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

David Norgrove
Private Secretary to the Prime Minister
No 10 Downing Street
London
SW1

7 July 1986

*Dear David,***MEETING WITH SIR EDWARD DU CANN**

Your letter of 30 June requested briefing from the Treasury on the question of Sir Gordon Downey's salary.

I attach some briefing. You will see that we would advise the Prime Minister to continue to resist the proposition that the C&AG's salary should be linked to that of the Permanent Secretary of the Treasury. We continue to believe that linkage with a departmental Permanent Secretary remains appropriate. The Prime Minister should be aware that there are indications that the Public Accounts Commission may try and arrange for an MP to move a Resolution to fix the C&AG's salary in the way that they propose. Although it is normal for such Resolutions to be moved by the Government there is nothing to stop an ordinary MP moving such a Resolution. We do not think that this prospect should in any way affect the line that the Prime Minister should take with Sir Edward du Cann but it is obviously something that we should be prepared for.

*Yours**Cathy***CATHY RYDING**

THE COMPTROLLER AND AUDITOR GENERAL'S SALARY

LINE TO TAKE

a. Unconvinced that C&AG's salary should be increased to that of Permanent Secretary of the Treasury.

(b) No fresh arguments in PACs report. Room to pay other grades more, if warranted by recruitment and retention and performance criteria, and still maintain adequate differentials. In terms of overall job weight hard to argue that C&AG's job is on a par with that of the Treasury Permanent Secretary.

(c) Increasing the C&AG's salary by £10,300 would be further damaging publicity about top salaries.

(d) Remain willing to consider an increase in the C&AG's salary to a higher level if the present Comptroller's successor warrants this on recruitment grounds.

Background Note

The C&AG's salary must, under the National Audit Act 1983, be linked to an existing civil service grade. And, under the Parliamentary and Other Pension and Salaries Act 1976 it must be fixed by Resolution of the House. This is normally done on a Government motion, although any MP could lay one. Thus, the Public Accounts Commission has no power to fix the C&AG's salary.

2. At present he receives the salary of a departmental Permanent Secretary. (£62,100 from 1 July). The PAC's second report in 1984 recommended that he should be paid the same as the Treasury Permanent Secretary. (£72,400 from 1 July). In 1985 the Government asked the TSRB for advice on this question. They recommended that the C&AG's salary should be linked to that of the higher of the two grades of departmental permanent secretary which it had proposed. However, the Government did not agree to the proposed differentials between departmental Permanent Secretaries.

3. Following the Government's decisions on the TSRB's recommendations, the Prime Minister wrote to Sir Edward du Cann on 7 August 1985 re-stating the Government's view that the C&AG's salary should remain linked to that of a departmental Permanent Secretary. (Copy attached). In an earlier letter of 18 July 1985 she had said that the Government accepted that if at some future date it was decided to appoint a Comptroller from outside the civil service the need could arise to pay a higher salary. (Sir Gordon Downey reaches the normal retirement age of 60 in April 1988).

4. On 19 December 1985 Sir Edward du Cann repeated the PAC's views about the C&AG's salary and said that the Commission would try and table their own Resolution to resolve the matter. The Prime Minister again re-stated the Government's view that a higher salary could be considered for Sir Gordon Downey's successor and agreed to discuss the matter again with Sir Edward after the Commission's next report was published.

5. The third report of the PAC was published on 24 June. It reaffirmed the recommendation that the C&AG's salary should be linked with that of the Treasury Permanent Secretary. The report also says:

"In our view there should be no question of the Government's standing in the way of the Commission's ability to exercise full responsibility on behalf of the House, for determining the resource needs of the C&AG and the NAO."

6. Taken with Sir Edward's statement in his December 1985 meeting with the Prime Minister this could mean that the Commission are thinking of putting up an individual MP to table a Resolution making the linkage.

7. The Commission have given the following reasons for aligning the salary of the C&AG with the Treasury Permanent Secretary.

a. Enhanced role of C&AG (following the National Audit Act) justifies his elevation to the highest rank in the public service.

Comment

The Commission are exaggerating the enhancement of his role by the NAA. The 1983 Act formalised value for money audits as being one of the National Audit Office's duties but it is arguable that this was simply formalising work they should have been doing anyway.

b. Higher salaries cannot be paid to more junior staff because it would compress differentials within NAO senior management.

