

EWON 11

CONFIDENTIAL

PRIME MINISTER

Government Control over Public Board Members'
Pay and Pensions
(E(80) 40)

BACKGROUND

This paper by the Minister of State, Civil Service Department, was commissioned at the meeting of E on 7th May (E(80) 15th Meeting, Item 2), in response to a general view of Ministers that the Top Salaries Review Body (TSRB) is an unsatisfactory method of fixing the pay of nationalised industry Board Members. An immediate problem was the wish of the Secretary of State for Industry to appoint a Chairman of the proposed Telecommunications Corporation at a salary considerably higher than TSRB rates. It was agreed that a decision on this - and on any similar proposals - should be deferred for two weeks, so that Ministers could consider it in the context of the Minister of State, Civil Service Department's analysis of the general problem.

2. The short-comings in the present system are familiar:-
 - (i) The last Government refused significant increases for nationalised industry board members throughout the mid-1970s, and, more recently, increases have been staged.
 - (ii) This has led to well publicised difficulties in recruiting chairmen and chief executives to some boards, and also to problems with other key appointments such as finance directors.
 - (iii) In some cases executive board members are earning less than those immediately below them, and this has led to staff refusing appointment to board level.
 - (iv) Governments are criticised both for allowing exceptions in individual cases and for implementing general pay increases following TSRB reports.

CONFIDENTIAL

3. The TSRB would say - with some good reason - that the fault lies with Government rather than with the TSRB system. In paragraph 6 of their 1979 Report they said:-

"Over the years, most of the more acute problems that we have encountered in the areas with which we are concerned (including the field of Parliamentary remuneration) have resulted from - or have been exacerbated by - the postponement of decisions on difficult or potentially unpopular aspects of public service pay particularly at 'top' levels. In our experience postponement simply increases the problem and has a 'circular' effect of its own."

4. They also acknowledge the problems of individual salary levels and of structural relationships; and, in their 1979 Report, they said that they would look at these in their 1980 Review.

5. Against this background, the memorandum attached to the Minister of State's paper discusses four main options which are summarised in paragraphs 5-9. These are based on discussions with the sponsoring Departments, but the analysis is the work of the CSD. They are:-

- (a) Option A is to make no change and to resist introducing more flexibility.
- (b) Option B is to let the TSRB continue to deal with the nationalised industries but to encourage them to recommend substantially higher salaries. A variant of this approach would be to confine their role to the salaries of chairmen. Sponsor Ministers would be advised on board members' pay by the chairman and non-executive directors of the industry concerned.
- (c) Option C, which the Minister of State recommends, is to abolish the TSRB's role in this field. Each sponsoring Minister would negotiate the pay of his chairmen. Executive board salaries would be determined, industry by industry, by the chairmen and non-executive directors. The pay of these board members would not be subject to control by sponsor Ministers.

CONFIDENTIAL

(d) Option D is to give up Ministerial responsibility for nationalised industry board pay altogether (but not to surrender the power of appointment). Each board would then determine its own pay and be answerable for it, as in the private sector.

6. Legislative implications. At present the Statutes for each Board provide for pay of all board members to be determined by the Secretary of State concerned with the consent of the Minister for the Civil Service (who succeeded in 1968 to the Treasury's duties in this regard). The CSD now propose that this statutory responsibility should be removed from their Ministers, although, under B and C, they would retain an interdepartmental co-ordinating role. If sponsoring Ministers, under Options C and D, gave up any or all of their present statutory responsibility for determining pay, that too would require legislation.

7. It is proposed that certain other public boards should in future be treated on all fours with the nationalised industries, but that the CSD should continue to control centrally the arrangements for fringe bodies largely dependent on Government financing.

8. The 1980 Report of the TSRB will not be ready until the second half of June. (today's Times is wrong in suggesting that it will be out within a few days). Ministers will have to decide then whether to accept the proposals and announce that the system will be changed for the future or to introduce a new system immediately. This points to further work over the next month with the objective of firm decisions by the end of June. In the meantime Ministers will wish to decide whether their thinking has been taken sufficiently far to allow for a decision on the salary for a proposed chairman of Telecommunications Corporation, and for any other special cases which may be around.

9. The Secretary of State for Industry warned E of his problem over the Telecommunications Corporation in his letter of 1st May to the Minister of State, Civil Service Department. But he did not reveal that the candidate in mind was Sir Kenneth Corfield of Standard Telephones and Cables, and that the salary he wanted was his present one of £150,000 a year. I understand that Sir Kenneth Corfield has also said that, if appointed, he would want freedom

CONFIDENTIAL

from Ministerial control in deciding his investment programme. The appointment has to be made soon because Sir William Barlow will probably be leaving in August.

