Minister was grateful for your Secretary of State's minute of 31 July on the above subject, and has noted its contents.

I am sending a copy of this letter to Jim Buckley (Lord President's Office), Jeremy Colman (Civil Service Department) and David Wright (Cabinet Office).

J. P. LANKESTER

Anthony Mayer, Esq.,
Department of Transport.

Copy in Appointments.



APPOINTMENTS - IN CONFIDENCE

Prime Minister

mk

PRIME MINISTER

TRANSPORT - NATIONALISED INDUSTRY BOARDS

You may like a report on where we now stand on board appointments and pay in my industries.

TZ

4/4

National Bus Company

I was grateful for your agreement that Lord Shepherd should be reappointed Chairman of the National Bus Company for a further 2½ to 3 years. I am glad to be able to tell you that I have now reached agreement with him that he should continue for a further 3 years, i.e. up until 31 December 1984. He has accepted that his salary will be increased by 7% to a new figure of £21,830 for a 3 day week. I shall be considering the timing of the announcement of his Chairmanship and in the meantime I am having the decision treated as confidential.

You will also be very glad to know that Lord Shepherd and the Chief Executive of the National Bus Company, Mr Robert Brook, have told me that they will cooperate fully with my proposal to transfer National Express to a private company with a minority NBC shareholding. This means that we now have the cooperation of all 4 of our transport industries Chairmen in privatising parts or the whole of each of the four original transport nationalised industries.

APPOINTMENTS - IN CONFIDENCE



APPOINTMENTS - IN CONFIDENCE

British Rail

You will be glad to know that following my recent minute to you about the revised offer which I wished to put to Peter Parker, to which you agreed as set out in your Private Secretary's letter of 16 July, he has accepted the revised terms based on the reduced salary of £60,000. He will therefore be accepting a further two year appointment as Chairman of British Rail ending on 11 September 1983. The timing of the announcement of this reappointment will need to be chosen with great care, and I am sure we should keep it confidential until after the current negotiations on railway pay have been settled.

Board Members' Pay

I have today told the Chairmen of British Rail, the National Bus Company and the British Transport Docks Board of our decision that increases in Board Members' pay should be limited to 7%.

I am writing separately to the Lord President about two individual cases where I believe that special treatment would be justified. But apart from this, whilst all three Chairmen were disappointed, they have accepted the decision.

I am sending a copy of this minute to Christopher Soames and to Sir Ian Bancroft and Sir Robert Armstrong.

NORMAN FOWLER

31 July 1981

APPOINTMENTS - IN CONFIDENCE

J. Vereker
A. Onguid
A. Walters

Nat Ind

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE, SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Jim Buckley Esq
Private Secretary to
The Lord President of the Council
Civil Service Department
Whitehall
London SW1A 2AY

28 July 1981

12
797

Dear Jim,

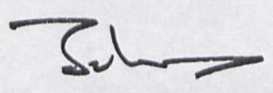
PAY OF NATIONALISED INDUSTRY BOARD MEMBERS - ELECTRICITY SUPPLY INDUSTRY

I am sorry that the attached table referred to in my Secretary of State's letter of 21 July was omitted in error.

May I also correct two of the figures contained in the body of the letter. The figure of £2000 in the last line of page 1 should read £3700; and that of £23,150, fourteen lines from the bottom of page 2, should read £23,320.

I am copying this letter to Tim Lankester (No 10) and to the Private Secretaries of other members of E Committee as well as to David Wright (Cabinet Office).

Yours GUS,



Julian West

July 1981

CONFIDENTIAL

ELECTRICITY SUPPLY INDUSTRY

BOARD MEMBERS PAY

1980 Salary
 Proposed for 1981
 1980 plus 7%

TSRB 14
 1980
 Recommendation

ESI
 Proposal 1981 (1 April)

ELECTRICITY COUNCIL

Chairman £48000
 Deputy Chairman £32-40500
 Member (Full time) £26-32750

£51,360
 £34,240 - £43,335
 £27,820 - £35,040

£52,500
 £34,500 - £45,000
 £28,500 - £36,500

£57,750
 £45,000 - £49,500
 £36,500 - £40,150

CEGB

Chairman £42,000
 Deputy Chairman £30500-£38500
 Member (full time) £25250-£31500

£44,940
 £32,635 - £41,195
 £27,015 - £33,705

£46,000
 £33,500 - £43,000
 £27,500 - £35,500

£50,600
 £46,500
 £37,000

AREA BOARD

Chairman £23750-£29750
 Deputy Chairman £17500-£22500

Proposed for 1981
 1980 plus:

9.5% - £26,000 - £31,800
 6.9% - £31,800
 17½% - £31,800 - £37,500
 13.3% - £37,500
 £23,500 - £25,500
 and shorter scale

£26,000 - £33,500
 £19,000 - £25,000

£33,500 - £36,850
 £28,475 - £31,322

Chief Officers

(actual from 1.4.81)

£20,955 - £23,320



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

From the Private Secretary

27 July 1981

Julian West Esq
Private Secretary to the Secretary of State
for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

Handwritten initials: JL
Handwritten initials: vj/n

Dear Julian,

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS: THE NATIONAL COAL BOARD AND THE ELECTRICITY SUPPLY INDUSTRY

The Lord President has asked me to write to you about your Secretary of State's two letters of 21 July. On the salaries of members of the National Coal Board the Lord President remains of the view that the increases of up to 16% that your Secretary of State has proposed are too large in the present economic circumstances. In the Lord President's view, we should only agree to increases of over 6 or 7% when there is a pressing need to do so. He does not think that such a need has been demonstrated in the case of the Coal Board.

On the electricity supply industry, he is pleased to see that you propose only a 7% increase for members of the Electricity Council and the Central Electricity Generating Board and is content to approve these proposals.

The Area Electricity Boards pose a greater problem. The Lord President is conscious of the unfortunate history of inverse differentials between the deputy chairmen of the Area Boards and their senior staff that has plagued the industry. Whilst he would like to resolve this problem, in the present economic circumstances the Lord President does not feel able to agree to increases of up to 17%. He feels that this should be discussed in E Committee.

I am copying this letter to Tim Lankester (No.10), Private Secretaries to other Members of E and the Secretaries of State for Scotland and Transport and to David Wright in Sir Robert Armstrong's office.

Yours sincerely,
Jin Buckley.

J BUCKLEY



Original
in appts.

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

24 July 1981

The Rt Hon Norman Fowler MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

Mr Lancaster

*cc Mr Dwyer
(with previous
papers)*

R.

*W
2/8*

Dear Secretary of State,

REAPPOINTMENT OF SIR PETER PARKER

I refer to your recent minute to the Prime Minister, in which you proposed an alternative remuneration package for Sir Peter Parker's reappointment.

We are all agreed that it would be wrong to allow the nationalised industries to take on extra superannuation liabilities based on Board Members' earnings in part-time private sector appointments. It is also contrary to the normal Inland Revenue rules. I recognise, however, the importance which you attach to securing this reappointment. The commitment is not open ended in that the amount of the lump sum will be fixed now and overall the revised proposals are likely to be less costly to BR. I am, therefore, content for you to proceed as you propose. It is important, however, that you confirm that the proposals are acceptable to Inland Revenue.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours sincerely,

Buckley (Private Secretary)

SOAMES

*Approved by the Lord President
and signed on his behalf.*

CONFIDENTIAL

Copy in Appointments.

se J Jovet
A Dignid
A Walters

SECRETARY OF STATE FOR THE ENVIRONMENT
TRAMLEY HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

Nat (nd)

01 211 6402

The Rt Hon Lord Soames GC MC GCVO
CH CBE
Lord President of the Council
Civil Service Department
Whitehall
London
SW1A 2AZ

21 July 1981

?

my

Dear Christopher
understand

Your letter of 10 July agreed the AEA's proposals for a 7% salary increase and invited me, as agreed at E on 2 July, to put forward the case for collective discussion by colleagues if I thought a similar increase inadequate for BGC and NCB members.

I do not at present see a case for making an exception of BGC. I therefore propose now to tell BGC that in current economic circumstances the Government can only agree 7%, in response to their request for an interim 10% increase, and that, whilst I note they are currently undertaking with consultants a major review of the salary structure and rates, we should have the greatest difficulty in contemplating any further increase during 1981.

In the NCB's case, however, there is a major problem of inverse differentials which argues for our agreement to something more than 7%. My earlier views on the 10.9 - 16.3% increases sought by the NCB were set out in my letter of 7 May and I now ask that their case, along with the separate letter I am sending you with my detailed proposals for salary increases in the electricity supply industry, should be discussed as soon as possible in "E".

I am copying to the Prime Minister and other members of "E".

Yours

D A R HOWELL

David

J. Vercher
A. Duguid
A. Walters
2 PPS

SECRETARY OF STATE FOR
THE HEN HOUSE SOUTH
MILLEBANK LONDON SW1P 4QJ

01 211 6402

2
2/7

21 July 1981

The Rt Hon Lord Soames GC MC GCVO CH CBE
Lord President of the Council
Civil Service Department
Whitehall
London
SW1A 2A7

Dee Ainslie

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS - ELECTRICITY SUPPLY INDUSTRY

We agreed at E Committee that proposals for increasing Board Salaries this year by more than 7% would need to be discussed. I am writing to inform you about my proposals for Board member salaries in the electricity supply industry (esi) and to ask that this letter be discussed by E as soon as possible.

Let me first outline how the salary structure and successive salary awards have created an unhappy situation in the esi. Unlike some of the other nationalised industries the esi has a confederal structure; this is headed by the Electricity Council to which the 13 operating Boards - the CEGB and 12 Area Boards - belong. For salary purposes, the Chairman, Deputy Chairman and full-time members of the Council rank above their equivalents in the CEGB and the Area Boards in that order. The Chairman of the Council is my main policy adviser on matters affecting the industry as a whole.

For many years now compression has so affected Board salaries in the industry that the Deputy-Chairmen of the Area Boards, the lowest grade of full-time board member in the esi, have fallen well below the maximum salary of the senior staff they supervise. This inverse differential has grown to acute proportions: in 1980 the minimum of the Deputy Chairman salary was £17,500 which is £2000 below

the maximum of the senior officers they supervise. Despite representations over many years this inverse differential has persisted and, indeed, widened. We received a large volume of representation from the industry last year, and we have given assurances that we would do all we could to right the position. It is not in the interest of well-motivated management to permit an anomaly of this kind to continue. In my view we must grasp the nettle now. The Deputy Chairman salary range ought to clear the maximum of senior management: only thus can senior managers be expected to welcome promotion to the Board, only thus can we deal fairly with the Deputy Chairmen who have for so long been in an invidious position and above all only in this way can we hope to attract good people on to the Boards of these very large concerns.

If we are to carry out our assurances we will have to raise the salary of Deputy Chairmen by more than the percentage we have in mind for this year as an exceptional case. My proposals are as follows:

- • Shorten the Area Board Deputy Chairman scale from 10 points to 5 points by eliminating the first 5 points of the scale;
- move to a new 5 point scale with a minimum assimilated to the 6th point on the old scale;

(As all Deputy Chairmen are at or above the mid-point of the existing scale, assimilation from the 1980 salary to the 5 points of the new scale can be readily calculated)
- raise the salary range for Deputy Chairmen from the existing £20,000 (mid-point) to £22,500 (maximum) to a new 5 point range for 1981 of £23,500 to £25,500. This is effectively an increase of 17% tapering to 13.3% at the maximum.

By this means the maximum salary of senior officers (currently £23,150) will be cleared and we shall remove the inverse differential. I believe that the position of the Area Board Deputy Chairmen is a special case that demands special treatment and that the larger percentage increase I propose is amply justified.

The question of taper above this point must then be considered. If we constrain the increases in the next grade above (ie the Area Board Chairmen) we shall create a problem of inverse differentials further up the scale. Some measure of decompression is therefore necessary in order to avoid an inverse differential between the Deputy Chairmen and the Chairmen of Area Boards and to maintain at least a minimum of separation between those two grades. I therefore propose that the Chairmen's salaries should rise by between 9.5% at the minimum to just under 7% at the maximum ie from their present 10 point scale of £23,750 - £29,750 to £26,000 - £31,800.

As to other Board Member salaries in the esi I would propose that these should be uniformly increased by 7%. Such an increase would maintain the relationship between the Chairmen of the Area Boards and the full-time members of the CEGB.

Increases would take effect from 1 April 1981.

I do not propose any other changes to salary or scales.

My proposals lie well below the recommendations Boyle made in 1980, (TSRB 14) with one exception: Boyle's recommendations for the Area Board Deputy Chairmen were designed to correct the inverse differential as it was last year. Since then, of course, senior managers who rank immediately below the Deputy Chairmen of Area Boards have received a further increase and it is important that we resolve the problem of the inverse differential in the current situation. Furthermore my proposals lie well within the guidelines that we have discussed with the NICG and I believe that they offer reasonable remuneration to Board members in our current economic circumstances. You will see from the table attached comparing actual 1980 salaries with my proposal, with the Boyle recommendations of 1980 and with the industry's own proposals how much I have cut back on the esi's recommendations for increases which lie mainly in the 20-40% bracket above actual salaries. I have given considerable weight to the need to take account of current circumstances in restructuring pay.

The industry will of course be disappointed; they have taken the task of making recommendations seriously and have followed the guide lines we proposed to the NICG. I have no doubt that there will be complaints that we have not followed through our intentions. However, I believe that my proposals have maintained the right order of relativities within the esi and I hope that this will be acceptable.

I should add that the industry has also proposed contracts of service for members with appointments on a rolling basis, giving new members a minimum of 5 years with at least 2 years notice of termination, or the equivalent in compensation. There is also a recommendation that superannuation benefits should be related to the recommended level of salaries even if we are unwilling to implement in full the salaries proposed by the esi. I do not believe we can implement either of these proposals from the industry and I am not therefore making a recommendation.

You should know that we are considering recruiting new members to the CEGB Board in particular. Only time will tell whether the proposed salary ranges will offer sufficient incentive to attract suitable candidates from outside the industry.

In summary I propose that we reject the esi's recommendations for the pay of board members, and award 7% to all Board Members in the esi except for the Chairmen and Deputy Chairmen of Area Boards where, in order to right inverse differentials, I am proposing a higher if minimal increase to achieve this objective.

I am copying this letter to the Prime Minister and other members of E Committee and to Sir Robert Armstrong.

Yours ever

David

D A R HOWELL



10 DOWNING STREET

From the Private Secretary

20 July, 1981.

National Bus Company: Chairmanship

The Prime Minister has read your Secretary of State's minute of 17 July. She agrees that Lord Shepherd should be re-appointed Chairman of the National Bus Company for a further 2½-3 years on the terms proposed.

I am sending copies of this letter to John Wiggins (HM Treasury), Jim Buckley (Civil Service Department), Jeremy Colman (Civil Service Department) and David Wright (Cabinet Office).

Anthony Mayer, Esq.,
Department of Transport.

APPOINTMENTS IN CONFIDENCE

Copy in Appls.

1.
APPOINTMENTS - IN CONFIDENCE

Prime Minister

Yes not

Prime Minister.

Agree not Lord Shepherd

*should be suggested for
another 2 1/2 - 3 years?*

NATIONAL BUS COMPANY: CHAIRMANSHIP

17 vi

You will have seen from the letter which I have circulated on 8 July that I see an opportunity to move parts of the National Bus Company into the private sector. I have now seen Lord Shepherd, the Chairman of the National Bus Company, and outlined my proposals to him. I am glad to tell you that I found him very receptive, both to the idea of transferring National Express to a private company with a minority NBC shareholding, and also to applying the same treatment to NBC Property, both operational and non-operational where there is development potential. He himself suggested that this arrangement should also cover National Holidays.

He did not disguise that it would be a delicate matter to carry the management and workforce of the National Bus Company along with him, but he is firmly established with them and is confident that he can do this. He stressed - reasonably enough from his point of view - that he would want to be assured that the arrangements did not work to the financial disadvantage of the stage-fare operations of the National Bus Company.

His response is important to me in considering the future of the Chairmanship of the National Bus Company. His own period of office is due to finish at the end of this year, when he will have completed three years. His record while we have been in office has been very good: he has carried through

APPOINTMENTS - IN CONFIDENCE

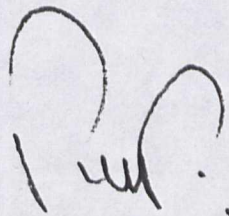
Original in Appointments.

APPOINTMENTS - IN CONFIDENCE

a vigorous programme of cost cutting and reduction of manpower and has accepted a stringent business target for the period of up to 1985. The balance which he has struck between his revenue, which is affected like so much else by the recession, and his costs will, he assures me, keep him within his EFL this year. He had similar success last year. With this record and with his ready response to my proposals for legislation next session to deal with the introduction of private capital I am satisfied that my best course will be to reappoint him for a further period, not just to see the legislation through but to put it into effect. I foresee no difficulty in his case over salary. I think it would suffice to raise his salary broadly in line with that of other Board Members: 7% would increase his salary for a three-day week from £20,400 to £21,830. I think I should seek to negotiate with him a renewal on these terms for a further two and a half or three years.

I should very much like to be in a position to deal with this reappointment at the same time as we settle the future of the Chairmanship of British Rail.

I am sending copies of this minute to Geoffrey Howe and Christopher Soames. My office is arranging for copies of this minute to go also to Sir Ian Bancroft and Sir Robert Armstrong.



NORMAN FOWLER

17 July 1981

APPOINTMENTS - IN CONFIDENCE

CONFIDENTIAL



10 DOWNING STREET

c HO VB
FCO *Wab*
HMT
LPO *And*
D/M
MAFF
D/TRADE
D/N
CS, HMT
MOD
DOE
D/IND
CO

Re Mr Vereker

From the Private Secretary

17 July 1981

Dear Anthony,

Pay of Nationalised Industry Board
Members

The Prime Minister has now considered your Secretary of State's minute of 3 July; she has also seen the Lord President's comments as contained in Jim Buckley's letter of 10 July. She has asked me to say that she agrees with the Lord President that there should be no announcement at least for the time being.

I am sending copies of this letter to the Private Secretaries to other members of E and David Wright (Cabinet Office).

W. M.
P. L.

Anthony Mayer, Esq.,
Department of Transport.

CONFIDENTIAL

Original in Appointment Section

CONFIDENTIAL



File
ccs CSD
CO

Nat Ind

10 DOWNING STREET

From the Principal Private Secretary

16 July 1981

Dear Anthony,

REAPPOINTMENT OF SIR PETER PARKER

The Prime Minister has seen your Secretary of State's undated minute about the reappointment of Sir Peter Parker and she is content that he should put to Sir Peter Parker the terms set out in the second paragraph on page three of his minute.

I am sending copies of this letter to
✓ Jim Buckley (Civil Service Department) and
✓ David Wright (Cabinet Office).

Yours sincerely,

John Major

Anthony Mayer Esq.,
Department of Transport.

CONFIDENTIAL

AW

Prime Minister.

Sir Peter Parker is proving very sticky. Are you content for the folder to proceed as he proposes or xl later?

CONFIDENTIAL

Yes
no

ML
15/11

Prime Minister

REAPPOINTMENT OF SIR PETER PARKER

At the meeting of E on 2 July (E(81)23rd Meeting minutes, Item 2) we agreed that I should aim to negotiate a deal which would be sufficient to secure the reappointment of Sir Peter Parker as Chairman of BR for a further two years from September of this year. I was to seek to persuade Sir Peter to accept no more than two outside directorships, rather than two outside chairmanships, and if necessary I could offer him a BR salary somewhat higher than £60,000. The Committee were particularly concerned that any improvements in the pension arrangements should be defensible, and any pension increases should relate only to Sir Peter Parker's service with BR. I was asked to report back to you, and also to the Lord President, on the outcome of my negotiations.

I have had two meetings with Sir Peter. At the first I offered him (subject to confirmation) a salary of £68,000 a year and said I would have no objection to him serving on the boards of Rockware and Clarksons but not as chairman. He said he was content with the salary and agreed as far as Clarksons was concerned. He wanted further time to consider the position with Rockware. At that stage he gave the clear impression that agreement should be possible. I saw Sir Peter again on Monday. This was a much more difficult meeting. He is insisting that he must take over the chairmanship of Rockware at their next Annual General Meeting in May 1982 because this is the only basis on which they can provide him with a London house. The house he regards as essential not only in the interests of his wife who is a London GP but also because he feels that he cannot do the British Rail job adequately without a secure London base for himself. He believes that if he accepted the chairmanship of Rockware, there was no reason why his service with BR should

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CONFIDENTIAL

be regarded as part-time in any meaningful sense, and that he did not think that it would be fair to him to reduce the salary simply because he was taking on the additional task of the chairmanship of Rockware.