Comment

A table setting out existing differentials in the NAO compared with the civil service is set out below. There is ample scope for moving up pay rates for more junior

staff while still maintaining adequate differentials within NAO. As the report recognises, performance pay has recently been introduced for the third most senior grade within NAO. It is not obvious why the C&AG needs a £12,000 lead over his deputy (within the civil service the current differential between Permanent Secretary and Second Permanent Secretary is £5,300. A performance-related pay structure will usually involve narrowing of differentials, and quite rightly. This will be the case in the senior civil service when discretionary pay is introduced.

c. The head of the Government Accountancy Service is paid £75,000.

Comment

That is an individual salary paid to recruit a particular individual. The Prime Minister has made it clear that a higher salary can be considered for Sir Gordon Downey's successor, if the individual concerned merits it.

d. C&AG should not be paid less than the head of a department he audits.

Comment

There is no compelling logic here. In overall job weight terms the Treasury Permanent Secretary's job is clearly heavier than that of the C&AG.

APPENDIXNAO AND CIVIL SERVICE SALARY DIFFERENTIALS

	<u>National Audit Office</u>		<u>Civil Service</u>	
	<u>1.3.86</u>		<u>1.3.86</u>	<u>1.7.86</u>
C&AG	60,000	Perm Sec to Treasury	70,000	72,400
Deputy C&AG	48,000			
Assistant Auditor-General ⁽³⁾	32,000-42,000	Perm Sec	60,000	62,100
Director ⁽³⁾⁽⁴⁾	25,815-34,020	2nd Perm Sec	55,000	56,800
		Grade 2(DS)	40-42,000	41,500-43,500 ⁽¹⁾
		Grade 3(US)	31-34,000	32,350-35,350 ⁽²⁾
		Grade 5(AS) ⁽⁴⁾	23,239-26,898	25,095-28,430

Notes

- (1) Existing incremental scale. Maximum discretionary pay point (when introduced) £50,150.
- (2) Existing incremental scale. Maximum discretionary pay point (when introduced £40,000).
- (3) Performance related ranges.
- (4) Includes London Weighting.



10 DOWNING STREET

20 DEC 1985	
FROM	Mr Boys
TO	CX MST Sir Peter Middle
	Mr Butler Mr Kemp
	Mr Judd Mr Watson
	Mr Callaghan Mr Morris

From the Principal Private Secretary

19 December 1985

Dear Sir,

Mr Woodall

SALARY OF THE COMPTROLLER AND AUDITOR GENERAL

Sir Edward du Cann, Chairman of the House of Commons Commission, called upon the Prime Minister, at his request, on 19 December to report to her the views of his Commission on the salary of the Comptroller and Auditor General.

Sir Edward said that since he had been Chairman of the Public Accounts Committee, the National Audit Office, as it was now called, had grown immeasurably in prestige and professionalism. It was now the Government's best ally for getting value for money - indeed, value for money audits comprised one-third of the Office's work (though the aim, if resources permitted, will be to increase this to one half). The value of the Office was diminished, however, because it was 10 per cent below strength, new entrants were often of insufficiently high calibre and there was a 12 per cent wastage. This was a result of inadequate levels of pay and the large accountancy firms drawing on the Office for talent (which in itself was a tribute to the Office).

An especial problem was the salary of the Comptroller and Auditor General, who the Commission believed should be remunerated on the same scale as the Permanent Secretary to the Treasury. The Commission intended to draw attention to this issue in their annual report, pointing out that the salary of the Comptroller was Commission business and that they were in disagreement with the Government about it. He would, however, not want this tactic to be adopted unless the Prime Minister thought it would be helpful. Sir Edward had been instructed to say that the Commission would seek to place a resolution on the Order Paper which would bring the Comptroller's salary to the same level as that of the Treasury Permanent Secretary.

The Prime Minister replied that the tactic outlined by Sir Edward would not in her view be at all helpful, especially in view of the difficulties created for the Government by the recent TSRB report. The Government could not welcome anything which would bring to attention again the recent TSRB salary increases. One possibility would be

to increase the Comptroller's salary to the higher level the calibre of the present Comptroller's successor warrants this.

Sir Edward asked the Prime Minister to consider the views of his Commission as he had explained them. It was likely that the Commission would make some reference to this issue in their Annual Report and would indicate that the Government was still considering the issue. He would seek a further meeting with the Prime Minister after the Commission's report had been published. The Prime Minister agreed that they should discuss the matter again.

I am copying this letter to Michael Stark (Cabinet Office).