HANDLING

10. You will wish to ask the Minister of State, CSD, to present his paper. In doing so, it would be helpful if he could give the Committee any foretaste of the line the TSRB might take. It could be that they are thinking in terms of some radical changes themselves and, if so, Ministers will no doubt want to consider them, particularly as they could make the presentation of any change in the system easier. Other Ministers will then wish to comment on the options. After reaching conclusions on the main paper, you might then invite the Secretary of State for Industry to make his case on the salary of the chairman of Telecommunications Corporation.

11. In discussion you will wish to examine each of the four options and to put some further questions:-

- (i) Option A - Continue as now. This will no doubt be quickly dismissed as ignoring the present problems, and in particular the need for some greater flexibility.
- (ii) Option B - TSRB to continue but to be encouraged to recommend higher salaries. The paper points to two objections to this: that there could be political difficulty in a Government initiative to encourage higher salaries; and that, even if it were done, there would still be insufficient flexibility to cater for exceptional cases. On the other hand the TSRB was set up in order to produce some degree of consistency over the field as a whole, and diminish the risk of leapfrogging increases, either on the basis of competition or on that of comparability, and to relieve the Government of the day of some of the political onus of deciding these salaries. This option would at least retain a broad framework and some sharing of the political responsibility, with more scope for flexibility than hitherto, rather than moving into a system of horse-trading, industry by industry.

CONFIDENTIAL

You will also wish to consider the variant of retaining the TSRB's role in determining the pay of chairmen but letting the pay of the executive boards be decided by sponsoring Ministers on the advice of the chairman and non-executive directors in each board. Since the need for considerable flexibility applies relatively more to the salaries of the chairmen rather than those below them, the variant may not greatly help.

- (iii) Option C - abolish TSRB's role but retain a Ministerial role.
This is the Minister of State's preferred option. Sponsor Ministers would continue to determine chairmen's pay but not that of executive board members. The latter would be determined by the chairman and non-executive directors of each board. The system would allow flexibility on the terms for chairmen, and would enable the salaries in each industry to be tailored to its particular needs. It would free Ministers from the annual publicity of responding to TSRB recommendations. But you will wish to consider whether:-

- (a) Ministers would still be vulnerable to criticism on individual salaries below chairman level, whether they were formally responsible or not,
(b) such criticism could be intensified if the new system led to a general bidding-up of salaries all round, with run of the mill board members benefiting from the high salaries that could quite rightly be paid to the really good people.

The variant of maintaining a Ministerial role in determining a small additional fee for board membership is not obviously helpful. It is the total pay that matters, and critics will simply add the fee to the executive's salary. It is not clear what would be the arrangements for non-executive part-time members.

- (iv) Option D - abolish both the TSRB role and Ministerial control.
Under this option each board would determine its own salaries. The Minister of State, CSD would have liked to recommend it. But he rules it out because he says that a board could refuse to

CONFIDENTIAL

pay the necessary salary to a candidate whom the Minister wished to appoint. I suspect that this fear could be exaggerated - boards are used to accepting Ministerial appointments and they could parade a high salary as effectively his decision rather than theirs. The greater objection is probably that complete abdication of any Ministerial role could result in considerable criticism, and certainly so if it led to a massive increase in board salaries.

(v) Should the Civil Service Department retain a co-ordinating function?

Under Options B and C, the CSD propose that they should give up their statutory responsibility for consenting to salaries but that they should retain some general co-ordinating role with Departments. I am sure that some co-ordinating role is necessary. At the very least, Ministers will wish to cross-check with colleagues on the salaries that they are approving or condoning. Otherwise there is a serious risk that they would be played off against each other, and separate decisions announced which could be difficult to defend. If an industry is in deficit, an increase in the chairman's salary is indirectly an Exchequer liability: another reason for keeping a role for the central Departments, even if statutory responsibility is given up.

(vi) What are the legislative implications?

As explained in paragraph 10 above, all the options except A could require legislative changes. There is no provision for this in the 1980-81 Legislative Programme. A Bill would probably be short and easy to draft. It would be controversial if the role of the sponsoring Ministers were to be abolished, but probably less so if the change was confined to the statutory responsibility of the Minister for the Civil Service. You will wish to consider whether this effectively rules out introducing radical changes within the next year. If it were simply a question of removing the role of the Minister of the Civil Service there would possibly be no serious difficulty - he could nominally

CONFIDENTIAL

continue to give his consent until such time as the legislative change was made. However, if it were a question of removing or amending the role of sponsoring Ministers the choice seems to lie between adding a short Bill to the 1980-81 Programme or deferring the change for a year.