He also reverted to the pension question which I discussed very fully in my minute to you of 26 June. When we discussed this in E, we took the view that it would not be acceptable to BR to pay a contribution in respect of his service with Rockware and Clarksons. But one of Sir Peter's conditions is that he should acquire a higher lump sum benefit than would be available simply on the basis of his BR salary. In order to secure this he continues to argue that the three salaries should be aggregated for pension purposes, at BR's cost.

On this basis Sir Peter himself recognised, at the end of our discussion, that we might well conclude that he was just too expensive for us to retain as Chairman of BR.

I do not, however, think that for the purposes of public presentation it would be right simply to leave the situation on this basis. I think it important that I should make Sir Peter a final offer of what we would regard as the maximum that was acceptable to the Government, and defensible by us to the public.

On reflection I think we could, just, tolerate his taking over the chairmanship of Rockware in May of next year -- I understand that this would probably have to be announced around the turn of the year. We would have to take the line that the arrangements being made were such that the Government would continue to have the first call on Sir Peter's time and energies, and that we were satisfied that there was no clash of interests between the two jobs. However, I would not then feel that I could justify a salary of £68,000 per annum for the chairmanship of BR if he is also to accept the chairmanship of Rockware, in addition to a directorship in Clarksons. The most that I could envisage would be £60,000.

CONFIDENTIAL

CONFIDENTIAL

As regards pension, the position is shown in the table attached. If it were to be based on his BR salary alone, a salary of £60,000 would give him a lump sum of about £34,600 (in addition to £10,000 which he could draw from Booker, McConnell) and a pension of something over £24,000 (excluding preserved rights from Booker, McConnell of about £3,100). But if the salary is to be reduced below £68,000 I can see a case for saying that BR should make some small additional contribution towards his superannuation benefits. What Sir Peter Wants most of all is an increased lump sum. We could agree to an arrangement whereby his lump sum payment was increased from £34,600 to £48,300. This would add an additional cost of some £15,000 to be paid for by BR. We could not however allow BR to pay for an increased pension which would cost around an extra £110,000.

X

In summary then, what I propose is that either Sir Peter Parker should accept my original offer, which was a salary of £68,000, freedom to accept directorships in Rockware and Clarksons, but not the chairmanship or deputy chairmanship, at least in the first year of his re-appointment, and superannuation arrangements based on his BR salary leading to a lump sum of £39,300 and a pension of £28,000 (in both cases ignoring the preserved rights from Booker, McConnell of a pension of about £3,100 and a lump sum of about £10,000); or alternatively, if he persists in rejecting this, that I should offer him a somewhat reduced BR salary of £60,000, that he should be allowed to accept the Rockware chairmanship as from the Annual General Meeting of the company in May 1982 (in addition to a directorship in Clarksons), and that his superannuation arrangements should allow for a pension of just over £24,000 and a lump sum of some £48,300, this latter only being based on the aggregated BR and private sector salaries of an additional cost to BR of some £15,000.

CONFIDENTIAL

CONFIDENTIAL

If he will not come on those terms, then I think we shall have no alternative but to look for a new Chairman as quickly as possible. I know that Sir Peter would be prepared to carry on until the end of the year. But this could not be very satisfactory, since we shall have to announce that he is not continuing, and this is bound to affect his position in the Board, and with the unions. There is no one suitable within the organisation, and I shall be looking outside as rapidly as possible.

I am copying this to the Lord President of the Council and to Sir Robert Armstrong.



NORMAN FOWLER

July 1981

CONFIDENTIAL

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SIR PETER PARKER

Pension based on BR salary alone

Salary	Lump Sum	Pension	Cost in respect of non-BR salary
£48,000 (current)	£27,717	£19,722	
£60,000	£34,647	£24,087	
	<u>Pension deriving from outside employment</u>		
£7,000 (Clarksons)	£3,612	£2,584	
£15,000 (Rockware)	£10,045	£5,958	
	<u>Pensions based on aggregated salaries</u>		
£60,000 (BR) £ 7,000 (C) £15,000 (R)	£48,304	£35,735	£117,000-£137,000

Reduced Cost Method Providing Full Lump Sum But Reduced Pension

Salary	Lump Sum	Pension	Cost
£60,000 (BR) £ 7,000 (C) £15,000 (R)	£48,304	£24,087	£13,000-£17,000

All the above figures ignore a Booker, McConnell pension of about £3,100 and a lump sum of £10,000

CONFIDENTIAL

c. Mr. Ingham
Mr. Duguid

MR. LANKESTER

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

Flu A

Flu B

You asked for my comments on Mr. Fowler's minute of 3 July suggesting that there should be a general statement about the way the Government intends to treat the pay of nationalised industry board members, following discussion in E on 2 June; and on the letter of 10 July from the Lord President's Private Secretary indicating his preference not to make an announcement unless the policy proves to be controversial.

I have a lot of sympathy with Mr. Fowler's point that in the absence of a general statement, sponsor Ministers will have a continuing series of arguments with the nationalised industries, but I think he is over-looking the fact that the E decision applied only to the remainder of this pay round, and of course there will be exceptions to it. Under those circumstances, an announcement might actually be confusing, because the public (and the nationalised industries) will tend to regard it as setting the policy for the next several months rather than weeks.

It would be particularly unhelpful to have the Government reasserting 6-7% figures so soon before the beginning of the next pay round. So on balance I think it would be right to ask those sponsor Ministers that face this problem to cope with it as best they can on their own.

Ann. Minute

✓

Do you agree with the Lord President (and I think Verker) that there should be no announcement at least for the time being.

Yes
not

R.
14/7

14 July 1981

CONFIDENTIAL

cc David
Jercher

A. J. Wiggins

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 July 1981

J. Buckley, Esq.,
Private Secretary to the
Lord President of the Council,
Civil Service Department

12
14/7

MBM

Dear Jim,

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS: SUGGESTED ANNOUNCEMENT

with P.M.

The Chancellor has seen the Secretary of State for Transport's minute to the Prime Minister of 3 July, and your letter of 10 July to Tim Lankester. He has asked me to let you know that members of the Nationalised Industries' Chairmen's Group expressed their concern to him about nationalised industry board members' pay when he and other economic Ministers met them on Thursday, 9 July. They referred to the Prime Minister's April announcement, and said they were worried that no response had yet been received from the sponsor Departments to any of the detailed proposals they had made. They faced difficulties both in recruiting people with the required commercial experience to manage their businesses, and in relation to differentials between board members and those working under them. The Chancellor, while noting their concern, reminded them that this was a very difficult area in which they and the Government would need to feel their way forward very carefully.

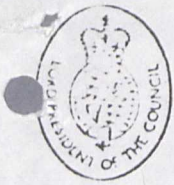
The Chancellor recognises that pay increases considerably greater than the 6 to 7 per cent approved by E Committee on 2 July may be appropriate in certain particular cases; but he thinks equally that there will be other cases - particularly in industries which are making considerable losses - where the right course will be to concede no increase at all. In general, there should be a fairly wide dispersion of settlements, with no question of any general entitlement to 6 to 7 per cent.

I am copying this letter to the Private Secretaries to other members of E Committee and to David Wright in Sir Robert Armstrong's office.

Yours sincerely

John Wiggins

A.J. WIGGINS



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

J. J. J. J.
A. Duguid
A. Walker

The Rt Hon David Howell, MP
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

10 July 1981

Dear Secretary of State,

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

You wrote to me on 7 May about salary increases for members of the National Coal Board and again on 1 July about increases for members of the boards of the UK Atomic Energy Authority and the British Gas Corporation. You proposed increases for the Coal Board of between 14 and 16%, for the AEA board of about 7% and for the Gas Corporation board of 10%.

At E on 2 July we decided that board members should in general receive increases of 6 or 7% in 1981. In line with this decision I can agree to your proposals for the AEA but not for the other two boards. If you think that a 6 or 7% increase for either of these boards is inadequate, you can of course put forward your case for collective discussion by colleagues. However I hope we can agree on an increase within the limit and I look forward to receiving your proposals.

Yours sincerely,

(Signature)
(Private Secretary)

Dictated by the Lord President
and signed on his behalf.

SOAMES

APPOINTMENTS IN CONFIDENCE

Noted
board
said
with

ms
Nat Ltd
PA

Prime Minister

cc Mr. Vereker

MR. RICKETT

I asked Mr Duguid to see whether there was any room for manoeuvre. But it is clear Sir Michael's salary is now fixed to end 1982.

SIR MICHAEL EDWARDES' SALARY

1. Edwardes' salary is now fixed at £105,000 until December 1982. This contract was signed before the Government took over complete responsibility from the NEB. But then as now, the salary is a matter between Edwardes and the BL Board. As a Companies Act company, BL are required to disclose it in their annual accounts in due course.
2. I understand there is some correspondence between Sir Keith and Lord Soames on the future arrangements - whether BL should be brought within the framework of the Government's arrangements for nationalised industry board members' pay. Personally, I think Sir Keith is right to argue that it is far better to keep this issue - which should be determined by the market - beyond the reach and responsibility of Government.
3. I am afraid there is no escaping the fact that Edwardes is able to command a high salary in the market place. (We have questioned before whether he is the right man, because there has not always been complete accord between the Government's objectives for BL and his objectives - though there is more accord now that he recognises that BL cannot have an independent future.) But so far his advantages - and the difficulty of replacing him - have been judged to outweigh any disadvantages, including his cost.

LM
10/7

[Handwritten signature]

10 July 1981

ANDREW DUGUID

TL Seen

cc J. Vesicles
A. Duguid
A. Williams
Nad Ind

CONFIDENTIAL



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

Tim Lankester Esq
10 Downing Street

10 July 1981

Dear Tim,

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS: SUGGESTED ANNOUNCEMENT

The Lord President has seen a copy of the Secretary of State for Transport's minute to the Prime Minister of 3 July. Whilst he sees the possible advantages of an announcement as Mr Fowler suggests, he would not be in favour of it.

The new arrangements announced in April made it clear that the "general economic climate" would be playing a greater part and whilst that may no doubt be less than well received by the Chairmen of the Boards, it seems certain that there will be at least one case where the increase is well outside the proposed range of 6 to 7%. Nor does the Lord President think that, at this stage, it would be wise to go public on those specific figures: it may be that in the coming pay round we might be looking for something different.

Rather, the Lord President would prefer any public announcement to be made if and when we run into heavy weather on this front, so that we had a suitable peg on which to hang it.

I am copying this to the Private Secretaries to other members of E Committee and to David Wright in Sir Robert Armstrong's Office.

Yours sincerely,
Jim Buckley

J BUCKLEY

CONFIDENTIAL

APPOINTMENTS IN CONFIDENCE

And Linn



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

PS/ *From the
Minister of State*

8 July 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
No 10 Downing Street
LONDON SW1

Dear Tim

SIR MICHAEL EDWARDES' SALARY

The Prime Minister recently asked Mr Tebbit to establish the facts about Sir Michael Edwardes' salary following speculation in the Press on this question.

As you will know (Mike Pattison's letter of 5 March 1980 to Ian Ellison) the terms of Edwardes' appointment have always been publicly stated to be a matter for the BL Board. Indeed, until quite recently when the Department took over from the NEB the responsibility for the shareholding, any discussions of his salary that took place were between BL and the NEB. The facts that we have elicited, however, are set out below.

Until March 1981 Edwardes was technically on secondment from Chloride. The actual remuneration paid to him in the three calendar years 1978, 1979 and 1980 is shown in the Company's annual report and accounts as follows:

1978	£52,000
1979	£57,200
1980	£65,400

These figures are different from the sums BL actually paid to Chloride, which average out at £90,000 per year over the three years. This figure includes BL's repayment to Chloride of the latter's contribution to Edwardes' pension and a management fee. The proper comparison, in public relations terms, lies in the actual pay Edwardes received in 1978, 1979 and 1980 and the terms agreed by BL for 1981 and 1982.



APPOINTMENTS IN CONFIDENCE

2

In February 1980 the NEB had agreed to a proposal that Edwardes' salary from the period after his secondment from Chloride should be £100,000. This proposal was reviewed in February 1981 by the BL Board, which proposed that his salary should in fact be £105,000, to run for the 21 months to the end of December 1982, this being the period for which he accepted reappointment. BL have not, however, released publicly any information about his current salary level. He himself has given the press to understand that his salary is now of the order of £100,000, but has declined to be more specific. This is not, of course, the total cost to BL who are now making direct (instead via Chloride) some provision for Edwardes' pension. But it is the figure directly comparable with the salary figures set out above.

Yours ever

Peter Mason

PETER MASON
Private Secretary

JL Sem

2 pps

A

on the board



SECRET

Prime Minister

At 'E' on Thursday we necessarily spent a great deal of the available time considering the position of the Chairman of British Rail and I will report back to you on the position here as soon as possible. We did however also decide on the general position of nationalised industry board members. In summary, our view was that as a general rule Board members should be confined to between 6% - 7% but that there should be some scope for flexibility - where, for example, a Board member was being paid less on the Board than he would do off it. Such exceptions could ultimately be considered by 'E' Committee. As you know, I fully support that position.

However, it does leave the question of presentation. The policy will become public when it is presented to the first nationalised industry board. They have been working on the assumption that new unrestricted market rates apply. They will have forgotten the point in your statement of April 7 1981 that such arrangements must be subject to the "general economic climate".

I see the decision we have reached as a general policy concerning the pay of nationalised industry board members. I believe there is every advantage in presenting it as such. The

SECRET



SECRET

fact that the Government have decided on 6% - 7% will be something which the public will understand and welcome. I would suggest that a statement should refer to some limited flexibility to deal with some of the worst anomalies.

What I fear, however is that if we do not make a general statement on the position we will have one public row after another with each one of our nationalised industries. I do not see that there is any point in doing that when by stating our general policy we can make it clear that they are all being treated in the same way. If members of nationalised industries boards want then to challenge the policy that would be a matter for them. But frankly I do not believe they would have a great deal of public support.

I am copying this minute to our colleagues who were present at the meeting of 'E' Committee.

NORMAN FOWLER

3 July 1981

SECRET

Seen in Mtg folder.



10 DOWNING STREET

Prime Minister.

A big pay increase for less work for Peter Parker will surely risk Sid Weighell insisting that his members get their noses in the same trough. And so on through the miners etc.

If Peter Parker is that good, why hasn't he provided for his own succession by now? The acid test of management.

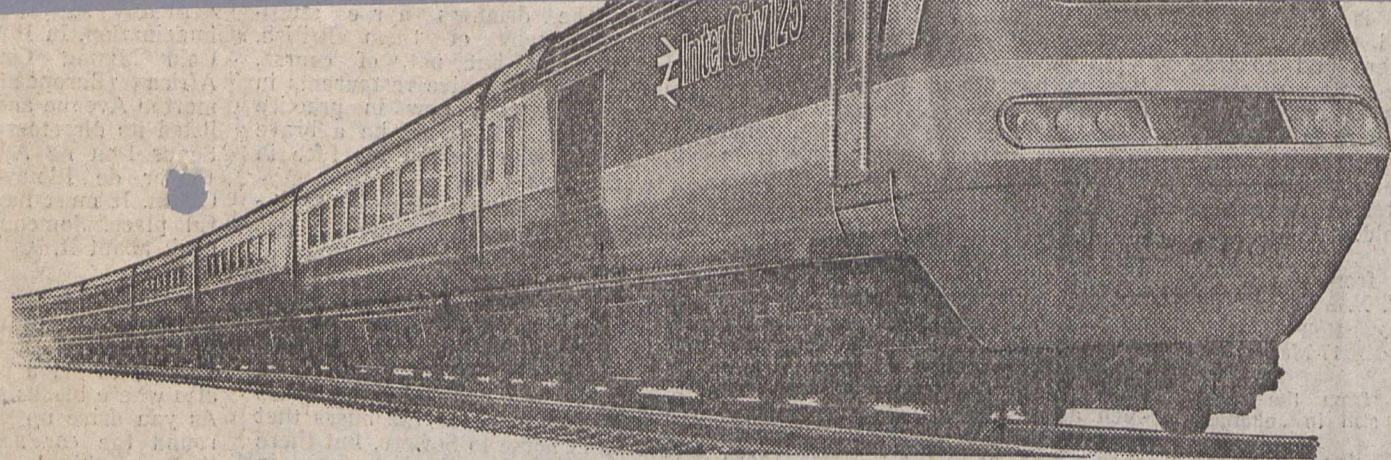
Has Norman Fowler considered letting Parker go part-time as Deputy Chairman, get his main salary elsewhere, but still be there to assist whoever takes over from him.?

The Steel workers accepted McGregor's salary but they were in no position to capitalise on it. The Railway workers are.

Are we absolutely convinced that we have no alternative but to re-appoint people who are fundamentally opposed to our plans? Both Rooke and Parker have used Public Funds to advertise their own political preferences. SEE ATTACHED. NO MENTION OF PRODUCTIVITY.

COULD HAVE BEEN WRITTEN BY N.U.R
OR A.S.L.E.F.

DW



In theory, a monopoly has no competition...

It's true that British Rail operates the only national railway system in the country. By definition, that should make us a monopoly.

By implication, we should therefore enjoy a cosy existence, sheltered from competition, insensitive to customers' needs, complacent and unadventurous.

Nothing could be further from the truth.

COMPETITION IN EVERY SECTOR

On the passenger side intense competition comes from over 15 million private and company cars owned in this country. Owners who use their cars on business benefit from tax relief. And company car owners (of which Britain has more than anywhere else in Europe) usually have only to find marginal costs, like petrol, out of their own pockets. Not surprisingly, the incentive to use the car is considerable.

Air services provide vigorous competition for British Rail's Inter-City trains.

With the passing of the 1980 Transport Act, long-distance coaches now compete for our business much more actively than before.

In the freight sector, competition is similarly intense. We don't benefit, as road hauliers do, from the UK licensing laws—for example, there is no "quantity" licensing, as in Germany and France, to limit the amount of freight to travel by road. What's more, only now is taxation of

heavy goods vehicles being increased to make the competitive framework fairer.

FINANCIAL BURDENS—WHAT ABOUT FINANCIAL FLEXIBILITY?

We have a statutory obligation to run services which are socially necessary but financially unviable. This is known as the Public Service Obligation—the basis of the annual "contract" between the Government and British Rail. **In real terms this has not increased since 1975—leaving Britain with the least supported major railway in Europe.**

If British Rail does not use up the whole of the contract payment in any year the residue cannot be "credited" to the next year.

Monopolies generally enjoy more financial flexibility—and muscle—than other business. But not British Rail. Instead British Rail is restricted by the rules and conventions which apply throughout the UK public sector where, for example, each industry has its External Financing Limit. This represents the maximum sum in terms of "outside finance" that any public sector industry can call on each year. If the economic recession makes it impossible for British Rail to keep within its External Financing Limit, the excess will be deducted from the next year's Limit.

THE SERIOUS IMPLICATIONS

The direct consequence of financial inflexi-

bility is on investment. British Rail's investment per train/Km is lower than that of any other major railway in Western Europe. The railway network needs 30 per cent extra investment just to maintain the present standard of service.

