



P.0823

PRIME MINISTER

Nationalised Industry Board Members' Pay in 1982
(E(NI)(82)23)

BACKGROUND

The two main issues for consideration are:

- flag A.
- a. whether the proposals in the Chancellor of the Exchequer's minute to you of 8 July for the handling of Board Members' pay in the present round and for moving towards a more performance-related system for 1983 are broadly acceptable; and
 - b. which of the particular proposals already put forward by some boards summarised in the appendix to E(NI)(82)23 are acceptable, and which are not; and in the case of the latter what broad level of increase should be negotiated or imposed.

The general procedure

2. The proposals in the Chancellor of the Exchequer's minute of 8 July were as follows. For the 1982 pay round the system which was introduced following the removal of Board Members' salaries from the Top Salaries Review Body, but in practice never really implemented, should be followed. This system involved for each board a sub-committee consisting of the Chairman and the non-executive Board members making recommendations to sponsor Ministers. The Chancellor recognised (and the annex to E(NI)(82)23 bears this out) that this could lead to some uncomfortably high increases, particularly if the boards tried to make good in a single year all the ground they felt themselves to have lost. The Chancellor therefore suggested, in an effort to prevent such an outcome, that sponsor Ministers should urge their boards to use this system sensibly. The particular points that he suggested might be put to boards were set out in the annex to his minute, and are summarised again in the opening paragraph of the note attached to E(NI)(82)23.

3. For 1983 and beyond the Chancellor proposed that the pay arrangements for Board



Members should involve a substantial element related to performance. But this raises some quite difficult issues. He therefore proposed to write to the Chairman of the Nationalised Industries Chairmen's Group suggesting the establishment of a Working Group under Treasury chairmanship at official level to try to devise an acceptable scheme.

4. In principle, the Chancellor of the Exchequer's proposals seem a sensible way to proceed. It would be difficult to justify imposing a single percentage increase for all the industries. But, as the annex to E(NI)(82)23 amply demonstrates, there is an urgent need to move to a more settled system which will lead to publicly defensible recommendations and avoid the problems which have arisen over the last few years. A performance-related system is one obvious approach which needs to be examined urgently, as the Chancellor of the Exchequer proposes, although it is far from certain that the difficulties inherent in it will prove soluble. Moreover, now that the recommendations already received from boards have shown that there will be some difficult problems in the 1982 pay round, it is urgent that sponsor Ministers should contact quickly those boards which have not submitted recommendations, as the Chancellor of the Exchequer proposes, to try to prevent further recommendations for unacceptably high increases.

The specific proposals

5. The Chancellor of the Exchequer suggests in paragraph 3 of E(NI)(82)23 that Ministers should first reach a view in E(NI) on which of the bids summarised in the annex to that paper are intolerable at least for single stage implementation. Two alternative approaches might then be followed: either to decide levels appropriate in such cases, or to put to the industries the points discussed in the Chancellor of the Exchequer's minute of 8 July and thereafter seek to negotiate more acceptable proposals. The latter approach seems best. If Ministers were to conclude that increases of no more than perhaps 10-15 per cent were tolerable the result would be that virtually all board members received the same or very similar percentage increases. The Government would inevitably be accused by the industries of once more imposing an increase regardless of the circumstances of each industry and the prospects for reaching agreement on an acceptable system for the future would be that much worse. Some of the industries' recommendations, although high, are probably just about acceptable (eg UKAEA, Post Office, British Telecom). In other cases, sponsor Ministers will probably succeed, albeit with a struggle, in negotiating the recommendations down to an acceptable level. Inevitably, in some cases (most probably the British Gas Corporation and the electricity supply industry) agreement will not prove possible and an increase will eventually have to be imposed. But



presentationally it would be better if that were to happen in only one or two cases than it were to appear that the Government was dictating single percentage increases to be applied to all the industries.

6. However, in order to guide sponsor Ministers and their negotiations with the industries you will want E(NI) to reach a broad conclusion about the sort of range of increase that might be acceptable.