As usual

Nigel Wicks

N L WICKS

Richard Broadbent, Esq.,
Chief Secretary to the Treasury's Office



10 DOWNING STREET
CHIEF SECRETARY

THE PRIME MINISTER

REC.	-7 AUG 1985
ACTION	Mr Corcoran
COPIES TO	MS, MST, Mr. Miller, Mr. Henshaw, Mr. Barclay, Mr. Keen, Mr. Judd, Mr. Watson, Mr. Giddens, Mr. Palfreyman

7 August 1985

Dear Edward

Mr Rayner
Mr Woodall

Thank you for your letter of 24 July in which you conveyed the views of the Public Accounts Commission about the salary of the Comptroller and Auditor General. We could not meet to discuss this matter owing to the summer holidays and I therefore agreed to send you this letter.

As the Commission recognise, following our decisions on the main TSRB report, the effective choice on the Comptroller and Auditor General's salary under present legislation is to make a new link with the Permanent Secretary to the Treasury or to maintain the present link with Permanent Secretary. I believe that to make the link to any intermediate point would require, not just a Resolution, but Primary legislation.

I have thought very carefully about what you say about linking the Comptroller and Auditor General with the Permanent Secretary to the Treasury. However, the TSRB did not recommend such a link and, in view of that and our decision on the proposed salary level 3, I do not think this would be appropriate. If such a link were established, the salary of the Comptroller and Auditor General would be raised by 54 per cent, compared with 32 per cent if the link is with Permanent Secretary. I am conscious of the desire of the Commission to ensure that there is adequate headroom to allow other salary changes in the NAO but the rise of £14,500 a year for the Comptroller and Auditor General, which follows

the link with Permanent Secretary pay, will clearly help a great deal for this purpose. The gap between the salary of an Assistant Auditor General and that of the Comptroller and Auditor General would widen from around £14,000 to £26,000, which should allow considerable room for performance related pay initiatives. I doubt whether, in advance of the TSRB report, the Commission were counting on a larger increase than this.

I am afraid I come back, therefore, to the view I set out in my letter of 18 July, and I hope that on reflection the Commission will agree. If, however, this does not prove possible I will be happy to discuss the issue with you. *Perhaps*

You would let me know how you and your colleagues feel.

Yours

Raymond

The Rt. Hon. Sir Edward du Cann, K.B.E., M.P.

CHIEF SECRETARY	
FEC.	22 JUL 1985
ATION	Mr Corcoran
COPIES TO	PPS, Mr S. Peter M. D. D. D.
	Mr Bailey, Mr Kemp
	Mr Judd, Mr Watson
	Mr Gilhooly, Mr P. G. H. Dair

THE PRIME MINISTER



10 DOWNING STREET

18 July 1985

Mr Culpin, Mr Rayner
Mr Woodall

My dear Edward,

As you will remember, we agreed to ask the Top Salaries Review Body, in the course of this year's review, to consider and advise the Government on the salary of the Comptroller and Auditor General. Peter Rees told you that the Government would wish to look at the position of the Comptroller and Auditor General in the light of its decisions on the main TSRB recommendations. He promised to provide the Commission with the TSRB's report on the salary of the Comptroller and Auditor General before the Government announced any decisions on it.

I am today announcing the Government's decisions on the main TSRB report. The report is being published as a Command paper and will be available in the Vote Office this afternoon. I attach a copy of the Written Answer in which I am announcing the Government's decisions.

I also attach a copy of Lord Plowden's letter to me setting out the TSRB's recommendations on the salary of the Comptroller and Auditor General. Having recommended in their main report a new, higher, salary rate for the Permanent Secretaries of the Ministry of Defence, the Department of Health and Social Security and the Home Office, they recommend that the Comptroller and Auditor General's salary should be linked to that point.

We have decided, as you will see, not to implement the Review Body's recommendation for a separate salary point for the three Permanent Secretaries concerned. This makes it

necessary to reconsider the position of the Comptroller and Auditor General. The Government is minded to maintain the present link with the Permanent Secretaries in charge of Departments. On this basis the Comptroller and Auditor General's salary would be increased to £52,750 from 1 July 1985 and £60,000 from 1 March 1986. This, of course, would represent an increase of over 30 per cent in the Comptroller and Auditor General's present salary.

The Government accept the view of the TSRB that, if at some future date it were decided to recruit a Comptroller and Auditor General from outside the Civil Service, the need could arise to pay a higher salary.

Before taking a final decision on the salary of the Comptroller and Auditor General, the Government would welcome the views of the Public Accounts Commission.