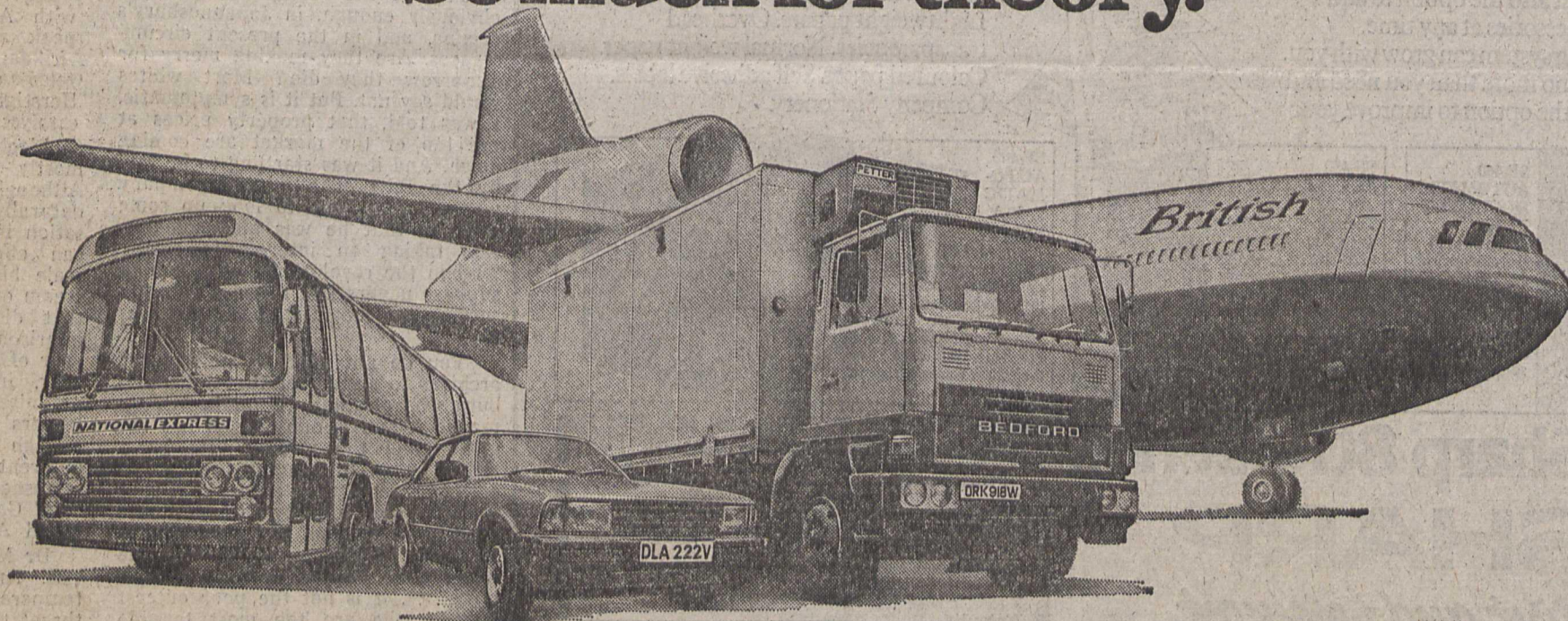
If Britain wants a worthwhile railway system in future, people will have to appreciate the importance of railways, as they have done in other countries.

Investment in the railways is a sound and sensible use of money. This so-called monopoly *can* behave adventurously, *can* stand up to competition and *can* justify its role in the economy.

Do not forget that in 1979 British Rail's recorded passenger miles were actually higher than in 1961, when the rail network was thirty per cent larger and there were only half as many cars on the road.

This is one of a series of advertisements designed to increase public awareness of the position of the railways in the national transport system and also in the life of the community as a whole. Whilst the facts and figures contained in these advertisements are known and appreciated by those directly concerned in shaping the future, an industry as much in the limelight as ours has a duty to address itself to a wider audience, which needs to be well informed if it is to play its part in helping to form public opinion.

So much for theory.



This is the age of the train ➡

ney, would I escort a Zairean lady who has to change at Johannesburg? She speaks no English. Yes, of course, I should be delighted, I lied.

For once charity was rewarded. At Jan Smuts airport I translated between the lady's African French and the immigration official's Afrikaner English. He is so relieved to have her sorted out quickly that he thanked me and let me straight through. This is in contrast to the stories people tell about the officials here. One friend of mine, who had waited in a corner for half an hour after the last of the queue had gone, meekly approached the desk. "I thought it said 'journalist' on your passport Mr —, not 'comedian'. Get back till we ask for you." This man even offered not to stamp my passport, but in my confusion I said to do what he liked. Now I need another passport for black Africa.

We drove into Johannesburg with noonday sun glittering on the glass of the skyscrapers in the dis-

o white water—it is enticing and hideous. A hundred years ago not a building stood here and no tree grew. Alongside the motorway stand the huge slagheaps to remind you what brought them here in 1886. No one is quite sure who the Johannes was after whom the city was named. The Zulus do better. They call it Igoli, the City of Gold.

THERE IS a letter from the writer Olive Schreiner to J. X. Merriman:
Hell
17 March, 1899

Dear Mr Merriman,
You will see from the super-
scription that I am still in Johannes-
burg. . . .
and it does not take long to under-
stand what she meant. Hillbrow is
Johannesburg's transit camp, not
Soho or Hampstead as people here
sometimes say but Earls Court. To
stay here in a cheap residential hotel
is to know an inner circle of hell.
The suburb was first built in the
1890s but has been built over and

Most of the buildings are sky-
scrapers, blocks of flats and hotels.
In between are tatty shops, cafes,
"men's bars," and discos of a kind
to which celibacy is clearly prefer-
able. Most of the population seem
to be new arrivals: immigrants from
England, Portuguese from Mozam-
bique, Rhodesians who have "taken
the gap," and Europeans who give
Hillbrow the slightest air of cosmo-
politan charm. Here are Germans
running delicatessens, Italians run-
ning cafes, and Greeks running
corner shops: in South African par-
lance a "Greek shop" is any general
shop selling the basics of life and
open at all hours, what in England
we will no doubt come to call a Paki
shop. And, as in West Africa, there
are Lebanese. Here they have the
reputation, maybe unfair, of being
the city's gangsters, like the Maltese
in London or the Corsicans in Paris.
The "men's bars"—as opposed
to genteel "ladies' bars"—are the
worst things. There is no pretence
of conviviality or enjoyment. Custod-

can. The drinkers are a multi-
national, many of them British.
Multi-national but not, of course,
multi-racial. Expensive restaurants in
Johannesburg are now in practice
desegregated. It would be a brave
black man who showed his face in
a working-class bar.

There are in fact plenty of blacks
in Hillbrow though there are not sup-
posed to be. One of the pillars of
apartheid is the Group Areas Act
which says who can live where.
Blacks live in "locations" or town-
ships outside the city. Every even-
ing towards the west end of Market
Street you see queues of hundreds
of blacks waiting for the buses that
take them home to Soweto. But there
are many blacks sleeping rough in
the city and living, presumably, off
petty crime.

Danger from muggers

APARTHEID is only one aspect of
the sociological complexity of this
riveting, disagreeable city. In the
centre is "town," Johannesburg
proper with its adjacent City or Wall
Street in Marshalltown. At night the
town switches off like a light. There
is the odd restaurant or cinema
but no West End. Public transport
for whites is minimal. After the rush
hour, if you have no car, you are
obliged to go into a bar and ring for
a taxi: they do not ply for hire. And
it is dangerous to walk at night. One
evening, after dark, I couldn't be
bothered to ring for a cab and
walked back to Hillbrow. I felt
increasingly nervous as I walked and
then felt embarrassed at my windi-
ness. When I got to the cafe I opened
my paper to read that three people
had been mugged the night before in
the street I had walked along.

To the one side of town lie the
southern suburbs: poor whites. To
the other, the northern suburbs: rich
whites. What my guide book calls
"The once bleak ridge to the North
of the city which has been trans-
formed into a delightful suburb" is
where the visitor spends most of his
time. Only one or two introductions
are necessary for a long round of
eating, drinking and merriment. It is
a diverting, jolly society; and a
rackety one. Life in the northern
suburbs puts one strongly in mind
of Belloc's lines:

*The husbands and the wives
Of this select society
Lead independent lives
Of infinite variety.*

Or as Olive Schreiner said in the
letter quoted above, "One realises in
Johannesburg what the tone of
society must have been like in the
reign of Charles the Second": a
glamorous description.

Part of the reason for this lies,
obviously enough, in Johannesburg's
origins, and in the present circum-
stances. Are they making merry for
tomorrow they die? Most whites
would say not. But it is symptomatic,
I was told, that property prices at
the top of the market are coming
down. And it was startling to be told
by the PRO of a mining company
where I had gone to look up some
archives that he was glad someone
was taking an interest in them:
"When the revolution comes I don't
suppose papers like this are going to
survive for long." Perhaps this was
a joke.

You do not need to look at the
archives to remember that Johannes-
burg was originally a mining camp;
maybe it still is one. It still has the
glitter and the vitality that great
riches bring. It still has the corner-
cutting raffishness of an *enriches-vous*
society, the quality which Miss
Schreiner disliked so much ("The
mass of ill-gotten wealth attracts the
worst class of women to Johannes-
burg . . . it is not the poor outcast
women who are the most terrible
thing here, by any means, it is the
apparently respectable women"—
but I must stop quoting her) and

reality surfaces
imagination. In 1890
Gold Mining Com
Africa (European
morton Avenue and
listed its directors
Senor Don de Albu
Gonçalves de Rimay-S
Cohen. It must have
ful place. Someone
book about it.

TO VISIT Soweto y
to the Johannesburg
West Rand Admin
(Wrab) to get a pas
also where blacks se
As you drive up gro
round the car aski
them. (I hired a ca
to Soweto without o
—all public transport
is "Non-white.")
prising sight until a
a pick-up truck and
half a dozen workm
Inside, the official wh
pass commented on
was English and Jam
England was doin
"They've been treat
people terribly for

Soweto's name is
South West Townsh
population of Joh
grown and as peo
moved from other
tions like the famo
Soweto has reache
more than 1.5 millio
city. But it does a
city. You turn off th
the sign saying "pr
as it technically i
owns his home an
prietorship is the r
needs a pass. No one
mine; but a white f
ous here, and there
fine if a policeman as
you haven't got.

The township is r
galows lining dirt ro
slum in a European
mongrels barking ar
burning by the roads
only small and int
The streets have n
address will consist
number and a distric
hunt to find the num

Voice of mod

My host was Dr
who has a large gene
and is a member of t
mittee of Ten. He is
a moderate, which is
to violence and in f
taining social relatio
Few younger black
approach. As Dr
young radicals will h
with Afrikaners—he
speak at Stellenbosch
Afrikaans university—
welcome the rise of
Herstigste Nasionale pa
catalyst for violence.

Black politics ar
mostly on a com
Although men like
naturally say that nati
sation is important, th
can effectively disrup
scale black movement
cream off the leadersh
that dissidents can
imprisoned, as he wa
year of the great Sow
year, in October, 19
organisations were b
leaders locked up. Be
a high degree of ri
different black group
sciousness; Inkatha, le
chief Gatsha Buthelez
lawed African Nation

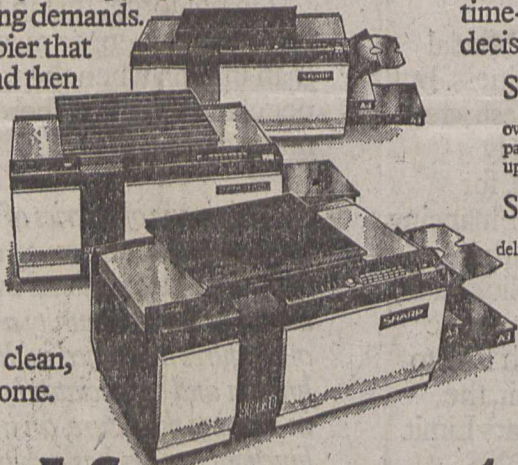
Dr Motlana puts a
this. And he talks
temperance: "They
threat to the whites
There hasn't been s
were defeated a cent
don't want to drive

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SF-820 THE REDUCTION COPIER

Microcomputer controlled reduced or same size copies are delivered at up to 24 copies per minute. With automatic toner control and a choice of eight paper cassette sizes.

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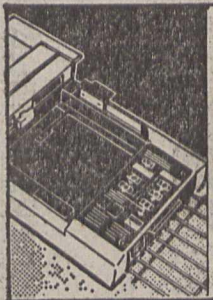
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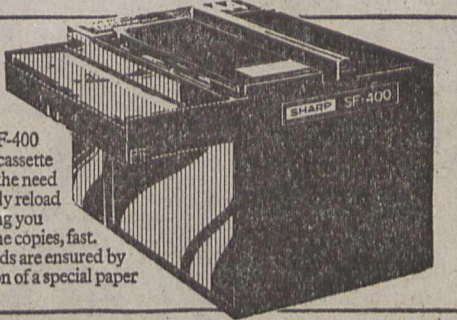


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Nat Ind.

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PRIME MINISTER

Pay of Nationalised Industry Board Members
(E(81) 72)

BACKGROUND

In E(81) 72 the Lord President of the Council seeks discussion of the general approach to settling the pay of Nationalised Industry Board Members (NIBMs) this year. He has been moved to do so by the very high bids already emerging from the transport industries and from the Secretary of State for Energy for the members of the National Coal Board (NCB).

2. On 20th May 1980 the Committee agreed that the Top Salaries Review Body (TSRB) should no longer be invited to advise on the pay of NIBMs.

Summing up the discussion you said that:-

"In future each sponsoring Minister should put proposals for the pay and pensions of chairmen and board members to the Civil Service Department. If the Minister in charge of that Department saw no objections, proposals could go ahead, subject to clearance with her of proposals for the pay of Chairmen and Chief Executives. If there was disagreement, it would be a matter for decision by Ministers collectively."

In reaching this decision the Committee were aiming to provide for more flexibility than hitherto, so recognising the need to recruit and retain key people, but they were concerned to retain sufficient safeguards to prevent indefensibly high salaries and leapfrogging.

3. Following negotiations between the Civil Service Department and the Nationalised Industries Chairmen's Group you announced the new arrangements on 7th April 1981 (a copy of your statement is attached). The Chairmen's Group were separately informed that, contrary to their wishes, there could be no automatic implementation during the next year or so of increases to the levels recommended in 1980 in TSRB 14 (in that year NIBMs got on average 12-13 per cent compared with the average of 25 per cent

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recommended by the TSRB). Their objection to including "the general economic climate" (the last words of your statement) as a factor to be taken into account, was overruled.

4. In paragraphs 3 and 4 of E(81) 72 the Lord President reports on some of the bids which are now coming in - "substantial" increases for Sir Peter Parker and his Deputy at the British Railways Board; 31-58 per cent for the National Bus Company and for the British Transport Docks Board (though the Secretary of State for Transport makes clear in his letter of 26th June that these are the Boards' own bids which he would not support); and, as recommended by the Secretary of State for Energy, 14-16 per cent from April 1981 for the NCB plus further increases of about 15 per cent in November 1981 to bring salaries up to TSRB 14 levels revalued.

FLAG A 5. In his letter of 16th June to the Lord President, the Secretary of State for Energy, argued that it was undesirable and unnecessary for the Committee to discuss a comprehensive paper on NIBMs pay increases. In FLAG B his reply of 24th June the Lord President pointed out that there was no escaping the fact that there were political hazards in the fixing of these salaries and that before launching into the coming 'round' it would be wise to discuss them collectively. The need for such collective discussion was indeed recognised when the Committee took its decision in May 1980.

6. There is a dilemma here. The Government is committed to a more flexible approach for which there are good reasons: the need to keep and to recruit good people; and the need to avoid anomalies whereby board members get less than those working for them. On the other hand, the figures now emerging seem to take flexibility way beyond the bounds which could be defended. If this approach were generally conceded:-

- (i) it would be greatly resented by other public sector groups remaining within the TSRB framework, who were given 7 per cent compared with the 12 per cent necessary to get up to TSRB 14 levels. They are thus still below the levels the TSRB thought appropriate for April 1980, let alone any allowance for the year 1980-81;

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- (ii) it would add to the difficulties of keeping down settlements for the nationalised industries generally which tend already to be higher than those elsewhere in the public sector and in the private sector.

7. To deal with this, the Lord President of the Council recommends, in his paragraph 7, that increases this year for existing board members should fall in the range of 6-12 per cent. He is not, however, seeking decisions on particular salary increases at this meeting.

HANDLING

8. I suggest that you make clear at the outset that the object of the discussion is to reach agreement on the broad framework within which sponsoring Ministers and the Lord President, consulting you and other Ministers as necessary, can later reach agreement on particular proposals. After the Lord President of the Council has spoken to his paper, you will wish to hear the views of each of the Ministers dealing with nationalised industries - the Secretaries of State for Energy, Transport, Industry, Trade and Scotland. The Chancellor of the Exchequer will wish to comment generally - he suggested in his letter of 30th June that pay might, in some unspecified way, be linked to performance - and so will the Secretary of State for Employment. The Foreign and Commonwealth Secretary has a small interest through his responsibility for the Commonwealth Development Corporation and for the Crown Agents.

9. The main question before the Committee is how best to square the objective of greater flexibility in the settling of NIBMs pay with the need to avoid settlements which will be highly provocative to other public sector groups, and which will encourage the management and rank and file of the nationalised industries to bid high in the coming year. The 6-12 per cent proposed by the Lord President of the Council is clearly well below the aspirations of at least some of the nationalised industry boards. Is it, nevertheless, the sort of range which the Committee judges would be defensible whilst still allowing for some flexibility? Should distinctions be drawn between awards to existing board members on the one hand and to those



CONFIDENTIAL

who have to be recruited, or retained on the expiry of their contracts? For example, if it is judged crucial to secure Sir Peter Parker's acceptance of a new contract, does that justify paying over the odds to him?

CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions giving guidance to the Lord President of the Council and to the sponsor Ministers on the broad framework within which they should aim to settle particular increases. The Committee is likely to wish:-

- (i) To endorse either the Lord President of the Council's recommendation in paragraph 7 of E(81) 72, or some variant of it.
- (ii) To invite Ministers responsible for nationalised industry boards to reach agreement on board salary increases, within that framework, with the Lord President of the Council, consulting you and other Ministers as necessary.

REA

(Robert Armstrong)

1st July, 1981

CONFIDENTIAL


Nationalised Industry Boards (Members' Salaries)

Mr. Bill Walker asked the Prime Minister what new arrangements she is making for determining the salaries of the chairmen and the members of the boards of nationalised industries.

The Prime Minister: I announced on 7 July 1980 that the Top Salaries Review Body would no longer be asked to advise on the salaries of the chairmen and members of nationalised industry boards and that in future these salaries would be determined by the Minister concerned in each case with the approval of the Minister for the Civil Service.

Under the new, more flexible, arrangements which take effect from 1 April 1981, salary increases will be based on managerial and market considerations and not on traditional comparisons and ranking. Chairmen and non-executive directors will have an important role and will make recommendations on the pay of full-time board members to the appropriate Minister. Salary increases will normally take effect on the same date as those for the management staff in the industry concerned.

Factors to be taken into account will include the need to recruit able enough people to the board, whether from inside or outside the industry; the need to retain and reward board members of experience and ability; internal differentials between board members and senior management staff; the performance of the industry; and the general economic climate.



CONFIDENTIAL

at. A. Duguid

Prin Amst

(E flow)

Qa 05601

1 July 1981

To: MR LANKESTER

From: J R IBBS

2

17

Pay of Nationalised Industry Board Members

1. The memorandum by the Lord President of the Council (E(81)72) is to be considered tomorrow at E Committee. When this matter was last discussed at E Committee (E(80)16th meeting) there was a general wish to remove consideration of these salaries from the TSRB and instead to let them be determined more freely by the market price which such jobs could command, so that the salaries would be sufficient to attract and retain men of the calibre needed to do these jobs well. It was hoped that Sponsor Departments advised as appropriate, particularly by the Chairman and non-executive directors on each Board, would be able to make appropriate recommendations and that the CSD would need only to exercise a co-ordinating role.

2. It was known that the current salaries were below any range that assessment of the market price was likely to indicate. Not surprisingly, therefore, substantial increases are now being suggested both as annual increments and more especially when Chairmen and others are due for reappointment and can threaten to leave if substantially underpaid. However such increases would be difficult to reconcile in public with the stated need for wage and salary increases to be low except where more is justified by improved performance. Furthermore, the levels now being proposed are presumably for the job being done well, and it is questionable whether this is universally the case.

3. One way out of the present difficulty would be to limit any increase in basic salary to, say, 5% but to negotiate a performance bonus sufficient to raise the total remuneration to the required level if certain clearly specified targets were achieved. Such payment arrangements

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for top executives are as yet less common in this country than in America and there are well known difficulties in setting the targets. Nevertheless I believe this solution is worth exploring. There are leading consultants in the field (Towers, Perrin, Foster and Crosby Inc.) whose advice could be sought on what might be an appropriate scheme for a particular industry; obviously the arrangements made with Lazards when Mr MacGregor was appointed were of this kind. It would be wrong to suggest that this approach can offer a trouble-free solution, indeed it is bound to be contentious and difficult to administer. But it would help to preserve the Government's primary objective of not allowing any substantial pay increases that are within its gift, unless these are demonstrably related to performance.

4. In order to show that basic salaries are being strictly limited it would be necessary to announce in advance the increase in basic salary; there would be no need to publish details of the scheme for calculating performance bonus, merely that one existed. An Industry's Annual Report would subsequently show at the year end the total remuneration, the basic salary and the additional sum that was performance related.

5. The proposal that an element of payment by results should be introduced into the pay of Nationalised Industry Boards is in line with the general thrust of the outcome emerging from the current investigation by the CPRS into the relationship with Nationalised Industries.

6. I am sending a copy of this minute to Sir Robert Armstrong.

~~DoI~~

Scotland.

Trade

Enpl.

01-211-6402

Rt Hon Lord Soames CH PC GCMG GCVO CBE
Lord President of the Council
Civil Service Department
Whitehall
SW1A 2AZ

1 July 1981

See Appendix

I have just received proposals from the Chairman and part time Members of British Gas and the Atomic Energy Authority regarding the salaries of Board Members. I think it would be helpful to circulate details prior to Thursday's discussion in E.

