Nat. Ind.

Prime Minister

(1)

A

Subject to the views of colleagues, agree to the proposals in 8(a) and (b)?

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

I much preferred the split approach.

MCS 9/7

PRIME MINISTER

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

We need to decide our general attitude to pay increases this year for Board members in the nationalised industries and other similar concerns, and the kind of system we should be seeking to move to for subsequent years.

2. In 1980 we took the Boards out of the TSRB ambit and instituted a new system whereby recommendations for each industry would be made to sponsor Ministers by a sub-Committee of the Chairman and non-Executive members. We virtually overrode this system in 1981 (much to the dismay of the Chairmen) by effectively imposing a "norm" of 7 per cent to which only limited exceptions were made.

3. I do not think we should follow this course again, even at the higher level which would be inevitable against the general background of this year's TSRB award. I regard it as important to move to realistic differentiation according to the circumstances of each Board.

4. Pay levels for Board members of nationalised industries have fallen behind the market, as we have seen when new people have to be recruited from outside. But while there will have to be increases, substantial in some cases, I am strongly of the view that we should move to a much more performance-related system. You will recall that E(NI) had some discussion of this approach last December. I have since held discussions with the NICG, and it is clear that working out any such system would be complex and difficult, and that there is no possibility of having one in place this year.

5. The best course for this year would, I think, be to let the post-TSRB system theoretically in place but never actually used

take its course. We must face the fact that this is bound to produce in many if not most instances proposals for substantial increases. But we can construct some limited defences against unmanageable recommendations by putting across to Chairmen, both collectively through the NICG and case by case between the sponsor Departments and individual industries the points set out in Annex A. I believe it essential that an approach of this kind for 1982 should be firmly linked to practical progress on performance-related arrangements for later years. I propose that we should tell the NICG that we think it essential to develop for 1983 new arrangements, complementary to the basic system, for relating the total remuneration of Board Members to their collective and individual performance in achieving set objectives. Work on this should be put in hand immediately between the Government and the NICG. I envisage that it might be led by a senior Treasury official with representative support from one or two major sponsor Departments (though others would of course be consulted).

6. I have canvassed this sort of approach informally and non-committally with Mr. Payne of BAA, as Chairman this year of the NICG, and a number of his colleagues. I judge we could expect a reasonably helpful and realistic attitude.

7. I have considered the idea referred to in Mr. Scholar's letter of 14 May, of a modest Ministerially-determined fee for Board membership alongside a salary, not under our control, for executive duties; but I do not think this would help with the presentational problem which has been the essence of our difficulties. It would be seen as a contrivance, and we would still be regarded as effectively responsible.

8. If you and colleagues to whom I am copying this minute agree with what I propose, the next steps might be:-

(a) for sponsor Ministers to pass on the substance of paragraph 5 to their Chairmen individually;

(b) for me to write to Mr. Payne, summarising our general approach, and carrying forward the setting up of a working group on performance-related arrangements.

9. If we proceed as I have proposed for this year, it will plainly be essential that sponsor Ministers exercise their own judgement on Board recommendations as these come forward, in the light of a cool appraisal both of political considerations and of the particular setting of the industries.

10. I am sending copies of this minute to Francis Pym, John Nott, Michael Heseltine, George Younger, Nicholas Edwards, Patrick Jenkin, David Howell, Nigel Lawson, Norman Tebbit and Arthur Cockfield, and also to Sir Robert Armstrong and John Sparrow. I suggest that they should make their views known to you by the end of next week (16 July).

G.H.

8 July 1982

ANNEX A

POINTS TO BE PUT TO NICG

(a) In framing their recommendations, Chairmen and non-Executive Board Members will have to show reasonable sensitivity to broader considerations - a flood of bids for very large increases, for example, would simply destroy the system.

(b) We will want recommendations which take fully into account the different circumstances of individual industries and which reflect differences in the weight of particular jobs at Board level and the comparative performance of Board Members within them.

(c) We cannot abdicate our statutory responsibility to decide Board salaries and thereafter to defend our decisions. This must involve some exercise of judgement, the more so as the new system leaves entirely with us the inevitable taking of some view between industries. This does not mean narrow comparability or rigid pecking orders; but it would be wrong that the highest rates should go simply to the most uninhibited askers.

(d) We recognise that Board salaries generally have lagged, and that some recommendations now may not unreasonably be for substantial increases. The granting of such increases in a single step may not be tolerable in terms of public acceptance, and the process of rectification may well need to spread across more than one year.

