



AD
SV Prime Minister (2)

MCS o/R

Not an easy meeting.

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, H.M. TREASURY AT 3 P.M. ON WEDNESDAY, 9 DECEMBER 1981

MCS 19/12

Present:

- Chancellor of the Exchequer
- Secretary of State for Industry
- Secretary of State for Energy
- Secretary of State for Transport
- Secretary of State for Trade
- Chief Secretary)
- Mr. Ryrie)
- Mr. Burgner) HM Treasury
- Mrs Case)
- Mr. A. Williams)
- Mr. Ibbs CPRS
- Mr. Knighton Department of Trade
- Mr. Manley Department of Energy
- Sir Robert Marshall)
- Sir Denis Rooke)
- Sir George Jefferson) NICG
- Mr. Ian MacGregor)

mt

NATIONALISED INDUSTRIES BOARD SALARIES

Sir Robert Marshall, referring to his letter of 30 September to the Prime Minister, expressed the very great concern of the NICG on the question of Board Members' salaries. The announcement on 7 July 1980 by the Prime Minister that the TSRB 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 had been agreed by the Chairmen with some misgivings after long discussions. It was understood that under the new system such factors as the need to recruit and retain able people, to maintain internal differentials between board members and senior management staff and the performance of the industry would be taken into account as well as the economic climate. They had agreed to give the system a fair trial, but the result had been dismal. In



practice there had been a 7 per cent rise virtually across the board. This disappointing result raised all the familiar problems, such as reverse differentials and the effects on management efficiency, morale and appointments. The work which busy part-time members of boards had put into preparing salary proposals in accordance with the new arrangements had been simply ignored. In short, the apparently major and important change in the system had resulted not in the more flexible and realistic system promised, but the same stereotyped settlements as before. The question was where to go from here. The NICG recognised the Government's political problems and was anxious to help find practical solutions if it could. It had previously suggested that one solution might be to divide salary between a standard board member's fee, and a separate executive remuneration. But this had been rejected. If the Government had felt that the new arrangements brought into effect on 1 April were the right answer, why had they not been implemented? The more the problem was put off the worse it would become.

2. Sir Denis Rooke added that he had suffered personally from this problem for over 16 years, during which no Government had made a proper attempt to get to grips with it. The new arrangements introduced in April had simply not been implemented, and the faith of those who had been let down had been shaken. While he recognised the political and presentational problem, the sums of money involved were very small indeed, and he saw no reason why it should not be possible to find a solution.

3. The Chancellor said the Government well understood the problem and the feelings of the NICG. In fact it was not the case that the Government had been totally inflexible, or that it had imposed 7 per cent settlements across the board; a number of board members had been given increases well above 7 per cent because of their particular circumstances. But there were real problems, as the NICG had acknowledged, in allowing higher awards to a large phalanx of people, however deserving their case,



because of the repercussions on pay negotiations both within the particular industry and outside. He pointed out also that the divergence between the TSRB recommendations and board salaries had been very substantial from the mid to late 1970s, but had been closed substantially in 1980. Obviously the Government was keen to find a workable and acceptable solution to this problem in future years. It would help if negotiations were seen to be increasingly on an individual and one-off basis. There was also the important question, on which the NICG no doubt had views, of whether ways could be found of relating pay to performance. It was important that this should not be a transparent device, but a real incentive to greater efficiency and better performance through the identification of achievable objectives.

4. Mr. MacGregor commented that there seemed to be an agreement in principle that the principles lying behind the agreement implemented in April were acceptable and right, but the practical realities of implementing them had caused difficult problems. If this could be agreed, then the answer might be to reformulate the basic principles, and then see if, within that framework, acceptable solutions could be found in individual nationalised industries to deal with their particular problems and circumstances. It was very important to find a real solution to this problem; the present situation was akin to tying baling wire on to a boiler - sooner or later it would explode. He was finding in recruiting people at present that one condition they insisted on was that they should under no circumstances be appointed to the board.

5. The Chancellor replied that he would welcome suggestions from the NICG on alternative possibilities for dealing with this problem. He hoped that they would look at the question of relating pay to performance; and bear in mind also that the Government could not ignore the effects on industrial relations



and pay negotiations, or the general economic climate in which awards were to be made.

PM

P.S. JENKINS

9 December 1981

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Secretary of State for Transport
Secretary of State for Trade
Secretary of State for the Environment
Secretary of State for Scotland

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