The AEA's Remuneration Committee have based their judgment on the Government's guidance, and take the view that the increases to the scales for full-time Board Members should be to rounded figures in line with the 7% increases for the Authority's senior officials, effective from 1 April 1981. I think that these proposals present no problems and I suggest we agree them (details at Annex A).

The British Gas Corporation have told me that they have appointed external consultants to review top management and Board pay rates, and this will take some time. In the meantime the non-executive external Members have recommended that the existing salary ranges of full-time Members and the Deputy Chairman should be increased by 10% from 1 June 1981, and that the Chairman's salary should also be increased by 10% from the same date. These increases are slightly lower than those for Higher Managers (and for staff above the negotiable level). This proposal leads to a common settlement date for the Board and these Groups, involves a deferment of the settlement date and therefore meets our aims under the new arrangements. The increases seem reasonable to me both in regard to market and managerial considerations. I suggest that we approve them now, and consider on their merits any further proposals arising from the consultants' review without, of course, making any commitment now. (Details at Annex B).

Finally, may I correct the implication in paragraph 4 of your paper E(81)72 that I proposed 14-16% increases for the NCB plus further possible increases in November to revalue TSRB 14 in line with the RPI. My letter of 7 May made it quite clear that whilst

I thought we should accept the 14-16% increase as the least we can do to cope with the problem of inverse differentials, we should make no commitment about further increases in November which would have to be considered in the light of circumstances at the time.

Copies go to the Prime Minister and other members of "E".

Yours

Howell

D A R HOWELL

AEA
Remuneration of Members

	Current Ranges £000	Proposed £000	% increase
Chairman	42.0	45.0	7.1
Deputy Chairman	30.5-38.5	32.635-41.195	7.0
Full Time Members	25.25-31.5	27.02 -33.705	6.5
Part " " Fee	3.545	3.800	6.7

BRITISH GAS CORPORATION

REMUNERATION OF MEMBERS

	Current Salary £	From 1st June, 1981 £
Chairman - Sir Denis Rooke	48,000	52,800
Deputy Chairman - Mr. J. H. Smith	35,400	38,940
<u>Full-Time Members</u>		
(a) External Affairs - Mr. G.F.I. Roberts	32,750	36,025
(b) Finance - Mr. W.G. Jewers	29,375	32,315
(c) Marketing - Mr. B.C. Smith	29,375	32,315
(d) Production and Supply Mr. J. McHugh	28,025	30,830
(e) Personnel Mr. C.E. Donovan	26,000	28,600
<u>Part-Time Members</u>		
All six external non-executive Members	3,670	4,040

DER/BH
26.6.81.

etc
A. Waller
S. Bayard
J. Vankh



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

30 June 1981

The Rt Hon Lord Soames GCMG GCVO CH CBE
Lord President of the Council
Civil Service Department
Whitehall
LONDON SW1A 2AZ

E from

TL

Chris Christopher

2576

NATIONALISED INDUSTRY BOARD PAY

I have seen the correspondence which has followed your Private Secretary's letter of 4 June to the Private Secretary at the Department of Energy. I agree that these issues need to be considered in E Committee, and I welcome the fact that you have circulated a paper as the basis for discussion.

I think that in many ways the central question will be to find a way of relating Nationalised Industry Board pay to performance. I realise the difficulties, of course, but if we could work out something on those lines it could go a long way towards reconciling reasonable flexibility on Board members' pay with the need to ensure that increases are publicly defensible in the context of our wider policies. We could then consider in E Committee whether this would be a promising way forward and if so, how it might best be pursued.

Another point which we will need to bear in mind is that Nationalised Industry Board Members, like their employees, receive index linked pensions.

I am copying this letter to the Prime Minister, other members of E Committee, the Secretaries of State for Scotland, Wales and Transport and to Sir Robert Armstrong.

Geoffrey Howe

GEOFFREY HOWE

W. R. Copied to Appts.
PRIME MINISTER

SM
R
MEETING WITH MR FOWLER

Mr Fowler has asked for a meeting to discuss Peter Parker's re-appointment; we thought we ought to arrange this before E meets on Thursday to discuss the pay of nationalised industry board members generally.

Mr Fowler obviously has a problem, assuming it is right that he should want Parker to serve a further term. But a salary increase from £48,000 to £65,000, which is a 35% rise, plus the rest of the proposed package would look very bad when British Rail are trying to negotiate a settlement with the NUR and ASLEF of under 10%. There is also the problem of the TSRB groups who have been given 7%.

In view of the E discussion on Thursday, you will not want to give any commitment on Parker until we have had other colleagues' views.

TL.

30 June, 1981

Back-up.

~~John Verker~~

I will have to discuss with Chris.

MR. LANKESTER

E: 2 July

R.

The discussion in E on 2 July of the next pay round and nationalised industry's pay is unlikely to result in important new decisions. But the general discussion should cast some useful light on Ministers' general approach to pay next year, and will of course be highly relevant to what I am going to be doing. I should very much like to observe the discussion; would it be possible for me to sit in on it, unobtrusively?

J.

Mr. Arnold

R

29 June 1981

Performance

- Salary 60,000.
- atria coming from 2 chambers
- each lump-sum price must
~~20~~ 15-20,000.

He says nothing

about the MRB negotiations.

It must be delinked.

copied to Appts.

Prime Minister to see
(For meeting of "E")



Neill Mitchell Duty Clerk
26/6/81

APPOINTMENTS: IN CONFIDENCE

PRIME MINISTER

*He is spending a lot
of money on advertising
to persuade the public
to give up the job
to B.P. This hardly
convinces him
to me*

Christopher Soames has arranged for E Committee to discuss next week the increases this year in the pay of serving Board Members. I agree that this is essential, since we cannot move quickly to a genuine market rate basis, as several of the Boards, including mine, are proposing. But I also face at the same time a separate question concerning the Chairmanship of British Rail. This is due to fall vacant in the autumn. In whatever way I seek to fill it, I am not going to have any choice except to pay a market rate. This is what we have found we have had to do in other cases. I have thought about this carefully, and I have no doubt that the best course would be to persuade Sir Peter Parker to accept a further period in the Chair. This minute explains why I have come to this conclusion and how I think the matter should be dealt with.

Peter Parker has proved a good ally on issues like privatisation and has certainly handled the unions well. In particular he has been stressing heavily to the unions that the advantages of our policy have to be earned in increased productivity. In addition, I particularly need his continuing help in securing all the advantages we can get in terms of improved industrial relations and increased efficiency from our decision on railway electrification. I know from my recent contacts with the railway unions that there is a very real possibility of major industrial trouble on the railway in the near future, as we and the Board bring it under intensified pressure, and I also know that I should have a much better prospect of avoiding such a damaging development with Peter Parker there and committed for the future. You may be interested to know that our back-bench Committee have unanimously advised me that he should remain.




The position concerning him is basically this. He would be willing to continue for two or three years. He is however undoubtedly concerned about his financial position. He believes that he gave up a great deal in terms of financial rewards to take on the British Rail job - which I think is undoubtedly the case. He also believes that his market value is high. Again I think this is right. My people have therefore spent a great deal of time talking with him and his Solicitor about what he would regard as an acceptable offer. This really breaks down into three parts.

First, his Solicitor has suggested that his salary as Chairman of the British Rail Board should go up from the present figure of £48,000 to £80,000. I do not think that I should go that far. I think it would be reasonable however to increase his salary to say £65,000.

Second, we are in the future letting full-time Board Members of Nationalised Industries earn more freely outside, provided there is no conflict of interest. Sir Peter's old firms, Clarksons and Rockware, want him back in what would be very much a part-time capacity and are prepared to pay him between them some £27,000 a year. This is on the understanding that I should always have first call on his time. Again I think there is no reason why we should object to that arrangement.

Third, this development opens the possibility of solving the particular, personal financial problem for Sir Peter. That problem is that when he took office as Chairman in 1976 his fall in income was so great that he had to sell his London house in order to cover his expenses, and he feels he has done his family a big disservice which he ought now to try to make good. He is therefore looking for the prospect of some lump sum benefit. This is basically available only from superannuation.



As is often the case with members of Boards recruited from outside the nationalised industries, his superannuation arrangement is an individual one. He was in schemes operated by Clarksons and Rockware before becoming Chairman of British Rail and, in effect, has continued in them as if he were seconded to British Rail from those employments. These schemes provide benefits related in the usual way to terminal pensionable pay and length of service. Inflation-proofing is limited to 3% a year. For his benefits under these schemes to be related to his total pensionable pay at retirement in two or three years time, Clarksons and Rockware will have to find extra funding for those schemes. The question is how far British Rail should reimburse them. There is no question but that they should do so in relation to British Rail pay. The new point is how the cost is to fall in making the Clarksons and Rockware pay pensionable. The relevant period of pensionable service would have covered seven or eight years, only two or three of which would have seen him serving Clarksons and Rockware. My answer is that British Rail should reimburse $\frac{5}{8}$ of that cost. Inland Revenue's Superannuation Fund Office have no objection to this. The effect would be to store in the Clarksons and Rockware schemes at British Rail's expense extra pension of some £9,000 a year (commutable on usual terms) and extra lump-sum benefit of some £13,000. With this I would expect to secure Sir Peter's continued service as Chairman of British Rail. Without it I am pretty sure that I would not do so.

What I would really appreciate is the prospect of a short word with you in the next few days so that I could explain some of the background. As you know, the industry is at a sensitive stage and next week we have the NUR Annual Conference.



I am sending a copy of this minute to Christopher Soames.

~~NORMAN FOWLER~~

26 June 1981

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister to see
(For meeting of "E")

The Rt Hon The Lord Soames, GCMG, GCVO, CH, CBE
Lord President of the Council
Civil Service Department
Whitehall
LONDON SW1

Neill Mitchell Duty Clerk
26/6/81

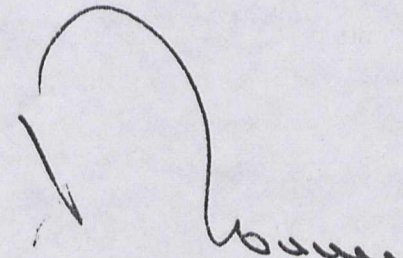
ms

26 June 1981

Dear Christopher.

I have just received your Paper E(81)72 about the pay of nationalised industry board members. I see from that paper that you say that I have put to you "proposals" which include increases of 33-40% for the Chairman and members of the National Bus Company and increases of 31-58% for the Chairman and members of the British Transport Docks Board. I should make it clear that I have not made such proposals. What I have done is to forward to you what the Boards of those two organisations are actually seeking. This is in line with what you yourself requested. As I understand it, the whole point of our meeting is to decide the line to take on all the proposals for all the nationalised industry boards. For my part I would not conceivably support general increases in the range of 31-58%. I hope this makes the position clear.

I am copying this letter to all members of "E" Committee and to Sir Robert Armstrong.

Yours ever, 
NORMAN FOWLER

CONFIDENTIAL



C/A Duguid
J. Verice
A. Walter

Not R.D.

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon David Howell, MP
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

24 June 1981

Dear Secretary of State,

23

NATIONALISED INDUSTRY BOARD PAY

Thank you for your letter of 16 June.

Your proposals for the NCB mean increases from 1 April of 14% to 16% plus the prospect of further increases from 1 November. If, as the NCB suggest, these further increases bring salaries up to TSRB 14 levels revalued by the Retail Prices Index, this is likely to mean at least a further 15%.

I am surprised that you should be "most disturbed" at my desire to take the minds of colleagues on the principles which should guide us this year in fixing these and other salaries. The fact is that there are political hazards here, and before we launch into this coming "round" I am sure we would be wise to discuss it collectively.

I am copying this letter to the recipients of yours.

Yours sincerely,

(Private Secretary)

Dictated by the Lord President
and signed on his behalf.

SOAMES

~~CONFIDENTIAL~~

Nal Ind



A. Walker
A. Duguid
J. Votekar

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Jim Buckley Esq
Private Secretary to
The Rt Hon The Lord Soames GCMG, GCVO, CH, CBE
Lord President of the Council
Civil Service Department
Whitehall
LONDON SW1

23 June 1981

Dear Jim,

n.

My Secretary of State has now been able to consider the proposal in your letter of 4 June to Julian West that there should be a discussion in E Committee of the various proposals which had been made for pay increases for nationalised industry board members.

My Secretary of State has also seen copies of the correspondence from other Departments, including the reply to the Lord President from the Secretary of State for Energy, and has noted the concern that he expresses about any suggestion that there should still be a uniform approach to nationalised industry board member pay issues. But given all the difficulties, my Secretary of State wholly agrees that a Ministerial discussion in E would be the right next step, and that this should cover the various industries that have already put in their claims.

So far as the 3 transport nationalised industries are concerned, the Department of Transport has already sent details of the claims made by the 3 industries to the Civil Service Department (letter of 19 May from Peter Lazarus here to Gordon Burrett), and Mr Fowler hopes that this information will be sufficient for the purposes of the paper which the CSD will be preparing.

My Secretary of State would not, however, think it appropriate to deal at the same meeting with the question of the pay and other conditions to be offered to the Chairman of the British Railways Board, whose current appointment is due to expire very soon. My Secretary of State has already had a discussion

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about this with the Lord President, and as the Lord President will know, he proposes to send a minute about Sir Peter Parker's position to the Prime Minister. The circumstances attaching to this particular reappointment are quite different from those applying to the question of annual pay increases for Board Members during the course of their current terms of appointment and my Secretary of State thinks it particularly important, following his statement yesterday about electrification, that the question of Sir Peter Parker's future (and subsequently that of the Deputy Chairman, Mr Bosworth whose appointment has already expired) should be settled as quickly as possible.

I am sending copies of this to the recipients of yours.

Yours Sincerely,

Anthony Mayer

R A J MAYER
Private Secretary

CONFIDENTIAL



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

3301

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

23 June 1981

Jim Buckley Esq
Private Secretary to the Lord
President of the Council
Civil Service Department
Whitehall SW1

12

Dear Jim

NATIONALISED INDUSTRIES BOARD PAY

As you know, we only received a copy of your letter of 4 June to Julian West on the 17th; hence my rather late reply.

2 The position on the Department of Industry's nationalised industries and other commercial bodies is as follows:

- a BSC
The Chairman and non-executive members are reviewing board members' salaries but any proposals for increases are unlikely to be put to Ministers for some time yet;
- b BS
No proposals have yet been received;
- c BT
No proposals have been received but BT intend to carry out a review over the next few weeks. As the review date for the rest of the staff is 1 July it is probable that the board members' review date will be moved from 1 April (as at present) to 1 July;
- d CABLE & WIRELESS LTD
No individual recommendations have been received but the Chairman has recommended substantially higher remuneration levels in anticipation of privatisation and in line with organisational changes intended at board level. His recommendations (under Section 7 of the guidelines) are supported by an outside consultant's study and are backed by the non-executive directors. The proposals are being considered by the Department bearing in mind the expected public flotation of the Company in October;
- e NEB
Proposals are not expected to be received until later this year, as the normal review date for NEB staff is October;



f PO AND GIROBANK

The Chairman has written to the Department proposing an increase for full-time members of between 8% and 9%. Mr Dearing wishes to defer making final recommendations until the outcome of senior staff negotiations is clearer (review date 1 July) and the views of BT on salary increases for their board members are known.

With regard to Mr Dearing's own salary (currently £40,750), the Chairman of the Part Time Members' Pay Group has indicated verbally that the Group consider that the salary of the Chairman of the new Post Office and Girobank Corporation (i.e post-Royal Assent) should be around £60,000. This should be achieved in two stages: an increase of 8-9% from 1 April 1981 and a subsequent increase when the full responsibilities are assumed;

g RR

The Chairman made recommendations in early April for increases of £3,000 for 5 out of 6 individual executive members. The percentage increases were between 6½-8½% individually, or approximately 6% on this part of the payroll. These proposals were agreed;

h BL

The issue as to whether BL remains outside the new arrangements for board members' salaries rests with my Secretary of State's letter to the Lord President of 21 May 1981.

I am copying this letter to the recipients of yours.

Yours ever

Richard

23 JUN 1981



RICHARD RILEY
Private Secretary

Not filed

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

Switchboard 01-213 3000

Jim Buckley Esq
 Private Secretary
 to Lord President of
 The Council
 Civil Service Department
 Whitehall
 LONDON SW1

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24

22 June 1981

Dear Jim,

NATIONALISED INDUSTRY BOARD PAY ✓

In response to your letter of 4 June John Anderson recently told you that we were not yet in a position to put forward proposals about the pay of the directors of Remploy, the one body under our control which is involved in this exercise.

The situation is that MSC (who have operational responsibility for Remploy) have not yet discussed the details of the new arrangements for board pay with Remploy. It is known however that the Company is concerned to establish a relationship between Board and senior management salaries and to ensure that these salaries bear a reasonable relationship to market rates.

The Guidance appears to accommodate such an arrangement but the timing of settlements could present a problem. Senior management received a 7½% increase from 1 December 1980 whereas the director's settlement date is currently 1 April. A number of alternatives will be considered to move the director's review date to December but that most likely to be favoured by the Chairman is an interim settlement of 7½% from 1 April to 1 December 1981. This would allow existing anomalies between the pay of the two groups to be corrected at the earliest possible date.

I am copying this letter to the recipients of yours.

Yours ever
Richard Dyke

R T B DYKES
 Principal Private Secretary

J. Jackson
A. Duguid
A. Walters

CONFIDENTIAL

Noted



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Lord Soames
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

18 June 1981

Dear Christopher,

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NATIONALISED INDUSTRY BOARD PAY

I have seen a copy of your Private Secretary's letter of 4 June to the Private Secretary to the Secretary of State for Energy.

So far as my interests are concerned, I hope to be in a position shortly to let you have detailed proposals in respect of the Scottish Transport Group. The position of the Highlands and Islands Development Board is, as you know complicated by the continuing search for a Chairman and I feel that, in these circumstances, I must wait until there has been some real progress on this front before advancing any salary proposals. However, as you will know from my discussions with Barney Hayhoe, if I am to be able to attract the right type of candidate to this important post I will have to be prepared to offer very substantially more than the present figure.

So far as the Scottish Development Agency is concerned, their views on the salaries appropriate to Board members have been sought and we have yet to received their considered response. The indications to date, however, are that issues which would require consideration by 'E' Committee are unlikely to be raised.

The Scottish Electricity Boards are using PA Management Consultants to prepare their cases and I do not expect to receive any detailed submissions from them until August at the earliest.

On the broader question of the operation of the new arrangements, however, I am very concerned that we appear to be moving towards a rigid 6% pay limit for Board members. Surely this is the antithesis of the thinking which motivated the new, and we hoped, more flexible arrangements. If this is indeed the case, then our Boards are bound to question the value of devoting management time and financial resources to the preparation of detailed submissions on this subject, merely to be given a reply which they could have received in the first instance.

While therefore it is likely that, of the nationalised industries under my wing, only the STG will be putting forward detailed proposals in the near future, I would nevertheless welcome the opportunity of discussing this whole issue in E Committee.

I am copying this letter to the Prime Minister, other Members of E, the Secretaries of State for Wales and Transport and to Sir Robert Armstrong.

Yours ever,

George



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cc Dwyer
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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
TELEPHONE: 01-211 3000
211 6402

CONFIDENTIAL

16 June 1981

The Rt Hon Lord Soames CH
PC GCMG GCVO CBE
The Lord President of the Council
Civil Service Department
WHITEHALL SW1A 2AZ

Dea Armstrong

7/16/81

NATIONALISED INDUSTRY BOARD PAY

In reply to my 7 May letter proposing pay increases for NCB members, your Private Secretary wrote to mine on 4 June asking that I and other colleagues speed up proposals from other NI Boards so that you could prepare a comprehensive paper on Board pay increases for discussion in E Committee.

I am most disturbed by this suggestion, which I believe to be undesirable and unnecessary. As we said in the Memorandum sent to the industries, the essence of the new flexible system of pay determination is that pay increases would be based on managerial and market considerations and not on traditional comparisons and rankings between nationalised industries. We expressly acknowledged that it would lead to a wider range of pay levels. And we also stressed that the method of increasing pay should not give undue prominence to salary increases for Board members. We shall be negating all these points if we now seek to marshall all Boards' proposals and determine them simultaneously by some new considerations for general application.

