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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

CONFIDENTIAL

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;

CONFIDENTIAL

- (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.