(vii) Are the arrangements for other public bodies acceptable?

These are set out in paragraph 10 of the attachment to the Minister of State's paper. They seem sensible. But before any final decisions were taken the CSD would have to produce a comprehensive list of the bodies with precise proposals for how they should be handled.

(viii) What further work and consultations are necessary?

Although the Minister of State's paper usefully sets out four broad options a good deal more detailed work seems necessary either to pursue further suggestions which Ministers might put forward in discussion for various options, or to put the flesh on the bones for a particular option. I suggest that the aim should be to have this further work ready in time for the discussion on the 1980 TSRB Report which will come in the second half of June. A view will then have to be taken on whether the Government should accept the 1980 recommendations but announce that the system will be different in future or whether they should introduce a new system forthwith, taking account of the 1980 TSRB recommendations as appropriate. Before a final decision is taken I suggest that there should be discussions with the TSRB and with the nationalised industry chairmen themselves.

Legislative implications also need to be considered further.

CONCLUSIONS ON E(80) 40

12. In the light of the discussion you will wish:-

- (i) either to decide in favour of one of the options or to narrow the choice between the options and, either way, to call for a fully worked out scheme, including proposals for any new legislation, for further discussion;

CONFIDENTIAL

- (ii) to decide whether there can be any informal discussions with the TSRB and/or the nationalised industry chairmen either now or after Ministers have taken their own thinking further;
- (iii) to invite the Minister of State, Civil Service Department, to arrange for this further work, including any consultations which may be approved, to be carried out by his Department and all the other Departments concerned in time for the outcome to be put to E in mid-June when the 1980 TSRB Report should be available;
- (iv) in the meantime to defer taking a view - other than provisionally - on whether any new system should be introduced immediately or whether this year's decision should be based on the TSRB's 1980 Report and any new system introduced later.

DISCUSSION OF THE CHAIRMAN OF THE TELECOMMUNICATIONS CORPORATION

13. You will then wish to invite the Secretary of State for Industry to explain his proposals for the salary of the Chairman of the Telecommunications Corporation.

14. It is likely that the outcome of the main discussion will be that Ministers will be disposed to accept more flexibility in future. But should it go as far as paying Sir Kenneth Corfield a salary of £150,000 a year, bearing in mind -

- (i) Sir William Barlow's present salary for running Posts as well as Telecommunications is £48,500;
- (ii) the public reaction to such a salary following the recent decision on Mr. McGregor, the Chairman Elect of the British Steel Corporation;
- (iii) the likely reactions of other chairmen, including those such as Sir Denis Rooke, who could be well placed to get much higher salaries if they were to move to the private sector.

15. Are there any other conditions attached? The Chief Secretary, Treasury and sponsoring Ministers are likely to object strongly to any proposal that Sir Kenneth Corfield should be free to decide his own investment programmes irrespective of cash limit and other controls.

CONFIDENTIAL

16. If his appointment is acceptable, can the news be deferred? If an appointment were to be made at £150,000 a year it would clearly be much better if it were announced in the context of a statement on the Government's general policy for nationalised industries board pay in the future. I understand that there would be no need to announce the appointment within the next two months, although progress would have to be made behind the scenes. You will wish to ask the Secretary of State for Industry to confirm that this was so.

17. If the appointment is not approved what are the possibilities for other candidates? The size and growth potential of the Telecommunications Corporation is such that it is undoubtedly important to get a good chairman and, if necessary, to pay him something over the going rates. But it should be possible to find someone willing to take the job at a more acceptable salary. Unlike some nationalised industries, Telecommunications is not a bed of nails. Whoever took the job could well find himself presiding over success, and could expect to be less vulnerable to Government intervention than some of his colleagues in charge of the less successful and more contentious industries.

CONCLUSIONS ON THE CHAIRMAN OF THE TELECOMMUNICATIONS CORPORATION

18. In the light of the Committee's discussion you will wish:-

- (i) either to agree to the appointment as proposed by the Secretary of State for Industry, but with any publicity deferred for the time being and on the understanding that the Chairman Elect will be subject to the same financing control arrangements as apply to other nationalised industries;
or to invite the Secretary of State for Industry to negotiate further with Sir Kenneth Corfield with a view to trying to persuade him to accept a lower salary;
or to invite the Secretary of State for Industry to find another candidate at TSRB rates or something reasonably near to them.
- (ii) Agree that all other cases for exceptional treatment, pending a final decision on the future of the TSRB system, should be put to Ministers for collective decision.

19th May 1980

-9-

CONFIDENTIAL


(Robert Armstrong)