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*cc Mr. Haskings
Mr. Ibbotson**12
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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.

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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.