HANDLING

7. I suggest that you might consider first the handling of the 1982 increases. The main questions that you will want to cover in the discussion are:

a. What levels of increase are intolerable, at least for single stage implementation?

b. Should the Government seek to impose a particular level of increase in the case of those industries whose bids are intolerably high? and, if so, broadly what should that be?

c. Or alternatively, should sponsor Ministers discuss the position with their industries along the lines proposed in the Chancellor of the Exchequer's minute of 8 July and against that background seek to negotiate lower salaries with their industries?

d. Should sponsor Ministers for those industries which have not submitted bids now write to them as proposed by the Chancellor of the Exchequer in his minute to you of 8 July?

8. You might then go on to consider the longer term. The proposal (in the Chancellor of the Exchequer's minute of 8 July) is that the Chancellor should seek to agree with the NICG that the aim should be a performance-related system in time for the 1983 pay increases, and that an official-level working group under Treasury chairmanship should be established to devise a pay system along these lines.

9. You will want the Chancellor of the Exchequer to introduce his paper. Most sponsor Ministers are likely to wish to contribute to the discussion, and you may also like to invite comments from Mr Sparrow.



CONCLUSIONS

10. You will want to record conclusions about the issues listed in paragraphs 7 and 8 above. In addition, if the Sub-Committee favours the investigation of a performance-related system you will want to invite the Chancellor of the Exchequer to submit at least an interim report by the end of the year so that there is ample time to investigate other approaches if on detailed examination a performance-related system seems an unattractive proposition.

PQ

P L GREGSON

23 July 1982

Fa E(NI) folder

Prime Minister

~~LSO~~



MUS 23/7

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

23 July 1982

Michael Scholar, Esq.,
No.10 Downing Street

Dear Michael

NATIONALISED INDUSTRY BOARD SALARIES

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The attached letter dated 15 July from the Chairman of the NICG follows up the informal discussions with him and other NICG members referred to in the Chancellor's minute of 8 July to the Prime Minister. It is relevant to the E(NI) meeting on 26 July.

Copies go to the Private Secretaries of members of E(NI) and to David Wright.

Yours ever
Peter

P.S. JENKINS

Nationalised Industries' Chairmen's Group

Chairman
Norman J. Payne CBE

Hobart House
Grosvenor Place
London SW1X 7AE
01-235 2020

15th July, 1982

The Rt. Hon. Sir Geoffrey Howe, Q.C. M.P.
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London
SW1P 3AG

Dear Geoffrey,

BOARD SALARIES

When the NICG Council met last Friday, I told my colleagues of our discussions on Board Salaries at our meeting on 24th June.

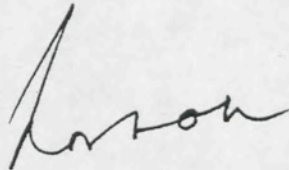
With regard to this year's salary changes, Chairmen expressed the hope that the arrangements which the Prime Minister announced to Parliament in April, 1981 will be allowed to operate properly this time round. If so, individual Chairmen will doubtless soon be hearing what decisions their sponsor Ministers have taken on the differing recommendations which the Chairmen and their non-executive Members have submitted, and no question of any NICG involvement need arise. However, if such individual decisions are again to be replaced by a collective Ministerial decision, (or if they are likely to be appreciably delayed by collective Ministerial discussions), perhaps it would be appropriate for you to indicate this at the Ministerial-NICG Liaison Meeting planned for later this month.

With regard to possible moves towards a performance-related salary system, it was left that you would clear with your colleagues the setting up of the proposed Treasury-NICG Working Party. Since I had not heard the outcome by the time the NICG Council met last Friday, I was not in a position to ask my fellow-Chairmen to agree to our joining such a body on that occasion, and it will have to be discussed when we next meet. Meanwhile, however, they have agreed to our undertaking some preparatory work on our own, so as to put us in a better position to contribute as and when any such Working Party is set up.

/.....

I must stress that, while it may be convenient to consider them separately, this year's salary reviews and possible future moves towards a performance-related salary system are very closely linked in practice. Although many Chairmen have continuing doubts about the introduction of a performance-related system, these would be significantly reduced if Ministers operate this time in accord with the rules introduced in April, 1981, and take salary decisions which represent a reasonable move towards levels recommended by the individual Salary Committee of the Board. However, if Ministers were again to override the recommendation and impose another across-the-board increase, a different situation might prevail.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Lawson". The signature is written in dark ink and is positioned centrally below the closing text.



ST. LOUIS MO JUL 23 1982

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