I recognise that we included "the general economic climate" as one of the factors which we would take into account in reaching decisions. But that was not to be the sole or overriding criterion, as we also emphasised the importance of other factors as well, such as the internal differentials which are at present inverse in NCB's case. We told the Chairmen there must of course be co-ordination to ensure propriety and broad balance and that this would be achieved by consultation with you. Boards' circumstances are different, both as to their procedures for making proposals and their case in substance. We effectively decided to acknowledge that in adopting the new system, and we



should continue so to do, I think that we are all well enough aware of the general economic climate for our consideration of each case to be effective without further collective discussion.

In my letter of 4 February to you and colleagues I said that to announce the new scheme and then immediately circumscribe it would give us the worst of all worlds. That is still my view. If we do not use the new system as intended the problems will only get worse. I would therefore urge you to agree on their merits the proposals in my 7 May letter about NCB, which I am now copying to colleagues.

I am copying this to the Prime Minister, other members of E, the Secretaries of State for Scotland, Wales and Transport and to Sir Robert Armstrong.

Yours

Dair

D A R HOWELL



1981 JUN 11

✓ Mr. Duggan
Mr. Vercher

Foreign and Commonwealth Office

London SW1A 2AH

[Handwritten signature]
Nad
hel

11 June 1981

Dear Jim,

[Handwritten initials]

Nationalised Industry Board Pay

Please refer to your letter to Julian West of 4 June. The two Boards for which the Foreign and Commonwealth Secretary is responsible are those of the Commonwealth Development Corporation and the Crown Agents. He is not yet in a position to submit proposals to the Lord President but the current position about each Board is as follows:-

Commonwealth Development Corporation

No proposals have yet been received from the Chairman. He is known to wish to bring executives onto the Board but this would involve a major review of Board pay structure and he is not thought likely to propose it for the current pay review. Any proposals for Board pay are not likely to exceed the ordinary periodic adjustment for staff pay, the settlement date for which is 1 June. (Up to now it has been 1 April for the Board).

Crown Agents

The Foreign and Commonwealth Secretary is awaiting the views of the Chairman and of executive Board members as appropriate on the pay of the Chairman and Board members. No major review of Board pay structure is likely to be proposed for this year. Most of the Crown Agents' staff are aligned to Civil Service pay and conditions. Assuming that they ultimately receive a 7% increase it is likely that this will be proposed for Board members also. The settlement date for both Board members and staff is 1 April.

I am copying this letter to the recipients of yours.

[Handwritten signature]
Rodric Lyne

(R M J Lyne)
Private Secretary

J Buckley Esq
Civil Service Department
Whitehall
LONDON SW1

cc Mr Ingham
Mr Vercker



PRIME MINISTER

Happy with this draft?

The FT already know about it
(before it even reached us today) -

so shall we make the announcement
on Tuesday, which is the earliest
possible day?

PRIME MINISTER

Agreed not

NEW ARRANGEMENTS FOR PUBLIC BOARD SALARIES

(previous
papers
attached)

On 16 February you agreed to the proposed new arrangements for determining Public Board salaries set out in my minute of 23 January. In that minute I recommended that we should stand firm on three outstanding issues raised by the Nationalised Industries Chairmen's Group. We decided that:-

MS

3/4

- a. there could be no automatic implementation of increases to TSRB 14 levels during the next year or so;
- b. we should reject the proposed "board fee plus executive salary" arrangement;
- c. we should insist that "the general economic climate" should be a separate factor to be taken into account in considering pay increases.

The Chairmen's Group has now said that, while they do not accept fully the proposed new arrangements, they are prepared to adopt them as a basis for trial from 1 April 1981.

The arrangements can now be announced. I suggest that this might be done by means of an arranged PQ. I attach a draft for your consideration. If you agree, perhaps your office would keep mine in touch with the timing.

x a written

I am copying this minute to members of E, and to George Younger, Nicholas Edwards, Norman Fowler and Sir Robert Armstrong.

SOAMES

2 April 1981

DRAFT ARRANGED PQ AND ANSWER

QUESTION

To ask the Prime Minister what new arrangements she is making for determining the salaries of the chairmen and members of the boards of nationalised industries.

ANSWER

I announced on 7 July 1980 that the Top Salaries Review Body would no longer be asked to advise on the salaries of the chairmen and members of nationalised industry boards and that in future these salaries would be determined by the Minister concerned in each case with the approval of the Minister for the Civil Service. Under the new, more flexible, arrangements ~~with which take effect from 1 April 1981~~, salary increases will be based on managerial and market considerations and not on traditional comparisons and ranking. Chairmen and non-executive directors will have an important role and will make recommendations on the pay of full-time board members to the appropriate Minister. Salary increases will normally take effect on the same date as those for the management staff in the industry concerned. Factors to be taken into account will include the need to recruit able enough people to the board, whether from inside or outside the industry; the need to retain and reward board members of experience and ability; internal differentials between board members and senior management staff; the performance of the industry; and the general economic climate.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Barney Hayhoe Esq MP
Minister of State
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

2 April 1981

Dear Barney,

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS

Thank you for sending me a copy of your letter of ~~4~~ 28 February to Keith Joseph. I have also seen John Biffen's response in his letter of 3 March.

On the question of perks I think it is important to recognise that their use throughout British industry is at present very widespread and that their application in the public sector applies not only to the nationalised industries, but also in some limited cases to public agencies where it has been essential for us to include them in an offer to secure the services of a particular individual. Any new rules we agree for the nationalised industries will therefore tend to affect these other public bodies as well.

I agree with you that our general aim should be to keep perks to a minimum and that where possible it is preferable to eliminate them in favour of an enhanced salary; but I do not think it is practical to think of eliminating perks completely in future public sector appointments. We touched on this general issue when you were good enough to come and see me recently about the Chairmanship of the Highlands and Islands Development Board. Of course I agree with the principle that it is unhealthy when people attach more importance to perks than to salary; and I gather that there is some evidence of a trend away from this since we cut the top rates of income tax in 1979. The fact is that if we want to attract the best people from the private sector to the public sector, they have to be paid in the same sort of coinage. This is not only what they expect: to do otherwise results in misleading comparisons between public and private sector remuneration. There can be no question of public sector employment offering the more outrageous perks available in the private sector; but if we go too far in the other direction, we will unnecessarily limit our range of choice in making appointments.

John Biffen draws a distinction between generalised perks such as company cars and free travel which apply to executives above a certain level in certain industries and those of a financial nature, such as enhanced pension arrangements or salary bonuses which are negotiated ad hoc to secure the services of a particular individual. I find this distinction helpful although neither category is general throughout the industries or public agencies for which I am responsible. On the generalised schemes I agree that they should be kept to a minimum, but an attempt to abolish them while the private sector continues with its schemes could cause very widespread dissatisfaction and lead us to lose the services of some able people. As regards the schemes which are negotiated for individuals, again I favour keeping these to a minimum, but by their nature they are decided by us ad hoc because we judge that some special arrangement is necessary to secure the services of an individual whom we require for a particular appointment. As you will be aware I have one such case at the moment and recent experience of major public appointments suggests that it is essential for us to retain this flexibility.

On retention of outside fees I agree with your general approach that the rules on retention of fees should be drawn up by the Chairman and non-executive directors who have no vested interest. I think however that we should consider reserving the sponsoring Minister's position in relation to initial appointments. A new candidate who earns outside fees may well wish to retain some part of them and could reasonably expect to have this point cleared up before he accepts a public post. Each Board may have a general rule about retention of fees but many appointments have unique features and I suspect it would be unworkable, in considering a particular candidate, for the sponsoring Minister to have either to establish in advance whether retention of fees would be authorised or to say that the matter is one for subsequent decision by the Board concerned.

I am copying this letter to recipients of yours.

Yours ever,

Croft



C/A Dignid
A Wallis
J Verdes

Watt Ltd

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/11768/81

Your ref:

30 March 1981

Dear Sir

TK
2/4

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS

Thank you for sending me a copy of your letter of 18 February to Keith Joseph.

Perks, I am glad to say, are not a problem in the water industry at board level nor with the British Waterways Board. In the case of the water authorities, the chairmen are paid but the other members receive only travel and subsistence and financial loss allowances on a scale fixed by Ministers for local councillors. The BWB, although constituted similarly to other nationalised industries, do not provide perks of a monetary nature (such as those referred to in John Biffen's letter of 3 March). On the general issue of principle, I agree however that such perks should be kept to an absolute minimum and should be treated as part of total remuneration, as you suggest.

Although I recognise that Ministers have no direct control over perks for senior staff below board level, I would hope that the policy you propose would have the effect of keeping those perks also to a minimum. In some water authorities chief officers do appear to enjoy one or two minor perks of a monetary nature within guidelines produced by the National Water Council in 1973; and my officials have recently suggested to the NWC chairman that he might take a fresh look at the guidelines to see whether they are still appropriate and if so, consistently observed.

As regards retention of fees, neither the chairmen nor members of water authorities or BWB are full-time, so that your proposal is not strictly relevant in their case. More generally, however, I

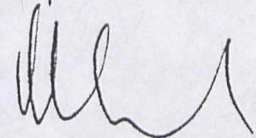
share the view expressed by John Biffen and David Howell that the policy on this should not be determined by the executive directors who stand to benefit.

I am sending copies of this letter to the Prime Ministers, members of E(EA), Peter Carrington, Norman Fowler and Sir Robert Armstrong.

31/MAR/99

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Jan Cur



MICHAEL HESELTINE



with compliments

MINISTER OF STATE

CIVIL SERVICE DEPARTMENT
Whitehall London SW1A 2AZ



Minister of State

Stuart Hampson Esq
Private Secretary to the
Secretary of State
Department of Trade
1 Victoria Street
LONDON SW1H 0ET

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Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

2 1/3

10 March 1981

Dear Stuart

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS

Your Secretary of State wrote to my Minister on 3 March about the use of executive perks and the retention of fees for outside appointments by nationalised industry board members.

Your Secretary of State suggested that the rules for the retention of fees should be left to the non-executive directors of each industry rather than the executive directors as suggested in my Minister's letter of 18 February. In fact the reference in my Minister's letter was a mis-type, for which I apologise. We had intended to propose that the retention of fees should be a matter for the non-executive directors, for exactly the reasons that your Secretary of State puts forward.

My Minister is still considering the other point raised by your Secretary of State and will wish to take account of any comments that other Ministers might make.

I am copying this letter to the Private Secretaries of the Prime Minister, members of E(EA), the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for Transport, and Sir Robert Armstrong.

Yours sincerely

G E T Green

G E T GREEN
Private Secretary

SECRETARY GENERAL

THAMES HOUSE
MILBANK LONDON

01-211-6402

Barney Hayhoe Esq MP
Minister of State
Civil Service Department
Whitehall
London SW1

Rys
6 March 1981

Thank you for copying to me your letter of 18 February to Keith Joseph about the handling of executive perks and the retention of fees from outside appointments by nationalised industry Board Members under the new arrangements for determining their salaries.

I am in general content with the arrangements you propose, but would make similar qualifications to those in John Biffen's letter of 3 March. In particular I would be against interfering with such perks as the Director's car while we continue to accept them in the private sector. I would agree that perks of a monetary nature such as special pension arrangements (or, I might add, help with housing for someone living, say, in the provinces, who is being asked to take up an appointment in London) should be offered only when this is necessary to attract the right candidate. As you recognise, we do have to be ready to compete in the market for able people and, whilst we might prefer to pay a higher salary to eliminate perks, some of the people we need to attract may, and indeed do, insist that an individual pension arrangement is so important to them that it is this, rather than the salary level, which will determine their willingness to accept appointment. So we must not bury our heads in the sand about this.

I welcome your general approach on the retention of fees from outside appointments. We must as you say retain control of the outside appointments that full-time Board Members may accept, but I agree that it should be for each Board to determine its policy on the retention of fees when such appointments are approved. Like John Biffen, I think it would be right to ask that a Board's rules should not be



determined by the executive directors who stand to benefit and that the non-executive directors should be involved.

I am sending copies of this letter to the Prime Minister, Members of E(EA), Peter Carrington, Norman Fowler and Sir Robert Armstrong.

Yan

D A R HOWELL

David



From the Secretary of State

Barney Hayhoe Esq MP
Minister of State
Civil Service Department
Whitehall
London, SW1A 2AZ

MBM

R 313

3 March 1981

Dear Barney

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS

Thank you for copying to me your letter to Keith Joseph of 18 February. Subject to clarification of the two points to which I refer below, I agree with your proposals for the way in which perks and retention of fees from outside appointments should be dealt with in the future.

I think we must recognise that perks fall into two main groups. First there are benefits such as company cars, or the concessionary travel facilities which may be enjoyed by board members in the transport industries. These are widespread and well-established, and I take it there is no suggestion that this type of perk should be withdrawn from existing members or denied to new members; and, attractive as it would be in theory to take them into account in setting board members' salaries, the problems of quantification would be formidable. The second category comprises perks of a monetary nature such as favourable pension arrangements or perhaps performance bonuses which might have to be offered to attract a particular candidate, and I agree that the procedure you propose should apply in these cases. When you promulgate the final version of the new rules to Departments, it would be helpful if you could define 'perks' in such a way as to avoid misunderstanding and inconsistencies.



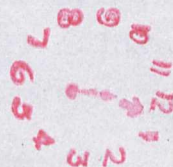
From the Secretary of State

On outside fees I am quite content that each board should be left to decide its own rules; but I question whether those rules should be drawn up by the executive directors as you suggest. They, after all, are the people who will benefit from retention of such fees and it would seem preferable for the rules to be decided between the Chairman and the non-executive directors who have no vested interest. Although I do not dissent from your proposal in principle I think it would be improved if we were to give this function to the non-executives rather than to the full-time directors themselves.

I am copying this letter to the recipients of yours.

Yours
John Biffen

JOHN BIFFEN



1-3 MAR 1981



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3BB

Noted

The Rt Hon The Lord Soames GCMG GCVO CH CBE
Lord President of the Council and
Leader of the House of Lords
Civil Service Department
Whitehall
LONDON
SW1

26 FEB 1981

John Chushorles

mbem

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26/2

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS

I was grateful to you for sending me a copy of your minute of 23 January to the Prime Minister on this subject and am sorry not to have commented earlier. I have of course since seen a copy of the letter from No 10 of 16 February and the other correspondence to which that refers.

I wholly agree with the principles set out in the annex to your minute, and I also wholly agree with the general approach to the remaining problems which you describe in your minute. But I must add that there is considerable evidence of existing difficulties, and I agree with those colleagues who urge that we need to take account of these difficulties before finally determining what is likely to be a realistic approach to these problems.

By way of example, key members of the British Railways Board are worried about their financial position, and are very conscious of the fact that they could earn much more by going back to the private sector. We could well face difficulties when their existing contracts come up for renewal in the near future.

We had to make special exceptions on a personal basis before we could get an effective board for the National Freight Company Limited, as was essential if we are to have any hope of a successful flotation within the next year or so. Exactly the same will apply to the British Transport Docks Board, once the present Bill is through Parliament. But one of the full-time directors there - a man who is effectively number three in the hierarchy, and one of the few really good managers - is currently earning several thousand pounds per annum less than he would have been earning if he had not agreed to come on to the Board. I am far from certain how long he will stay.

I agree that we could not accept the proposal from chairmen that we should put Board salaries on to a "Board fee plus executive salary" basis. I agree also that in looking at salaries we must take the general economic climate into account. But we must have salary levels which take sufficient account both of outside relativities, and of the pay actually given to staff within the industry, to make sure that we can recruit good Board members, both from outside and by promotion of existing people within the industry - and retain them. I fear that within a short time we shall not be able to do this unless we accept salaries of the kind recommended last year by the TSRB, and keep them up to date. And unlike Michael Heseltine's view on the National Water Council, I think the TSRB recommendation that the BTDB should be moved up a tier is sound.

In short, I am sure that we shall need flexibility to deal with individual cases and the special circumstances of particular Boards. I hope that you see your proposals as providing for this.

I am sending copies of this letter to the Prime Minister and members of E, and to George Younger, Nicholas Edwards and Sir Robert Armstrong.

Yours
Norman

NORMAN FOWLER

CONFIDENTIAL



Minister of State

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

MBM yet

12

18/2

pa February 1981

Dear Keith,

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS

You will have seen a copy of Christopher Soames' minute of 23 January to the Prime Minister about the views of the nationalised industry chairmen on the main points of the new arrangements for determining salaries of nationalised industry board members. The Prime Minister has agreed to Christopher Soames' proposals (her Private Secretary's letter of 16 February) and I am writing now to seek your views, and those of colleagues, on two lesser aspects of these arrangements, the use of executive perks and the retention of fees from outside appointments, which have not been discussed with the chairmen.

Executive Perks

Both the Prime Minister and Treasury Ministers have expressed unease about the widespread use of executive perks. Although we cannot expect the nationalised industries to give them up while they remain common in the private sector, we must ensure they are kept to an absolute minimum in areas where we have direct control. I therefore propose that potential recruits to nationalised industry board membership should not be offered any perks unless they are absolutely essential to attract an otherwise highly suitable candidate. Naturally we shall have to offer the market rate for able people but it would be better to pay a slightly higher salary rather than to offer perks. Where perks cannot be avoided it is essential that they should be properly evaluated, treated as part of the total package of remuneration, and not offered without CSD agreement. Where existing board members enjoy executive perks, we cannot reasonably take them away but their use should not be extended and nationalised industry board chairmen should be made aware that perks, like salaries, require Ministerial approval.

Retention of Fees

At present full-time board members can in certain circumstances retain fees of up to £1,000 accruing from outside appointments. The

CONFIDENTIAL

Top Salaries Review Body has in the past recommended against the retention of any such fees but now that we are moving to a more flexible market-related approach to board members' salaries, I think we should reconsider the position. In my view we should only retain controls which are not found in the private sector when it is essential in the national interest to do so. Ministers will have to retain control of the outside appointments that full-time board members are allowed to accept in order to ensure that:

- i. the board member gives sufficient time to his full-time duties with the nationalised industry;
- ii. there is no conflict of interest.

However, where an outside appointment is acceptable there seems no reason for imposing centrally determined rules about keeping the remuneration from it. I therefore propose that the chairman and executive directors of each board should be left to lay down their own rules about the retention of fees from outside appointments by the full-time members of their own board. It will, of course, remain the case that if a particular outside appointment is part of the normal duties of a board member it should not attract any additional remuneration.

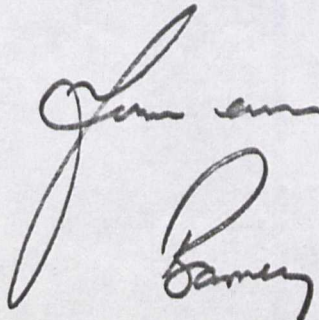
Conclusion

I would welcome your views, and those of colleagues, on the following proposals:

- i. that the use of perks should be kept to an absolute minimum and that when they do occur they should be treated as part of the total package of remuneration to be agreed by Ministers;
- ii. that each board should be allowed to determine its own policy on the retention of fees from outside appointments.

I do not think that either of these two measures need be included in the public announcement to be made about the broad outlines of the new arrangements for determining nationalised industry board members' salaries; nor should it be necessary to consult the Nationalised Industry Chairmen's Group about them. It will be enough for individual sponsor Ministers to inform their chairmen of the Government's thinking in the context of the implementation of the new arrangements.

I am copying this letter to the Prime Minister, members of E(EA), Peter Carrington, Norman Fowler and Sir Robert Armstrong.



BARNEY HAYHOE

APPOINTMENTS IN
CONFIDENCE



✓ Mr Duggill
Mr Venables

From the Secretary of State

J Buckley Esq
Private Secretary to the
Lord President of the Council
Civil Service Department
Whitehall
London SW1A 2AZ

10 June 1981

Dear Jim,

NATIONALISED INDUSTRIES BOARD PAY

You copied to me your letter of 4 June to Julian West at Energy. In it you asked for details of any proposals we might wish to make in the near future for the pay of the Boards of the nationalised industries and similar bodies that we sponsor.

British Airways have been in touch with us about Board pay, but we have not yet had any formal proposals. However, we expect them shortly to request an increase of pay for the current year comparable to that which they have offered to their own staff (a pay freeze for the first three months of the pay year, followed by an 8% increase). British Airways' Board count their pay year from 1 April, the same date that applies to their senior management staff.

We also have reason to believe that before long British Airways will come up with proposals for a new pay structure - no doubt opening the way for larger increases - to come into force, at the latest, on 1 April 1982. We are doing our best to exert a moderating influence on these proposals; but we know that the Board are dissatisfied with present pay levels, that their expectations have been raised by the promise of greater freedom in the post-TSRB arrangements, and that they are watching closely developments over pay for other nationalised industry boards.

We understand that the British Airport Authority are working on proposals for an increase of pay for members of the Authority; but we do not yet know what will emerge, and we cannot therefore yet give you any details.

We are not aware of any new proposals under consideration for the pay of members of the Civil Aviation Authority.