Yours ever
Nagant

The Rt. Hon. Sir Edward du Cann, KBE, MP.



OFFICE OF MANPOWER ECONOMICS

22 KINGSWAY
LONDON WC2B 6JY

Telephone 01 405 5944

The Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON SW1

18 June 1985

Dear Prime Minister,

TOP SALARIES REVIEW BODY: COMPTROLLER AND AUDITOR GENERAL

The Secretary of the Cabinet wrote to me on 25 April to ask that, in addition to our normal remit, the TSRB should this year consider and advise the Government on the salary of the Comptroller and Auditor General (C&AG). I am writing to inform you of our conclusions on this matter. In looking into it, we have taken account of evidence from HM Treasury on behalf of the Government, the C&AG himself and Sir Edward Du Cann as Chairman of the Public Accounts Commission.

The responsibilities of the C&AG are set out in the National Audit Act 1983. In accordance with the relevant legislation the salary of the C&AG is linked to that of a civil service grade and is, at present, the same as that of a Permanent Secretary.

Against the background of the introduction of performance-related pay arrangements for staff of the National Audit Office (NAO), the Public Accounts Commission considered that the pay of senior management also needed to be restructured so as to allow for the extension of performance-related pay up to the level of Assistant Auditor General while providing for adequate differentials. In order to avoid the undue compression of differentials, and in recognition of his enhanced role, they concluded that the salary of the C&AG needed to be raised, and proposed that it should be equated with that of the Permanent Secretary of the Treasury (who together with the Secretary of the Cabinet is paid at a higher rate than Permanent Secretaries generally), as representing the highest-paid civil servant.

We have carefully examined all the evidence. We accept that the role of the C&AG, and of the National Audit Office under him, has undergone substantial development in recent years, with increased emphasis on the systematic examination of areas of government activity, and the improvement of systems and approaches, rather than the pursuit of a more limited audit function. As we have made clear in our general report, we also think it important, among other factors, that a salary structure should provide satisfactory pay differentials between different levels of management. Equally, we believe it to be appropriate that the salary of the C&AG should continue to be linked to an appropriate level of pay within the Civil



Service - to change this would in any case require legislation - and in considering what is the appropriate level for this purpose, we have had to examine the general weight of the job in relation to that of top civil service appointments.

In doing so, we have had the advantage that this year we have undertaken a systematic examination and evaluation of Permanent Secretary jobs throughout the Civil Service. In the light of this, we have judged, as you will have seen from our general report, that in future there should be greater differentiation in the pay of Permanent Secretaries, and for this purpose have divided them into 5 levels (including Second Permanent Secretaries) as follows:

Salary Level 1 : Head of the Civil Service

Salary Level 2 : Permanent Secretary to:

HM Treasury
Secretary of the Cabinet (if a single post)

Salary Level 3 : Ministry of Defence
Department of Health and Social Security
Home Office

Salary Level 4 : All other full Permanent Secretary posts.

Salary Level 5 : All Second Permanent Secretary posts.

In the light of the detailed evidence we have received on the developing role of the job of the C&AG, it is our view that in future his salary should be linked to the posts at level 3 above, and we so recommend.

The appropriate salary for this post as at 1 April 1985 is, therefore, in our judgment £65,000 per annum. In the event of it being decided at some time in the future to fill the post from outside the Civil Service, the need could arise to pay a higher salary, bearing in mind the high levels of remuneration which prevail in the upper reaches of the accountancy profession; but we have thought it right to form our recommendation on the basis of the position as we find it at present.

Yours sincerely
R. Plowden

PLOWDEN



10 DOWNING STREET

From the Private Secretary

30 June 1986

MEETING WITH SIR EDWARD DU CANN

Sir Edward du Cann, as you know, asked the Prime Minister if she would receive an All-Party Parliamentary Maritime Group. The Prime Minister refused. Sir Edward has, however, asked to see the Prime Minister on his own before any meeting with your Secretary of State and the Prime Minister agreed to do so. The meeting is scheduled for Tuesday 8 July at 1615. I should be grateful if you could provide briefing please by 7 July.

Could the Treasury also please provide briefing on the question of Sir Gordon Downey's salary in case Sir Edward du Cann mentions this.

I am copying this letter to Michael Gilbertson (Department of Trade and Industry) and Tony Kuczys (H.M. Treasury).

DAVID NORRGROVE

DA

Richard Allan, Esq.,
Department of Transport.