CONFIDENTIAL

bcc: I. Vereker
F. Mount

BK

Nat Ind

10 DOWNING STREET

From the Private Secretary

19 July 1982

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

The Prime Minister was grateful for the Chancellor's minute of 8 July about what the Government's general attitude should be to pay of Board Members of Nationalised Industries and other similar concerns. The Prime Minister has also seen minutes on the same subject by the Secretaries of State for Energy and Transport; and the Minister for Local Government and Environmental Services.

The Prime Minister thinks it would be useful to have a discussion of these matters at ENI on Monday, 26 July. She would accordingly be grateful if the Treasury, in consultation with the other Departments concerned, would prepare an up-to-date paper on the position against which ENI may consider the general guidance attached as Annex A to the Chancellor's minute.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), David Omand (Ministry of Defence), David Edmonds (Department of the Environment), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Jonathan Spencer (Department of Industry), Anthony Mayer (Department of Transport), Julian West (Department of Energy), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), David Wright (Cabinet Office), and Gerry Spence (CPRS).

M. C. SCHOLAR

Peter Jenkins, Esq.,
HM Treasury

CONFIDENTIAL

BK

PRIME MINISTER

(1)

Pay of Nationalised Industry Board Members

The Chancellor minuted you last week, proposing that nationalised industry boards should make bids for their own pay increases against the background of general guidance by the Chancellor and sponsoring Ministers. You minuted that you much preferred the "split approach". I attach minutes from David Howell, Tom King, John Sparrow and Ferdinand Mount* broadly endorsing the Chancellor's approach. Their principal objection to the "split approach" is that the Government will not be prepared in practice entirely to give up the control of the salaries, and that there will be no point in controlling a small part of the remuneration package (the fee for board membership) whilst giving up control over the greater part (the salary for board members' executive duties, outside Ministerial control).

Agree, in the light of these papers, to the Chancellor's proposal?

MCS

* Please see, too, Nigel Lawson's note, which also broadly agrees with the Chancellor but seems to seek a meeting to discuss the general guidance.

16 July, 1982.

I agree that we should have a brief meeting to discuss general guidance next.

16 July 1982

MR SCHOLAR

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

This is a conundrum. No system is likely to produce results which would be both politically tactful and high enough to attract the calibre of people we want.

Previous efforts to give up Ministerial control altogether have been hastily abandoned when embarrassing pay rises loomed. It is realistic to expect that the same would happen again, if we intend to maintain some degree of effective control of staff pay bills in the nationalised industries.

An alternative system would be to split the remuneration for Board members into an executive salary (commercially determined and outside Ministerial control) and a more modest fee for Board membership (determined by Ministers). I am dubious whether this is likely to work much better as a general principle, although it is already the practice in one or two cases.

If the remuneration committee recommends a market-determined pay rise running into thousands of pounds, this will have the repercussions of which we are afraid. If the Minister then lops a few hundred pounds off the Board fee, the Board will be annoyed without anything much being gained. I agree with John Sparrow that 'there seems little point in controlling a small part of the remuneration package, whilst giving up control of the greater part.'

The least unsatisfactory approach is probably the performance-related one suggested by the Chancellor. We have, I think, to ask the recruit-and-retain questions: how much do we need to pay to attract a new man who can do the job properly? And in the case of the sitting tenant, how much do we need to pay to keep him - if we wish to? But within the peculiar constraints of the nationalised industry, the remuneration committee would still need to have some sensitivity to the wider repercussions and Ministers would still need to retain powers of override.

FM

FERDINAND MOUNT

For EN1 folder

cc JH

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3HE

20 July 1982

Dear Geoffrey,

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

I have seen your minute to the Prime Minister of 8 July and agree that we should adopt a less rigid approach to Board salaries this year while taking steps to avoid being presented with impossible claims. I am copying this letter to the Prime Minister and the other recipients of your minute.

Yours ever,

George

JH 826

Prime Minister (2)
To note.
This is for discussion at E(NI) next Monday.
MCS 14/7

PRIME MINISTER

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

I have seen a copy of Geoffrey Howe's minute to you of 8 July. I welcome his proposals for the handling of Board pay for this year. They should give us the flexibility which is necessary to recruit and retain people of the standard required to run the industries according to the objectives we are setting them. It may, however, be useful for sponsor Ministers to compare notes from time to time when they have specific proposals before them to ensure that no indefensible inconsistencies develop.

2 We must move quickly to put across the points in the annex of the minute to the NICG and to individual Chairmen; many Boards have begun to frame their recommendations for this year and some have submitted them.

3 I also agree that we should make a determined attempt to make progress on performance related pay, although as Geoffrey recognises this will not avoid the need for some substantial increases in basic pay. I have already asked the British Steel Corporation to consider introducing a link with performance and they are doing so. I suspect that much of the development of performance-related systems will have to be done by individual industries since their circumstances vary so, but the proposed

Government/NICG group will be able to consider what work should be done centrally. I should be grateful if my Department could be involved in the exercise.