I am copying this letter to recipients of yours.

Yours ever,

Nick McInnes

APPOINTMENTS IN CONFIDENCE

N MCINNES

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From the Private Secretary



Next led
Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

of the records
4 June 1981

Julian West
Private Secretary to the
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

R 872
Dear Julian,

attached
NATIONALISED INDUSTRY BOARD PAY

Energy
The Lord President has considered your Secretary of State's letter of 7 May about the pay of the chairman and members of the National Coal Board. He has also discussed with the Secretary of State for Transport the pay and pension arrangements to be offered to the chairman and deputy chairman of British Rail on re-appointment.

In the Lord President's view the proposals which have been put to him raise considerable difficulties and he suggests that they should be considered in E Committee, together with any other proposals for pay increases for nationalised industry board members which sponsor Ministers are intending to make in the near future.

I would therefore be grateful if you and other Private Secretaries to sponsor Ministers would let me have as soon as possible details of any proposals which your Secretary of State wishes to make for the pay of the boards of nationalised industries and the other commercial bodies included in the new arrangements for board pay, together with the justification for them under the agreed criteria. The Lord President is not suggesting that proposals which would not normally have been made until, say, the autumn should be brought forward now, but merely that proposals which would have been made during the next few weeks should be speeded up, so that they can all be considered together. As soon as we have this information, the Lord President will put a comprehensive paper to E Committee.

I am copying this letter to the Private Secretaries, to the Prime Minister, other members of E, the Secretaries of State for Scotland, Wales and Transport and to David Wright in Sir Robert Armstrong's office.

Yours sincerely,
Jim Buckley.

J BUCKLEY



From the Secretary of State

Barney Hayhoe Esq MP
Minister of State
Civil Service Department
Whitehall
London, SW1A 2AZ

8. May 1981

Dear Barney,

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
BOARD MEMBERS

Thank you for your letter of 22 April.

I am content with the arrangements you have outlined on perks. As far as British Airways is concerned, board members enjoy certain concessionary air travel facilities, as do most of the airline's employees. These are "by tradition special" to the international airline industry, and I do not therefore propose to seek CSD clearance before allowing new board members to take advantage of them.

I am also content with the proposal that, in the case of initial appointments, sponsoring Ministers should still have the right to decide which fees may be retained from outside appointments.

I take it, however, that on re-appointment you would expect all Board members to comply with their Board's rules about retention.

I understand that detailed guidelines on all aspects of the new arrangements for Board salaries were circulated to Departments at official level last month. No doubt your Department will now be issuing amended material on perks and retention of fees so that we can let our industries know what has been decided.

I am copying this letter to the Prime Minister, members of E(EA), Peter Carrington, Norman Fowler and Sir Robert Armstrong.

John Biffen
JOHN BIFFEN



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLEBANK LONDON SW1P 4QJ

01-211 6402

CO/33/0137 A
Mr Moore
CC PUS
Mr Manger
Mr Agrell
Mr Emmett
Mr Whaley
Mr Topley

MANAGEMENT IN CONFIDENCE

Rt Hon Lord Soames GC MG GVO CH CBE
Lord President of the Council
Civil Service Department
Whitehall
London
SW1A 2AZ

7 May 1981

See Appendix

NATIONAL COAL BOARD : PAY OF CHAIRMAN AND MEMBERS

In accordance with the new arrangements for settling Board Members' pay, the Chairman and part-time Members have sent me their proposals for new Board salaries, to apply from 1 April. The figures are on the attached sheet. You will see that the increases involved fall into the range 10.9 to 16.3%. The proposals make it clear that these increases are only a first stage and that the Chairman and part-time Members intend to recommend a further increase to take effect on 1 November, when the Board's senior management staff expect their next increase.

These proposals create difficulties for us in present circumstances. Nevertheless it must be recognised that the NCB has a major problem of inverse differentials. The present range for the senior officials who report to the Board members is £28,136 to £35,404. In fact 11 out of the 12 officials in this grade are on the top figure (£35,404). By contrast, the present mid-point for a full-time member is £29,375. The range for full-time members is in fact broadly the same as that for the second grade of officials. This is an intolerable situation which we must put right. Even the Board's proposals would not deal with the problem entirely, since they would leave the mid-point of the range at only £33,750. But they are the least we can do.



- 2 -

I do not intend to comment on the proposed further increase from 1 November at this stage. The Board have given me notice that this increase should be sufficient to bring salaries up to TSRB 14 levels, as revalued by the Retail Price Index, but I suggest that we leave the question to be settled in the light of circumstances and managerial considerations nearer the time.

We have always accepted that inverse differentials create a particular problem and have introduced the new system to give greater flexibility to take account of such circumstances. We have built up expectations among board members that they will in future be treated more fairly, and I would be sorry to see us fail to live up to these expectations the first time the new system was tested. I am also concerned that, if we fail to take action now, the problem of inverse differentials will only get worse. The senior officials will receive another increase on 1 November, and the longer we postpone dealing with the problem the bigger we will have to make the eventual increase needed to get the right relationship. You will remember how this happened with the previous Government and how as a result we had to agree big increases when we came into office in 1979. I hope that, whatever the short-term difficulties, we will not start such a process again.

D A R HOWELL

Enc

MANAGEMENT- IN-CONFIDENCE

NATIONAL COAL BOARD

PRESENT AND PROPOSED SALARIES FOR FULL-TIME MEMBERS, DEPUTY CHAIRMAN AND CHAIRMAN

	£'000			
	<u>A: Present Salaries</u>	<u>B: TSRB 14 Proposals</u>	<u>C: Board Proposals</u>	D: Board Proposals as percentage of present salaries %
Chairman	48	52.5	55	114.6
Deputy Chairman				
maximum	40.5	45	46.5	114.8
minimum	32	34.5	35.5	110.9
Full-time Members				
maximum	32.75	36.5	37.25	113.7
mid-point	29.375	32.5	33.75	114.9
minimum	26	28.5	30.25	115.3

COAL DIVISION

1 May 1981



Minister of State

The Rt Hon John Biffen MP
Secretary of State
Department of Trade
1 Victoria Street
LONDON SW1H 0ET

2

1. ~~Perks~~ ~~Minis~~ 5-
2. ~~It (O/R) to see~~ MS 24/4

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

~ Nat Ind

~

22 April 1981

John Biffen

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS

Thank you for your letter of 3 March in reply to mine of 18 February to Keith Joseph about perks and the retention of fees. I have also had replies from David Howell, George Younger, Michael Heseltine and Keith himself.

I agree that we need a tighter definition of perks. While broadly agreeing with your distinction between benefits and monetary perks I believe the private use of company cars requires special treatment. Free private use of a car has a significant financial value and I think that CSD's prior agreement should be required before it is offered. But I accept that we shall need to be flexible on this point when cases are put to us.

We need in any event to know what is the total value of any package of remuneration on offer, including all perks (although I would not include pension arrangements, which are determined independently, within that definition).

Keith Joseph has indicated his agreement on the understanding that many proposals apply only to new recruits and that we do not seek to investigate the benefit enjoyed by existing board members. I confirm that I only had new recruits in mind.

On the question of the retention of fees, George Younger has suggested that the sponsoring Minister should retain his discretion in the case of initial appointments. I agree that this would be right for the reasons he gives.

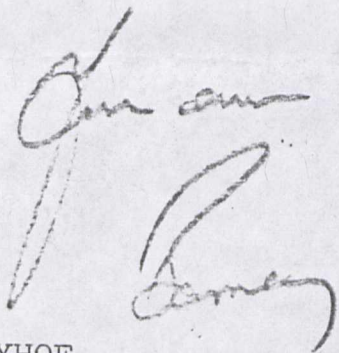
In summary I suggest that:

- i. Perks for which the prior agreement of the CSD is necessary should include all benefits, both monetary and non-monetary, except those which are by tradition special to a particular industry.

- ii. Sponsor Ministers should retain their right to decide which outside fees may be retained in the case of initial appointments.

Unless colleagues have any further comments, I will proceed on these lines.

I am copying this letter to the Prime Minister, members of E(EA), Peter Carrington, Norman Fowler and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Barney Hayhoe', written in dark ink.

BARNEY HAYHOE

cc A. D. G. J. Weeks



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB
 TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

14 April 1981

Barney Hayhoe Esq MP
 Minister of State
 Civil Service Department
 Whitehall
 London SW1A 2AZ

1. Prime Minister

2. TL(O/R) to see

MS
15/4

Barney

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
 INDUSTRY BOARD MEMBERS

Thank you for your letter of 18 February seeking my views on the use of executive perks and the retention of fees from outside appointments under the new arrangements for determining salaries of nationalised industries Board members. I have also seen the replies from John Biffen and David Howell.

2 I understand that the new arrangements you are proposing for dealing with executive perks will be applied only to new recruits to nationalised industry boards and that there is no question of an extensive investigation of executive benefits currently being enjoyed by existing board members. On this basis I am generally content with the arrangements proposed. It seems unlikely in the next year or so that it will be possible to reach a position on the remuneration of present Board members which will match the expectations of the Chairmen of the nationalised industries following the announcement of more flexible arrangements last year. To attempt to withdraw any benefits currently being enjoyed, or indeed to attempt to value them would, I am sure, be taken very badly by Board members generally and could only exacerbate a difficult period of salary negotiations.

3 Like John Biffen and David Howell, I think it may be difficult to eliminate executive benefits entirely and to deny incoming Board members the same sort of benefits that existing members already enjoy. I hope we can deal flexibly with this matter, especially in those areas where such benefits are widely available and well established both within the private and public sectors. It seems to me that a rigid approach in this rather limited area of remuneration would be inconsistent with our new policy of greater flexibility and would make it much more difficult to recruit the right candidates for these important jobs.

4 I agree with you that it is right that each Board should determine



its own policy on the retention of fees from outside appointments. I think we should recognise, however, that in the current climate of dissatisfaction among the Chairmen and Board members over salaries the new approach could well lead to a general practice of allowing such fees to be retained. I do not think that should deter us from allowing the non-executive members to determine their Board's policy in this area. It will, of course, be for the sponsoring Minister to satisfy himself that any outside appointments approved do not have an adverse affect on the amount of time each member can devote to his task with the nationalised industry.

5 I am copying this letter to the Prime Minister, members of E(EA), Peter Carrington, Norman Fowler and Sir Robert Armstrong.

Emm

Keir

15 APR 1981



FILE

Nat Encl

RH



10 DOWNING STREET

cc	FCO	D/N
	SO	D/T
	WO	MAFF
	D/TP	D/M
	CO	HMT
	CST	D/I
		HO

From the Private Secretary

6 April, 1981

New Arrangements for Public Board Salaries

The Prime Minister has seen the Lord President's minute of 2 April. She is content to announce the Government's decision by written answer, in the terms attached to the Lord President's minute.

We are proposing to make this announcement tomorrow at 1600 hrs.

I am copying this letter to the Private Secretaries to members of E, and to Godfrey Robson (Scottish Office), John Craig (Welsh Office), Tony Mayer (Department of Transport) and David Wright (Cabinet Office).

N. J. SANDERS

Jim Buckley, Esq
Lord President's Office

VLS

CONFIDENTIAL

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commentary?

MR. LANKESTER

SALARIES OF NATIONALISED INDUSTRY
BOARD MEMBERS

12

I see no objection to the recommenda-
tions in paragraph 7 of the Lord
President's minute of 23 January to the
Prime Minister. The Prime Minister may
wish to await comments from other members
of E, who have to cope with the reaction
from the nationalised industry Chairmen
themselves, before replying to the Lord
President.

J

28 January 1981

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PRIME MINISTER

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED INDUSTRY BOARD MEMBERS

1. On 7 July you announced that the Top Salaries Review Body would no longer be asked to advise on the salaries of nationalised industry board members. You said that in future these salaries would be determined by the Minister concerned in each case with the approval of the Minister for the Civil Service. In my minute of 1 July 1980 I proposed new arrangement for settling board members' pay from 1 April 1981. These were accepted by colleagues. Since then CSD officials have been consulting the Nationalised Industries Chairmen's Group. With the exception of the points below the Chairmen have agreed to the attached document which sets out the new arrangements (omitting of course the detailed procedures for consultation within the Government).
2. The Chairmen's Group's main concern is with the starting point of the new arrangements. We said that existing pay levels were inevitably the point of departure. Their attitude is that without any further review we should allow salaries up to the levels recommended in the last Review Body report (TSRB 14) to be implemented from each industry's settlement date during the year beginning 1 April 1981. They feel that if this is not accepted, it could prejudice the new system from the start.
3. The Chairmen's Group are in effect making two separate points. Under the new arrangements which we have proposed, major reviews of pay structure will normally require an independent report from management consultants. The Chairmen's first point is that for salary increases up to the levels recommended by TSRB 14 the TSRB Report ought to be sufficient evidence in itself without the need for costly and time consuming reports from outside consultants as well. I believe we can accept this in principle since outside consultants would consider the same sort of factors as TSRB and would be unlikely to make recommendations that were more soundly based.
4. However, the Chairmen are also saying that the Government should automatically accept increases up to the TSRB 14 levels during the coming year or possibly over a two-year transitional period. Indeed they have gone further and have suggested that these increases should be further enhanced in line with increases in senior staff salaries. We clearly cannot do any of these things. The Chairmen estimate that a "representative" board member requires a 9.6% increase to bring him up to the TSRB level (enhanced). In fact the average increase would be more like 11% and particular increases could go as high as 35%. I think the most we could say is that we recognise the problems, notably of differentials, to which TSRB 14 drew attention and that we will take these into account when considering individual proposals for increases.

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5. The Chairmen also asked us to consider again putting board salaries on a "board fee plus executive salary" basis. What this means is that full-time board members would get salaries as executives of their corporations, determined by the board itself as part of the salary structure of their management staff. On top of this they would get a relatively small board fee determined by the Government. I am against this procedure because it would mean that we would lose control of by far the largest part of board salaries. This would run counter to our decisions at E last May. The Chairmen have indicated to officials that they would be reluctantly prepared to accept the new arrangements without this aspect.

6. The final point which concerns the Chairmen is our inclusion of "the general economic climate" as a separate factor to be taken into account in considering pay increases. They want to change the last line of paragraph 5 of the document to read "... the performance of the industry within the context of the general economic climate". Here again I think that we ought to turn them down, for we must preserve our freedom to consider the national economic interest as a whole.

7. I therefore recommend that:

a) We should tell the Chairmen that we shall not need consultants' reports to justify increases in board salaries within the levels recommended by TSRB 14; but that although we will take into account the problems, notably of differentials, to which TSRB 14 drew attention we cannot commit ourselves to implementing increases to TSRB 14 levels during the next year or so.

b) We should confirm our rejection of the "board fee plus executive salary" idea.

c) We should insist that the general economic climate is a factor to be taken into account in its own right.

8. I would welcome your views and those of colleagues. I should like to receive them as soon as possible, since the new arrangements take effect from 1 April. When I have them I will arrange for a reply to be sent to the Chairmen's Group (I think that the Chairmen will want to pursue their case by making representations direct to Ministers, including perhaps yourself). We ought in due course to make a public announcement, perhaps by way of an arranged PQ, about the new arrangements. This would be much shorter and less detailed than the annexed note. I will let you have a draft when we have settled the outstanding points.

9. I am copying this letter to members of E, and to George Younger, Nicholas Edwards, Norman Fowler and Sir Robert Armstrong.

S

PROPOSED NEW ARRANGEMENTS FOR DETERMINING THE
PAY OF PUBLIC BOARD MEMBERS

1. The Government has decided that the pay of members of nationalised industry and certain other public boards should be removed from the remit of the Top Salaries Review Body (TSRB) in order to give greater flexibility in settling pay levels. Ministers will retain their statutory responsibilities for these salaries and sponsor Ministers will play a larger part in determining them. However chairmen and non-executive directors will also have an important role. In addition there is a need for CSD to play a positive part. This memorandum proposes new arrangements for settling the pay of members of public boards of a commercial character in the light of these decisions.

2. A new system should so far as possible have the following features:

- i. It should be flexible enough to permit the nationalised industries to attract and retain satisfactory board members and to avoid problems of salary overlap with senior managers. It is to be expected that a more flexible system will lead to a wider range of pay levels both within the same board and between different boards.
- ii. There should be sufficient central co-ordination to ensure propriety, to maintain a broad balance between industries and to guard against leap-frogging.
- iii. The method of increasing pay should not give undue prominence to salary increases for board members.

3. Existing pay levels are inevitably the point of departure, although it is to be expected that they will be increased by the ordinary process of annual adjustment during the year beginning 1 April 1981. However from April 1981 new pay structures or pay levels for individual industries may be proposed if there is a clear need for them.

4. Proposals for new ranges or fixed points for full-time board members would generally in the first instance be made by the chairmen and non-executive board members and would need to be agreed by the sponsor Ministers after consultation with CSD Ministers. Recommendations on the chairman's salary could be formulated by the non-executive members without the participation of the chairman himself. The salaries of non-executive board members would be determined by the Minister in consultation with the chairman concerned but would normally not be less than the general level of the salaries of the full-time members of the same board scaled down by the proportion appropriate to the amount of time worked.

5. The essence of the move towards a more flexible system of pay determination is that pay increases would be based on managerial and market considerations and not on traditional comparisons and ranking between nationalised industries. The sort of factors which would be important would include the following: the need to recruit able enough people to the board, whether from inside or outside the industry; the need to retain and reward board members of experience and ability; internal differentials between board members and senior management staff; the performance of the industry; and the general economic climate.

Ordinary Periodic Adjustments

6. A distinction should be made between the procedures for ordinary periodic adjustments and for major reviews of pay structures, since the two involve different considerations. Ordinary periodic adjustments of board members' ranges or fixed points ought in general to lead to increases not greater in percentage terms than those granted to their own management staff. There could be presentational advantage in giving board members the same settlement date as their management staff so that separate announcements would not have to be made about their pay increases and not all boards would get an increase at the same time. Consideration would need to be given to the problem of transition from the present settlement date of 1 April. The positions of board members on their ranges would be reported to the sponsor department at the time of the annual pay review.

Major Reviews of Pay Structures

7. Where it was felt by the board itself, or by the sponsor department, that existing pay rates were seriously out of line with market requirements or that internal relativities were managerially unsatisfactory, a systematic case for a new pay level or structure would be made out. Unless the market or internal evidence was very strong, the recommendations of the chairman and non-executive directors would normally be supported by an independent report from management consultants with experience of pay determination for large commercial organisations. It would be open to the sponsor department to propose changes in pay when this appeared appropriate for any reason, for example, a change in the structure of the industry resulting in either more or less responsibility for the board. If any such change led to a proposal for a reduction in the general level of pay, the existing salaries of members already in post would be protected.

Civil Service Department,
Whitehall,
London, SW1A 2AZ

*With the Compliments
of the
Lord President of the Council*

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Nat Ind.



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

19 August 1980

VMS

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB

Dear Secretary of State

NATIONALISED INDUSTRY BOARD SALARIES

Thank you for your letter of 29 July.

I quite take your point about the dangers of leapfrogging. It was to prevent this happening that CSD was given a central role in the determination of board salaries. We will not accept claims for pay increases by boards based on assertions about what other boards are getting. I think the paper on the new arrangements for settling nationalised industry board salaries makes it clear that we expect to see cases made on market and managerial grounds, not by appeals to equity, ranking or comparability. For this reason I remain disinclined to set up a system for assessing relativities. We are, in any case, not beginning from a position of ignorance as we have TSRB's recommendations about the relative position of the various boards - which is likely to be as good as anything we can devise.

You will no doubt have seen the letter of 23 July from the Prime Minister's Private Secretary in which he says that the Prime Minister agrees that we should avoid the kind of guidelines on relativities, at least at this stage, suggested by Mr Ibbs.

I am copying this letter to the recipients of my minute of 21 July.

DRAFT APPROVED BY THE LORD PRESIDENT AND SIGNED IN HIS ABSENCE

JR W Sattley
APS / LORD PRESIDENT

SOAMES

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Nat Ind

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

30 July 1980

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB

B
3077

Dear Michael,

NATIONALISED INDUSTRY BOARD SALARIES

Thank you for your letter of 23 July agreeing to our proposals for the new arrangements for Nationalised Industry Board Salaries.

I quite take your point about the special composition of Regional Water Authorities, and agree that it would be inappropriate to consult chairmen and non-executive board members on board salaries in this case. This exception should create no problems as part of the purpose of the new arrangements is to ensure a measure of flexibility.

I am copying this letter to the Prime Minister, members of E Committee, the Secretary of State for Scotland, Sir Robert Armstrong and Mr Ibbs.

