

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.

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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,

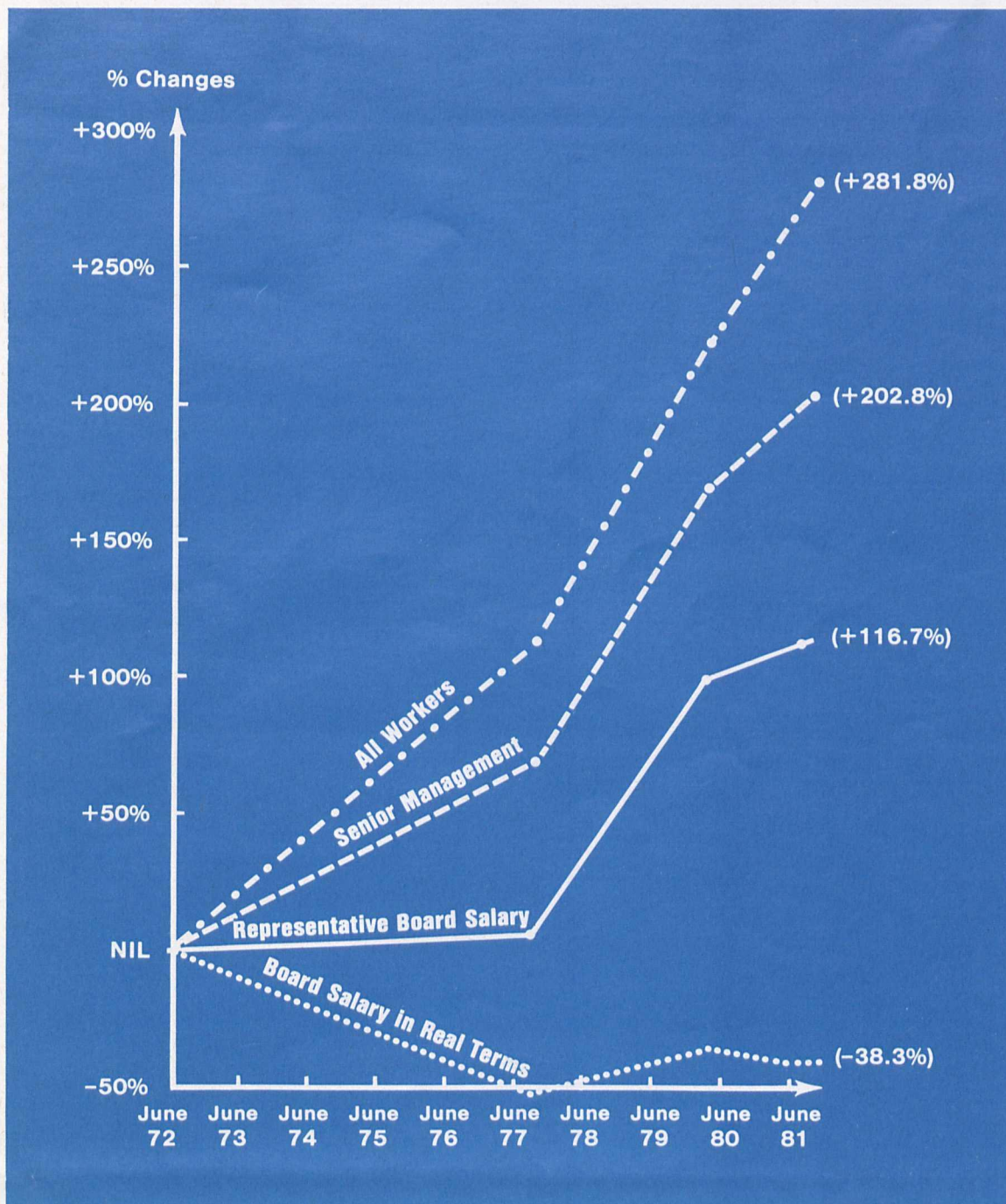
A handwritten signature in blue ink, appearing to read "A. B. Hancock". The signature is fluid and cursive, with a large initial "A" and "B".

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