4 I am sending copies of this minute to the other recipients of Geoffrey's.

PJ

P J

19 July 1982

Department of Industry

TV

CONFIDENTIAL

PRIME MINISTER

In his minute of 8 July, the Chancellor of the Exchequer made proposals for dealing with the pay of Nationalised Industry Board Members.

I am sure he is right to propose that the Government should now implement the post-TSRB system announced in 1980 to the fullest practicable extent, notwithstanding the practical difficulties that will inevitably arise. However, I am not clear from Annex A what the Chancellor has in mind as a basis for comparative assessment between the different industries and, most crucially, what weight he belives we should give to our wider objectives on pay generally in determining an acceptable level of increases. I suspect that we ought to give some further thought to these questions before telling the industries the substance of Annex A. It would be tactically maladroit if we were once again to raise Boards' expectations well above what we eventually find it possible to accept.

On the subsidiary points raised, I agree that officials and the NICG should explore the practicability of a performance-related pay system for 1983. I would hope that my Department, which has more paid Nationalised Industry Board appointments than any other Government Department, can be involved in this. I also agree that we should not pursue the idea of a Board fee combined with an executive salary outside ministerial control.

I am copying this to recipients of the Chancellor's.

J. I. Clark

Approved by the Secretary of State for
Energy and signed in his absence

16 July 1982

cc JV
FM

Prime Minister

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

Geoffrey Howe sent me a copy of his minute to you of 8 July in which he asked his colleagues to let you know their views on his proposals for dealing with the pay of nationalised industry board members.

The proposal he makes for receiving recommendations has already happened as regards the NWC, Water Authorities and BWB. I have now received proposals from the non-executive members of the National Water Council, based on a consultant's report, for large increases in the salaries of chairmen: 23% for the Chairman of the National Water Council, and between 17% and 28% for the chairmen of the regional water authorities, as well as a 50% increase for the appointed members of the National Water Council. I have also had a proposal, from the non-executive members of the British Waterways Board, for a 66% increase in the salary of their Chairman.

I see no reason to accept the recommendation for the salaries of the Chairman and members of the NWC - a body we intend to abolish. I have not yet decided what to do about the water authority salaries where I had been examining the feasibility of a performance link, which I note Geoffrey does not believe is possible this year. As for BWB, we are in the middle of examining their efficiency and the role and structure of the Board on the basis of a report from management consultants. Consideration of the Chairman's and other members' salaries must await our conclusions on those issues.

While, therefore, I have no objection to the general approach which Geoffrey is suggesting, there would be no point in me going back to the water industry and the BWB to pass on the substance of paragraph 5 and Annex A of Geoffrey's letter. I would however bear in mind these matters in putting forward proposals on the recommendations which have already come forward.

I am sending copies of this minute to the recipients of Geoffrey's minute.

TOM KING

15 July 1982

CONFIDENTIAL

cc JV

PRIME MINISTER

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

I entirely agree with the proposals on this subject put forward by Geoffrey Howe in his minute of 8 July. We must clearly seek to move towards performance-related criteria for Board salaries as quickly as possible - although I imagine that the details of such a scheme may need to be devised in flexible form because of the different circumstances of the industries and the relative ease or difficulty of running them.

As far as the current year is concerned, I have already received proposals from my industries - British Rail, the National Bus Company and the British Transport Docks Board - developed on the basis of the new procedure which you announced last year, and I shall be writing shortly to Geoffrey to let him have my recommendations in the light of the information which they have provided and the arguments that they have put forward. I think it would be more appropriate, in my case, for me to explain to the Chairmen what we have in mind for next year once we have been able to reach agreement on the level of increases for 1982.

I would hope that my Department would be represented on the official group to which Geoffrey refers in his paragraph 5.

I am copying this minute in the same way as Geoffrey.

DH.

DAVID HOWELL

15 July 1982

CONFIDENTIAL

ce J.V.

CONFIDENTIAL

Qa 05982

13 July 1982

To: PRIME MINISTER

From: JOHN SPARROW

Pay of Nationalised Industry Board Members

1. I have seen and agree with the Chancellor's minute of 8 July.

2. I believe that the point he makes in the last part of (b) in Annex A is particularly important. For a new appointment, the rate for the job can be established and a suitable person sought at that rate. With sitting tenants, on the other hand, the rate must be determined by the person's worth in the job. Although this can be embarrassing, it is nonetheless necessary.

3. The CPRS would welcome the opportunity to participate in the development of new pay arrangements for 1983 and subsequent years, particularly as we produced a report on payment by results last November.

4. I am sending copies of this to the recipients of the Chancellor's minute.

JS.

CONFIDENTIAL