Yours ever

Christopher

SOAMES

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10 DOWNING STREET

c. HO *Nathn VLS*
 FCO D/N
 HMT CSO, HMT
 D/IND *So*
 D/M *wo*
 MAFF *Transpov.*
 TRADE *Co.* Mr. Vereker

From the Private Secretary

16 February 1981

bf 26/2/81

New Arrangements for Determining the Salaries of
 Nationalised Industry Board Members

The Prime Minister has now considered the Lord President's minute of 23 January on the above subject, and also the minute of 3 February from the Chancellor of the Exchequer, the minute of 4 February from the Secretary of State for Energy, and the minute of 5 February from the Secretary of State for Trade.

The Prime Minister has noted Mr. Howell's and Mr. Biffen's view that the Lord President's proposals are too inflexible. She does not, however, accept the implication that the proposals should be modified; and unless other Ministers directly concerned have further substantial comments to make, she agrees that the new arrangements, as set out in the Lord President's minute, should be implemented from 1 April.

We await further advice on how the new arrangements should be announced.

I am sending copies of this letter to the Private Secretaries to members of E, the Secretaries of State for Scotland, Wales, and Transport, and to David Wright (Cabinet Office).

I. P. LANKESTER

Jim Buckley, Esq.,
 Lord President's Office.

CONFIDENTIAL

SP



AL 17/2
2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/10756/81

Your ref:

16 February 1981

See Christoph

Thank you for sending me a copy of your minute to the Prime Minister setting out proposals for new arrangements for determining Board salaries in the nationalised industries.

I am fully in agreement with the line that you have taken.

I should perhaps add that we have never accepted the TSRB14 recommendation that the National Water Council should be moved up a tier in the grading of nationalised industry Boards. It is therefore important that your general response to the Chairmen's Group does not imply any change in our attitude on this point - particularly as Sir Robert Marshall, the present NWC Chairman, is about to take over the lead of the Chairmen's Group!

I am copying this letter to the recipients of your minute.

Yes see

[Handwritten signature]

MICHAEL HESELTINE



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Prime Minister

This is tiresome, but I think it will have to come back to E, as Robert Armstrong advises. Agree?

MR. LANKESTER

Salaries of Nationalised Industry Board Members

You asked for advice on the minute of 23rd January from the Lord President of the Council to the Prime Minister about the new arrangements for determining the salaries of Nationalised Industry Board Members (NIBMs), and the subsequent correspondence commenting on it.

2. The issues raised need to be considered against the background of the detailed discussion by the Ministerial Committee on Economic Strategy on 20th May last (E(80) 16th Meeting Minutes). E then agreed that the TSRB should no longer be invited to advise on the pay of NIBMs; and the Prime Minister, summing up the discussion, said that:-

"In future each sponsoring Minister should put proposals for the pay and pensions of chairmen and board members to the Civil Service Department. If the Minister in charge of that Department saw no objections, proposals could go ahead, subject to clearance with her of proposals for the pay of Chairman and Chief Executives. If there was disagreement, it would be a matter for decision by Ministers collectively."

In reaching this decision the Committee were aiming to provide for more flexibility than hitherto, so recognising the need to recruit and retain key people, but they were concerned to retain sufficient safeguards to prevent indefensibly high salaries and leapfrogging.

3. In his minute of 23rd January the Lord President reports the outcome of detailed discussions between his Department and the Nationalised Industry's Chairmens' Group and he attaches a note which summarises the proposed new arrangements. The main point at issue is that the Chairmen argue that the salaries recommended last year in the TSRB's fourteenth Report should now be implemented, plus further increases for this year. The Lord President insists that the starting point must be existing pay levels, though he acknowledges the

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need to look at particular problems of differentials. He further recommends that the idea of a board fee plus executive salary, determined by the Board itself, should be rejected as contrary to the decisions in E last May; and that the Government should insist that 'the general economic climate' must stand as a factor to be taken into account.

4. Of the other Ministers who have commented:-

(i) The Chancellor of the Exchequer (3rd February) strongly supports the Lord President and points out that any concession to the nationalised industries would cause difficulties in the context of this year's TSRB Report on the Top Salaries group on which the Prime Minister recently argued to Lord Plowden that the starting point should be actual salary levels in payment and not last year's recommendations.

(ii) The Secretary of State for Energy (2nd February) feels strongly that the Lord President's approach is too inflexible, and he wants early collective discussion. *No.*

(iii) The Secretary of State for Trade (5th February) is also concerned that there might be insufficient flexibility but otherwise accepts the recommendations.

Of the other Ministers directly concerned, the Secretaries of State for Industry, for the Environment, for Scotland and for Transport have yet to reply.

5. It is tempting to suggest that the Prime Minister should intervene now to rule that, subject to any new points put within the next week by the other Ministers directly concerned, the Lord President should go ahead as he proposes, on the grounds that:-

(i) E decided very clearly last May that while the arrangements should be made more flexible they should still be subject to constraints.

(ii) For the reasons put forward by the Lord President and the Chancellor of the Exchequer, it is out of the question to concede that the TSRB 14 recommendations should now be



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implemented with average increases of 11 per cent and as a basis for further increases for this year (NB. The word in brackets in paragraph 4, line 8, of the Lord President's minute should read 'unenhanced').

(iii) The Lord President's proposals do not, however, rule out flexibility and consideration of particular cases as envisaged by E.

6. I fear, however, that the other Ministers concerned will want to discuss the issues; and I reluctantly recommend, therefore, that the Prime Minister should invite the Lord President to prepare a paper, taking into account the points already made in correspondence and those from the other Ministers concerned, for early discussion by E.

*I see no need to
dismiss. Unless new
points arise - I think the
Lord President can go ahead.
me.*

Robert Armstrong

12th February 1981

CONFIDENTIAL



*C.O. admin -
M. BF 11/2
R*

PRIME MINISTER

NATIONALISED INDUSTRY BOARD MEMBERS' SALARIES

Christopher Soames copied to me his minute of 23 January to you with proposed new arrangements for settling increases in nationalised industry board salaries now that they are excluded from the remit of the Top Salaries Review Body.

The point of taking the Board salaries out of the scope of the TSRB was, I thought, to allow the Government, and sponsoring Ministers in particular, greater freedom to fix salaries in response to free market conditions. I fear that Christopher Soames' paragraph 4 foreshadows a continuing tight degree of centralised control. If that was what we had intended it would surely have been better to stick with the TSRB. At least then we should have been able to justify our refusals of Boards' proposals against the background of an independent, objective and published review. As it is, our (inevitably adverse) decisions will be seen as quite arbitrary and will cause disproportionate criticism and friction.

With this reservation I support the recommendations in paragraph 7 of his minute. I think it would be a wasteful duplication to require consultants to go over the ground the TSRB have already covered, but we should be going against our own decision if we now acknowledged as a "starting point" (whatever that may mean) recommended levels of salary which we rejected last summer.

No doubt, as soon as the main issue is settled, Christopher Soames or his officials will be giving us guidance on the details of the new regime (for instance, the criteria for authorising changes in



settlement dates, retention of fees from outside directorships etc, and how far CSD will wish to approve such matters). I hope that we sponsoring Ministers can be given as much discretion as possible.

I am copying this minute to members of E, and to George Younger, Nicholas Edwards, Norman Fowler and Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1H 0ET

February 1981

NJB

JB

H.



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

CONFIDENTIAL

01 211 6402

The Rt Hon Lord Soames PC GCMG GCVO CBE
The Lord President of the Council
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

4 February 1981

De Anstey

NEW ARRANGEMENTS FOR DETERMINING SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS (NIBMs)

In your minute to the Prime Minister of 23 January you make recommendations about the handling of NIBMs pay this year in relation to the new system of pay determination we had decided to introduce from 1 April.

I appreciate the difficulties we could face in accepting the disparate, and in some cases perhaps large, individual pay increases that could be entailed in implementing the new procedure in the way we had intended. But the more flexible approach, board by board, on which we last year decided, was recognised as necessary if we were to be able to recruit and retain people of ability to serve on these boards and to escape from present problems, including those of salary overlap with senior managers; and we have made these intentions clear and built up expectations accordingly. So we ought not lightly to set aside the new system, which we should be doing if we now imposed some predetermined limit on its effects.

However, to announce the new scheme as you appear to contemplate, and then immediately circumscribe it, and so in effect put it on ice would surely give us the worst of all worlds. I suggest therefore that we should have an early collective discussion of these issues.

I am sending a copy of this letter to the Prime Minister and to the other recipients of your minute.

Howell
David

CONFIDENTIAL

F.



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

NEW ARRANGEMENTS FOR DETERMINING THE SALARIES OF NATIONALISED
INDUSTRY BOARD MEMBERS

I have seen Christopher Soames' minute to you of 23 January, and I very much agree with his recommendations. In particular, to concede the implementation of the full recommended levels in TSRB 14 this year (or indeed for the future) would cause grave difficulty in the context of this year's TSRB report on the top salaries group, where you have recently argued to Lord Plowden that the starting point should be the actual salary levels in payment, and not last year's recommendations.

I am sending copies of this minute to the recipients of Christopher's.

A handwritten signature in black ink, appearing to be 'G.H.'.

(G.H.)

3 February 1981

CONFIDENTIAL



CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05079

18 July 1980

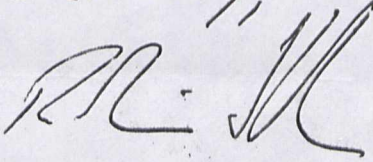
Dear Lord President,

NATIONALISED INDUSTRY BOARD SALARIES

1. I have seen a copy of your minute dated 1 July to the Prime Minister and also the comments from a number of your colleagues on E Committee.
2. When I wrote to the Minister of State on 20 May, my concern was that there needed to be a framework if the new, more flexible arrangements on salaries were not to lead to problems. I believe the proposals now put forward by Officials go a long way towards providing such a framework, but I remain uneasy that there will not be somewhere in the background some rational basis for assessing relativities between industries.
3. I agree with the statement in the Memorandum by Officials that "in the last resort claims must be settled by broad judgements about the effect of conceding or not conceding the claim on the industry concerned and on other industries." The idea of the more flexible system as explained in paragraph 7(v) of the Memorandum is to move towards market considerations but in general to avoid arguments based mainly on comparability. This distinction may be difficult in practice. Knowledge of what would be a rational pattern for relativities between industries might be helpful to Ministers when in some individual instances very strong market-based arguments or ingenious schemes by consultants have to be resisted.
4. Such an indication of relativities based on some rational system would not need to be expressed in money terms. It could, for example, be on a points basis, and this should help to keep it confidential. There would also be no need to alter salaries so that they were all in accord with such a pattern. Its existence would, however, mean that when individual cases were considered it would be possible to see whether the changes proposed moved towards an improved overall pattern or represented probable new anomalies which might cause additional problems in the long run.

5. Apart from my concern about underlying relativities, I believe that for the immediate future the size of salary changes for Chairmen and Boards of nationalised industries, and the degree of publicity that such changes receive, will be an important factor influencing general attitudes to pay, and that great care will be needed in using the greater flexibility of the proposed arrangement.

6. I am copying this letter to the Prime Minister and the other recipients of your minute.

yours sincerely,


J R IBBS

The Rt Hon Lord Soames
Lord President of the Council
Civil Service Department



Secretary of State for Industry

4993
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

15 July 1980

The Rt Hon Lord Soames GCMG GCVO CBE
Lord President of the Council
Civil Service Department
Whitehall
London SW1

copies to
PS/Ministers
PS/Secretary
Mr Ridley
Mr Croft
Mr Manzie
Mr Solomon
Mr Gross
Mr I Lightman
Mr Farrow
Mr Cochlin
Mr Hunt
Mr Irwin
(on file).

Ken Christopher.

NATIONALISED INDUSTRY BOARD SALARIES

I have seen a copy of your minute of 1 July to the Prime Minister and also a copy of John Nott's letter to you of 7 July.

2. I agree generally that this is a welcome step towards greater flexibility in fixing salaries for the Chairmen and members of nationalised industry boards. I accept that any new arrangement must be introduced with care in the light of our responsibilities and public accountability. I think we must be careful, however, not to superimpose on the arrangements such a tight bureaucratic control that we lost the flexibility we are seeking to achieve. Nor would I wish to see any general recourse to reports on individual cases from management consultants; this would merely replace TSRB by another form of external comparability board and would defeat the whole object of the exercise.
3. If we are determined to move to a more flexible system based on managerial and market considerations, I see no reason to take account of the possible repercussions of the pay of one Board on other Boards or a need to establish consistency between Boards in other unrelated industries. If we were to attempt to achieve consistency between Boards, it seems to me that we would quickly lost the flexibility we desire.
4. I would much prefer to see greater emphasis being placed on the recommendations of the Chairmen and non-executive Board members and would hope that it would only be in extreme cases that such recommendations would be challenged. I am sure our colleagues would not wish to see any larger increase in the resources allocated to this particular exercise than is absolutely essential. I would certainly not wish to become involved in a detailed case-by-case and post-by-post scrutiny of individual proposals. Unless we can

/demonstrate ...



demonstrate conclusively to the Chairmen and Board members that we are giving real effect to the role of the non-executive directors the new arrangements will quickly lose credibility.

- 5 I would, however, like to make quick progress with the new arrangements to replace TSRB and, subject to the provisos above, would be prepared to go along with a trial along the lines of the system you propose. I would hope we would have an early opportunity to review the operation of the new system in practice both to ensure that the system is working as flexibly as we wish and to satisfy ourselves that the detailed scrutiny by officials is not imposing an unnecessary burden on our limited staff resources.
- 6 I would also like to see some consideration given to the question of whether or not we should adopt the general practice of industry of not publishing individual salaries but of showing salaries in broad bands. I know sponsoring Ministers are under a statutory obligation in some cases to lay a statement on salaries before both Houses but it seems to me that making individual salaries public only serves to raise expectations amongst other Board members throughout the nationalised industries. Perhaps officials could be asked to consider this question in more detail.
- 7 I am copying this letter to the Prime Minister and the other recipients of your minute.

Emerson

Kari



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

29 JUL 1980

Jan Christoph

NATIONALISED INDUSTRY BOARD SALARIES

Thank you for sending me a copy of your minute of 21 July to the Prime Minister.

I am generally content with the proposal to remove the nationalised industries from the scope of TSRB. I wish to place on record, however, my profound disagreement with the suggestion made by Keith Joseph, in his letter of 15 July that each Board should be treated in isolation. I believe that this would be a formula for disaster. If we do not attempt to maintain some consistency between the different industries, then the result can only be the worst kind of leapfrogging with each Board using another to push their own case. The consequences could not be limited to the nationalised industry members but would certainly spread to the fringe bodies and other parts of the public sector. I would have thought, therefore, that we required at the very least some sort of arrangements on the lines envisaged by Mr Ibbs and that we should seek to operate this from the start rather than waiting to see how the situation developed without it, as you suggest in your minute.

I am copying this letter to the recipients of your minute.

Yes

Michael Heseltine

MICHAEL HESELTINE



New. Ind

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref: 23 July 1980

D. Christopher

NATIONALISED INDUSTRY BOARD SALARIES

R. 294

Thank you for sending me a copy of your minute to 1 July to the Prime Minister.

I am content with your proposal that all the other public boards should be removed from the TSRB's remit. In the case of the Regional Water Authorities, however, I think that future decisions on pay will have to be taken simply by the responsible Minister after consultation with CSD Ministers and not on the basis of proposals from the chairmen and non-executive members. The composition of RWAs is different from that of other public boards: the membership is entirely non-executive, generally large and has a majority of local authority representatives. We are now considering the future of the National Water Council and we can reach conclusions about its salary structure if we decide to keep it in being.

I am copying this minute to the Prime Minister, members of E Committee, the Secretary of State for Scotland, Sir Robert Armstrong and Mr Ibbs.

Yes

MICHAEL HESELTINE

The Lord Soames

C O N F I D E N T I A L

CONFIDENTIAL

Soul



c. (E)
HO MAFF
FCO DTde
HMT DEngy
DI CS/HMT
DEmp

10 DOWNING STREET

From the Private Secretary

23 July 1980

NATIONALISED INDUSTRY BOARD SALARIES

The Prime Minister has read the Lord President's minute of 21 July and the correspondence which led up to it. She agrees with the Lord President's proposals, and she also agrees with him that it would be a mistake to establish an Advisory Committee on the lines suggested by the Chancellor of the Exchequer; she also agrees that we should avoid the kind of guidelines on relativities - at least at this stage - suggested by Mr. Ibbs.

I am sending copies of this letter to the Private Secretaries to Members of E, the Secretary of State for Scotland, the Ministers of State for Employment and Energy, the Parliamentary Secretary for Transport, Mr. Ibbs (CPRS) and Sir Robert Armstrong.

T. P. LANKESTER

Jim Buckley, Esq.,
Lord President's Office

CONFIDENTIAL

288

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB



The Rt Hon Lord Soames PC, GCMG, GCVO, CBE
Lord President of the Council
Civil Service Department
Whitehall
LONDON SW1

R

23/7

R July 1980

New Christopher,

NATIONALISED INDUSTRY BOARD SALARIES

I agree generally with the detailed arrangements for the post-TSRB position as set out in the paper circulated under cover of your minute of 1 July to the Prime Minister.

As you know, our experience with the Transport Nationalised Industries has shown that the inevitable inflexibility entailed by the present regime can have serious effects on the efficient running of these industries. Too much of the time and energy of the Boards themselves - and of my own staff - has been taken up in trying to find ways of settling individual cases. Even so, we were not able to keep any full time executive Members on the Board of the National Freight Corporation (this is of course now overtaken by the provisions in the Transport Act for privatisation) and we have had serious problems with individual Members on all our Boards. So I welcomed the decision to move away from the TSRB regime, and am anxious that the controls we have decided to keep should be sufficiently flexible to ensure that we can recruit and retain the right people on these Boards, without unnecessary work for Departments.

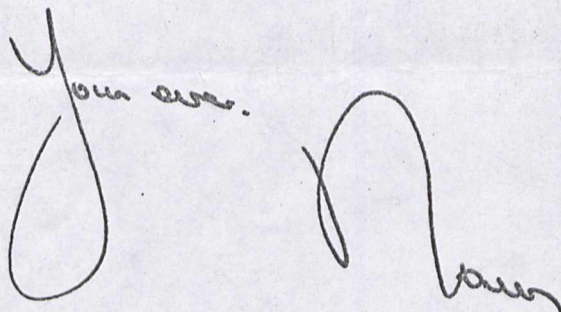
CONFIDENTIAL

CONFIDENTIAL

In these circumstances, I would myself be doubtful about any new central advisory body. I think it will always be difficult, in practice, to distinguish between "comparability" and "market considerations"; an advisory committee could well make it more difficult for us to do so by laying down guidance of a type which in practice could cause just the kind of difficulties we have faced in the past.

I would therefore prefer to start on the basis of the arrangements you propose, and see how we get on.

I am sending copies of this minute to the Prime Minister, and the other recipients of your minute.

Your ever,


NORMAN FOWLER

CONFIDENTIAL

Prime Minister

1

*Not another
advisory committee*

CONFIDENTIAL



I did not put the Lord President's paper at Flag A to you earlier because I wanted to get E Committee comments first. There is broad agreement on Ld. Soames' proposals except that the Chancellor has suggested an "advisory committee". Other Ministers think - rightly in my view -

PRIME MINISTER

Yes

NATIONALISED INDUSTRY BOARD SALARIES

that this would soon become a replica of the TSRB. Agree to Ld Soames proposals on the basis set out below?

Flag A

I have now received replies from most of the recipients of my minute to you of 1 July enclosing my officials' proposals for the new arrangements for determining nationalised industry board salaries.

Flag B

There has been broad agreement to our proposals. The only alternative suggestion has come from Geoffrey Howe, who suggests that an advisory committee should be set up to offer guidance on particular decisions. Our aim in taking these salaries out of TSRB is to allow ourselves greater flexibility so as to get the right man for a particular job, while at the same time moving away from any rigid principle of comparability, either between different boards or with the private sector. In my view, and that of several colleagues, to replace TSRB with such a committee would be no improvement on the present arrangements. In particular the Government would still be in the position of having to accept or reject specific recommendations from an outside body and it is this which is one of the most unsatisfactory features of the present arrangements. I doubt if we could avoid making the committee's advice public if we were asked.

T.L.
22/7

Flag C

speed

?

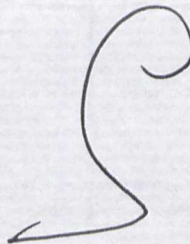
In his letter of 18 July Mr Ibbs has suggested that it would help to keep order if we had some informal basis for assessing relativities between industries, perhaps using points. I would be reluctant to do anything which might reinstate comparability. But if as we gain experience of the new arrangements we felt the need to have guidelines of the kind he suggests we could probably produce some ourselves without great difficulty. If we did, this should be for the confidential guidance of Ministers and officials and very much a secondary factor in our decisions.

Subject to your own views therefore, I hope we can regard these proposals as agreed. However it would of course be possible to discuss this at Wednesday's meeting of E Committee if you prefer.

Once we have settled the broad outline of the new arrangements I would suggest that we put them to the Nationalised Industries Chairmen's Group. The Chairmen are anxious for early consultation on this and since we intend in future to give more weight to the advice of the Chairmen and non-executive Directors it would be right to seek to carry them along with us now.

Of course, as we agreed at Cabinet on 3 July these new arrangements will not be put into practice until next April, at least for Chairmen and board members currently in post.

I am sending copies of this minute to members of E Committee, to the Secretary of State for Scotland, Grey Gowrie (Employment), Hamish Gray (Energy), Kenneth Clarke (Transport), Mr Ibbs in CPRS and Sir Robert Armstrong.



SOAMES

21 July 1980



PM/80/59

PRIME MINISTER

Nationalised Industry Board Salaries

1. I have received a copy of the Lord President's minute to you of 1 July and its enclosure. The two Boards with which I am concerned are those of the Commonwealth Development Corporation and the Crown Agents.
2. Although the TSRB system has to some extent helped to insulate Ministers from difficult decisions I could not argue for it to be continued solely for the benefit of my two borderline cases. I can therefore acquiesce in the consensus for abandoning the TSRB arrangements and adapting the new regime described in the enclosure to the minute.
3. I am copying this minute to the Lord President and other members of the E Committee and to the other recipients of his minute.

C

(CARRINGTON)

21 July 1980

Foreign and Commonwealth Office



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Lord Soames GCMG GCVO CBE
 Lord President of the Council
 Civil Service Department
 Whitehall
 London SW1

18 July 1980

Dear Christopher

NATIONALISED INDUSTRY BOARD SALARIES

You sent me a copy of your minute of 11 July to the Prime Minister and I have now had the opportunity of considering the comments of others.

I am generally content with the suggested new arrangements and think it essential that some broad guidelines of the kind proposed are established from the outset. We must expect that the removal of these salaries from the TSRB will prompt strong pressures for salary improvements and unions which negotiate the salaries of middle and senior managers can be expected to seek to exploit any new headroom afforded. And we cannot escape the ultimate responsibility for the salaries of Chairman and Board Members and will need, as necessary, to defend them publicly.

I am not attracted to Geoffrey Howe's suggestion that some committee of businessmen might be set up to advise us. However informal its role, we would be pressed to divulge what its advice had been, on what basis the advice was founded and whether we had accepted it. We might also be pressed to explain why we had not sought its advice in particular cases. The nationalised industries themselves would hardly welcome the setting up of such a committee.

I share John Nott's reservation about the independence of view which might be accorded to management consultants employed by the industries themselves, but I am sure we should not contemplate mounting some sort of salary audits of our own by sending in management consultants paid for by your Department.

As the officials' note points out, reconciliation between the need for flexibility and a central oversight is not going to be easy and I think we should, as has been suggested, agree to review the experience of the new arrangements after they have been given a fair trial.

I am copying this letter to the Prime Minister and to the other recipients of your minute.

[Handwritten signature]



4013
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Lord Soames GCMG SCVO CBE
Lord President of the Council
Civil Service Department
Whitehall
London SW1

18 July 1980

CONFIDENTIAL

Dear Lord President.

R

NATIONALISED INDUSTRY BOARD SALARIES

Your minute of 1 July to the Prime Minister invited comments on proposals for future arrangements for dealing with the pay of nationalised industries and other public boards.

I agree generally with the guidelines contained in the paper by officials although we should no doubt have to refine the arrangements in the light of experience. I also support your recommendation that the best approach to the 'borderline' bodies which have until now been in TSRB's remit, will be to remove them all from TSRB and treat them in the same way as nationalised industries.

I am copying this letter to the Prime Minister and the other recipients of your minute.

Yours sincerely,

A. S. Wilson

Approved by the Secretary of State
and signed in his absence.

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon Lord Soames PC GCMG GCVO CBE
The Lord President of the Council
Civil Service Department
Whitehall
London SW1A 2AZ

14 July 1980

Dear Anthony

NATIONALISED INDUSTRY BOARD SALARIES

I have no substantive comments on the detailed arrangements set out in the paper circulated under cover of your minute of 1 July to the Prime Minister.

Although I think Geoffrey Howe is right to highlight the difficulties we will face and I am under no illusions about either the scope and complexity of the potential problems or the heavy calls on our staff resources as a result of considering and resolving these problems, I have misgivings about his suggestion that we should set up some new central advisory body. The purpose of our decision to remove board salaries from the remit of the Boyle Committee was to escape from comparability and substitute a more flexible system of pay determination based on "managerial and market considerations", allowing board members "of sufficient calibre to be recruited and retained." What we are aiming for is an appropriate pay structure, Board by Board, which reflects each Board's particular needs and circumstances, and it seems to me that this will be best promoted by the arrangements you propose in your own note, and that setting up a new external advisory body would be more likely to be a hindrance than a help.

I am sending a copy of this minute to the Prime Minister, our Cabinet colleagues and the other recipients of your minute.

D A R Howell

You see

DAR



CONFIDENTIAL

File with Tim
2pps

Ref. A02601

MR. LANKESTER

Nationalised Industry Board Salaries

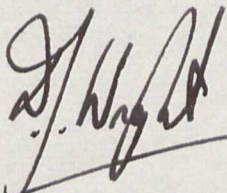
You asked for advice on Lord Soames' minute of 1st July about this.

2. The Lord President's proposals seem reasonable and sensible to us. They fall within the decisions which E Committee has already taken, with one notable exception namely that all public boards should be removed from the TSRB remit instead of simply the trading organisations. Sir Robert Armstrong thinks that the Lord President is right in this.

3. One potential consequence of the decision to accept the Lord President's proposals could, however, create problems. It will obviously be important that the change should not lead to immediate and large increases in the pay of board members in most of the nationalised industries, or to a succession of announcements of such increases.

4. Sir Robert Armstrong has seen the Chancellor of the Exchequer's minute of 8th July. He agrees about the need for Ministers to have adequate information, but doubts the wisdom of setting up an informal advisory committee. It would inevitably be seen as doing, and would probably over time come to do, much the same job as the TSRB has done; and would recreate many of the problems. Does it make sense to take out one advisory body only to create another? We think that the OME could be used as the source of information.

5. The Lord President's minute was copied to all members of E Committee. Before the Prime Minister comments, it might be preferable to await the comments of the rest of the recipients.


(D.J. Wright)

11th July, 1980

CONFIDENTIAL

CONFIDENTIAL



QUEEN ANNE'S GATE
LONDON SW1H 9AT

10 July RR 5

Dear Sir,

NATIONALISED INDUSTRY BOARD SALARIES

You sent me a copy of your minute of 1st July to the Prime Minister, together with the paper by officials, on the new arrangements for controlling the pay of members of nationalised industry and other public boards.

Direct Home Office interest is restricted to paragraphs 9 to 11 of the paper relating to the pay of members of public boards; and, as far as the boards for which I am responsible are concerned, I am generally content with what is proposed.

I am sending copies of this letter to the recipients of your minute.

John G. L. [Signature]

CONFIDENTIAL

The Rt. Hon. Lord Soames, G.C.M.G., G.C.V.O., C.B.E.,

Nats Pds

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



From the Minister

CONFIDENTIAL

L. 11/7

The Rt Hon the Lord Soames GCMG GCVO CH CBE
Lord President of the Council
Civil Service Department
Whitehall
London SW1A 2AZ

10 July 1980

R. H. H. H.

NATIONALISED INDUSTRY BOARD SALARIES

Thank you for sending me a copy of your minute of 1 July to the Prime Minister.

I have read the memorandum you enclosed and I am generally content.

I am copying this letter to the recipients of yours.

[Handwritten signature]

PETER WALKER

winter C.O. union

A

*cc Mr. Haskings
Mr. Ibbotson**12
47*

PRIME MINISTER

NATIONALISED INDUSTRY BOARD SALARIES

... We decided at E on 20 May to remove nationalised industry board salaries from the terms of reference of the Top Salaries Review Body. I now attach a paper by officials which deals with the question of how decisions on nationalised board pay should be made under the new more flexible arrangements. I would be grateful to have your comments and those of other colleagues on this.

The paper also deals (in paragraphs 12 and 13) with the question of whether any other public boards should remain within the TSRB's remit. At E Committee we felt that some of these boards should so remain and I was asked to agree with the Ministers concerned exactly which these should be. I have reflected further on this since the E Committee meeting and I now agree with the view of officials that it would be best to remove all the other public boards from the TSRB's remit and treat them in the same way as nationalised industries. I think it would be rather odd to leave just a very few boards of this type for the TSRB to consider, especially since the considerations relevant to their pay would be rather different from those of the other groups remaining within the remit. I also think it is unlikely that Lord Boyle would accept such a suggestion. I would be grateful to know whether you and our colleagues concerned agree with this.

We could of course discuss all this at a future meeting of E Committee if you prefer.

I am copying this minute to members of E Committee, to the Secretary of State for Scotland, Grey Gowrie (Employment), Hamish Gray (Energy), Kenneth Clarke (Transport), Mr Ibbotson in CPRS and to Sir Robert Armstrong.

S.

SOAMES

1 July 1980

NEW ARRANGEMENTS FOR CONTROLLING THE PAY OF PUBLIC BOARD MEMBERS

MEMORANDUM BY OFFICIALS

1. At its meeting on 20 May, E Committee decided that the pay of nationalised industry board members should be removed from the remit of the Top Salaries Review Body (TSRB) in order to give greater flexibility in settling pay levels. Whilst Ministers would retain their statutory responsibilities for these salaries, chairmen and non-executive directors would have an important role. There was also a need for CSD to play a positive part.
2. This memorandum proposes new arrangements for settling the pay of members of public boards in the light of the Committee's decisions.

Nationalised Industry Boards

3. The present system of using TSRB to determine the pay of nationalised industry board members is unsatisfactory because it produces pay rates which are inflexible and which have been too low to attract suitable people in a number of cases, and yet leads to public criticism of high pay increases when TSRB recommendations are implemented. A new system should so far as possible have the following features:

- i. It should be flexible enough to permit the nationalised industries to attract satisfactory candidates for board membership and to avoid problems of salary overlap with senior managers. It is to be expected that a more flexible system will lead to a wider range of pay levels both within the same board and between different boards.
- ii. There should be sufficient central control to ensure economy and propriety, and in particular to guard against leap-frogging.
- iii. The method of increasing pay should not give undue prominence to salary increases for board members.

4. Reconciliation between the need for flexibility and central control will not be easy. Ministers have decided that CSD should take a positive role, but without the guidance of recommendations from TSRB there will have to be a new kind of partnership between CSD and sponsor departments if the new system is to work effectively.

5. It is important that there should be a broad framework within which the new arrangements will operate. The CPRS has suggested the use of management consultants with wide experience of pay determination in large commercial organisations (such as Hay-MSL) to advise on the framework. The consultants could be asked to evaluate the jobs of board members, and to recommend to the Government a new set of pay levels and criteria for changing these levels should circumstances change. An advantage of this approach would be that it would give CSD and sponsor departments guidelines for judging the claims for increased pay levels by nationalised industry boards and, if appropriate, for rejecting them. However officials from CSD and sponsor departments have concluded that the method would have serious disadvantages. Consultants would have to base their analysis on some sort of comparability study and this would in effect mean a continuation of a TSRB approach. In so far as significantly different relativities were proposed, the results would be likely to be expensive. The recommendations of consultants are part of the evidence that should be taken into account when considering claims for increases in pay (see paragraph 7(iv)) but they would not be adequate as general guidelines. In the last resort claims must be settled by broad judgements about the effect of conceding or not conceding the claim on the industry concerned and on other industries. Such judgements should be based on wider considerations than those on which consultants can properly advise.

6. The alternative preferred by officials would be to use existing pay levels as the point of departure, without attempting any major revaluation. Current pay levels for board members, uprated as appropriate in the light of the Government's

decision on the latest TSRB report, would in general be considered the proper rate for the job at present. New pay structures or pay levels for individual industries would only be proposed if there was a clear need for them. To the extent that the Government decided against implementing the latest TSRB recommended rates, it must be recognised that there would be increased pressure from boards for immediate readjustment.

7. Future changes in pay rates would be dealt with according to the following guidelines:

i. Following the conclusions of E Committee on 20 May, proposals for new rates, whether they were for normal annual reviews or for changes in relative pay levels, would in the first instance be made by the chairmen and non-executive board members and agreed by the sponsor Minister, after consultation with CSD Ministers. If CSD Ministers were unable to approve the proposals, they would be considered by Ministers collectively. In the case of full-time chairmen of national boards and full-time chief executives or equivalent, when CSD approval had been given, the sponsor Minister would clear the proposals with the Prime Minister. For other board members approval by CSD Ministers would be sufficient.

ii. Because under the new arrangements proposed the part played by non-executive board members in settling pay would be greatly enhanced, it would be important to ensure that all non-executive members clearly understood their duties in this respect and had the ability and will to carry them out.

iii. Ordinary periodic adjustments of board members' pay would in general lead to increases not exceeding the average rate of salary increase for their own management staff. There would be presentational advantage in giving board

members the same settlement date as their management staff so that separate announcements would not have to be made about their pay increases and not all boards would get an increase at the same time. However consideration would need to be given to the problems of transition from the present settlement date of 1 April.

iv. Where it was felt by the board itself, or by the sponsor department, that existing pay rates were seriously out of line with market requirements or that internal relativities were managerially unsatisfactory, a systematic case for a new pay level or structure would be made out. Unless the market or internal evidence was very strong, the case would normally be supported by an independent report from management consultants with experience of pay determination for large commercial organisations. It would be the responsibility of the sponsor departments (although CSD might also have a role here) to propose relative reductions in pay when this appeared appropriate for any reason, for example the contraction of the industry.

v. Arguments for pay increases based mainly on considerations of equity or comparability with other nationalised industries or with private sector companies would not in general be accepted. However comparability within particular nationalised industries (eg electricity industry) might remain important. The essence of the move towards a more flexible system of pay determination is that pay increases would be based on managerial and market considerations and not on traditional comparisons and ranking.

vi. Each claim for increased pay levels would need to be considered on its merits but the sort of factors that CSD would consider when judging the claim would include the following: the difficulty the industry had in recruiting able enough people to the board, whether from inside or outside the industry; problems of internal

differentials between board members and senior management staff; how well the industry was performing; the repercussions of a pay increase both on the pay of the staff of the industry concerned and on the pay of members of other boards; whether an adequate case by consultants had been produced and whether this case was consistent with similar recommendations for other industries; whether, for organisations which were not self-financing, there were public expenditure consequences; and the general economic climate.

viii. There would be no requirement for board members to be on pay ranges. The use of ranges would be a matter for chairmen in consultation with non-executive board members.

8. Ministers should be aware that the new arrangements will lead to a much greater spread of salaries among Board members than hitherto, with generally higher rates where Board members are recruited from outside than where they are recruited within the industry and some upward pressure on Board members pay generally. Without TSRB CSD and departments will need to devote resources to the scrutiny of claims on behalf of individual boards; and Ministers collectively may sometimes be faced with difficult decisions where a claim appears excessive and the CSD has been unable to demonstrate this conclusively. Claims on grounds of equity will be made but will need to be rejected if the new system is to work. The purpose of the change is to secure a pay structure for each board which, without being excessive, allows members of sufficient calibre to be recruited and retained.

Public Boards other than the Nationalised Industries

9. Except for certain borderline cases, discussed below, the pay of members of public boards other than the nationalised industries is not currently within the remit of TSRB. When such boards are initially created, the pay of members is settled by agreement between the sponsor department and CSD by considering

the pay of appropriate analogues within the Civil Service, or in existing public boards, and other relevant factors. In the event of a subsequent change in the nature or amount of work falling to board members, sponsor departments may propose to CSD a revision of existing pay rates. In general board members are on single pay points but in one case, Rempoy Ltd, ranges are used.

10. Pay is increased in line with the increases given to senior civil servants and nationalised industry board members following TSRB reports. It seems justifiable to retain the general principle of treating fringe body board members' pay as a TSRB consequential after the pay of nationalised industry board members has been removed from TSRB's remit, providing adequate arrangements are made to deal with special cases. In practice this would mean that, in general, increases in pay for members of these boards would follow the increases for the higher Civil Service, but the option to change the link ^(upwards and downwards) in particular instances, by agreement between the sponsor Minister and CSD Ministers, would remain open.

11. There seems to be no need to change further the existing arrangements, which in practice appear to have worked satisfactorily with adequate central control.

Borderline Cases

12. In addition to the nationalised industries, TSRB's present remit covers a number of "borderline" cases, namely the UK Atomic Energy Authority, Civil Aviation Authority, Cable and Wireless Ltd, Commonwealth Development Corporation, Crown Agents, Highlands and Islands Development Board, National Enterprise Board, National Water Council, Regional Water Authorities, Scottish Development Agency, and Welsh Development Agency. Of these, E Committee suggested that four, UKAEA, NWC, SDA and WDA, should remain within the TSRB ambit and that the precise dividing line between trading and other bodies should be agreed.

13. Officials from CSD and the relevant sponsor departments have given further consideration to this point and have come to the conclusion that there would be no particular advantage in continuing to refer any of these borderline cases to TSRB. Of the four bodies mentioned at E Committee, the National Water Council can be treated as part of the water industry and the operations of the other three are sufficiently commercial for the pay of their board members to be most satisfactorily determined using the same arrangements as those proposed for nationalised industries.



*Writing
to admin*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

NATIONALISED INDUSTRY BOARD SALARIES

Christopher Soames sent me a copy of his minute to you setting out new arrangements for taking decisions on nationalised industry board pay once these salaries have been removed from TSRB.

2. I am concerned that, whatever the mechanics for deciding on the appropriate level of these salaries, his proposals do not give adequate weight to Ministers' ultimate responsibility for deciding on the pay of Chairmen and Board Members and the need to defend decisions in this area publicly. For this purpose, not only will we need to have the sort of arrangements for collective consideration and discussion suggested in Christopher's minute to you but we must also equip ourselves with adequate information on which to reach what will inevitably be difficult decisions in many cases.

3. I suggest that this might be done by setting up some informal machinery for advice, separate and different from the TSRB. This might take the form of an advisory committee of a less formal kind with a membership more oriented towards business. We would not need to have a series of reports but simply to ask its advice as and when we needed it, including on individual cases eg, when a new chairman was being recruited from outside.

/Any necessary data



4. Any necessary data might be provided by the OME.
5. I have no objections to the other proposals in the paper about the treatment of other public boards.
6. I am copying this minute to members of E Committee, to the Secretary of State for Scotland, to Robin Ibbs and Sir Robert Armstrong.

(GH)

2 July 1980



CONFIDENTIAL

From the Secretary of State

The Rt Hon Lord Soames GCMG GCVO CBE
Lord President of the Council
Civil Service Department
Whitehall
SW1

7 July 1980

Dear Christopher P.

NATIONALISED INDUSTRY BOARD SALARIES

I have seen a copy of your minute of 1 July to the Prime Minister.

I agree generally with the paper, and in particular with the proposal that all the public Boards should be moved from the TSRB's remit.

British Airways use HAY/MSL for the purpose of fixing their senior managers salaries, and they have frequently let us know what would be the appropriate salaries for Board members on this system. Needless to say they have always been very considerably above the salaries recommended by the TSRB. Therefore I agree with the rejection in paragraph 5 of the paper that one of these bodies should do a general review instead of the TSRB.

The use of an independent report from management consultants is also referred to in paragraph 7.iv. I am not sure how far such a report can be considered to be independent if it is commissioned and paid for by the Board concerned. If the Civil Service Department want a genuinely independent report, it might be better for them to commission and pay one of these firms themselves.

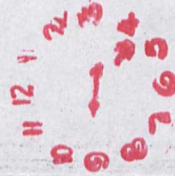


However the system you propose seems to be a good beginning, and we shall no doubt refine the procedures in the light of experience.

I am copying this letter to the Prime Minister and the other recipients of your minute.

Yours ever
JN

28 JUL 1980



JOHN NOTT

CONFIDENTIAL

RH



DF

10 DOWNING STREET

10/7/80

From the Private Secretary

Not ind.

MR WRIGHT
CABINET OFFICE

NATIONALISED INDUSTRY BOARD SALARIES

I would be grateful for advice on Lord Soames' minute of 1 July on the above subject, a copy of which you have received.

J. P. LANKESTER

3 July, 1980

CONFIDENTIAL

KRB