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Yours
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10 DOWNING STREET

From the Private Secretary

5 November, 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 3 November, enclosing a copy of your letter sent to Barney Hayhoe, MP, concerning Nationalised Industry Board Members Pay (1982).

D.G. Dodds, Esq., CBE,
(Association of Members of State Industry Boards)

LM

**ASSOCIATION OF MEMBERS
OF STATE INDUSTRY BOARDS**

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London. S.W.1.

Prime Minister (2)

MCS 4/11

Chairman: D G Dodds, CBE, LLB, Comp IEE

c/o
South Western Electricity Board
Electricity House
Colston Avenue
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Telephone 0272-26062

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OUR REF

YOUR REF

EXTENSION

DATE

24
3rd November, 1982

Dear Prime Minister,

Nationalised Industry Board Members - Pay (1982)

With reference to your acknowledgement of my letter of 20th July enclosing a copy of Memorandum to the Government on the Salaries of full-time Members of State Industry Boards below the level of National Chairmen, I enclose a copy of a further letter sent today to the Minister of State (C) at the Treasury (Mr. Barney Hayhoe M.P.).

Ministers are earnestly requested to consider the views expressed in both the Memorandum and the letter in coming to decisions on salaries for 1982.

Yours sincerely,

Dennis Hall

D. G. Dodds.

**ASSOCIATION OF MEMBERS
OF STATE INDUSTRY BOARDS**

Barney Hayhoe Esq., M.P.,
Minister of State (C),
Private Office,
H. M. Treasury,
Admiralty Buildings,
Whitehall,
London. S.W.2.

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DATE

DGD/PJT

3rd November, 1982

Dear Minister,

Pay of Nationalised Industry Board Members (1982)

Thank you for the letter of 5th August replying to the Memorandum submitted to the Government on 6th July on the Pay of Nationalised Board Members (1982) below the level of National Chairmen. The Government's acknowledgement that the approach in 1981 was unsatisfactory and that it is intended this year, to move away from a uniform approach towards the settlement of salaries on a Board by Board basis, is welcome to the extent that it achieves the purposes, implicit in the new Pay Procedure, of harmonising the salaries of Board Members with others in the same industry, overcoming pay compression and eliminating inverse differentials. It is assumed however that differences arising for other reasons will continue to be founded on rational and consistent criteria and not on arbitrary assumptions.

2. The Government is asked to consider, together with other relevant points, a particular aspect of the matter which may not have been sufficiently emphasised. Nationalised industries cannot, if they are to recruit and retain senior managers of the right calibre below Board level, isolate them from the salary market. All Boards, in an effort to minimise the problem of inverse differentials, have however avoided pay at too high a level in such cases. Comparative studies have shown that such salaries have invariably been placed at the lower end of the market range. The acute problems of salary compression and inversion affecting all Boards are undoubtedly attributable to the imposition of Board Members' salaries at well below market level by successive Governments, and not to the payment of subordinate salaries at too high a level by the Boards themselves. This point it is hoped will be taken into account together with the other submissions made in the Memorandum of 6th July, when the proposals of individual Boards are under consideration by 'sponsoring departments'.

3. The following points are also emphasised in the light of surveys of recent salary movements in the private sector and of the need for Ministers to arrive at decisions for 1982 before long:-

(a) Continued adverse discrimination in pay coupled with the Government's antipathy to the role of their organisations, as at present constituted, is in danger of creating demoralisation as well as frustration.

(b) Since 1972, the market level of 'top salaries' in the private sector has increased by an average of 202.8% compared with an increase of only 116.7% in the public sector. This represents a pay decrease in real terms, of 38.3%.

(c) The disparity in pay between the public and private sectors is increasing. In 1980, the Government restricted increases in nationalised industry 'top salaries' to 13% or less and in 1981, to 7%. This restriction was imposed despite strong recommendations by the TSRB and others that account should be taken of average increases amounting to 18% in 1979 and 15.7% in 1980, in the market level of private sector 'top salaries'.

(d) In 1981, the median market level of 'top salaries' in the private sector increased by a further 11% (Charterhouse & Inbucon). Should the Government further restrict the 1982 increases to Board Members, the present disparity will widen.

(e) The Government's recent substantial acceptance of TSRB recommendations in the case of Judges, Higher Civil Servants and Senior Officers in the Armed Forces, is supported. Failure to accord no less favourable treatment to Board Members in nationalised industries (who have for many years been the subject of similar recommendations) would be regarded as clear confirmation of adverse discrimination.

4. The following comments are made on longer-term issues:-

(a) Appointments Procedures and Conditions of Service: The Government's acknowledgement that present arrangements are unsatisfactory and their hope to improve them is welcomed. Does the examination of potential improvements in this area include, however, the wider aspects of 'Service Contracts' referred to by the Review Body in Report No.14?

(b) Pay Procedure: Continued rejection of the proposal for part-time Members of Boards to decide the managerial remuneration of full-time Members, is regretted and is not understood in the light of similar arrangements elsewhere in the public sector. The proposal will therefore continue to be advocated.

(c) Performance Pay: The Government's intention to discuss practical proposals with NICG and individual Boards is noted together with the assurance that the points made in our Memorandum will be among those to be considered. Recent inquiries into the practice of companies with experience of performance pay at top level, have confirmed Board Members in the view that it is essentially a supplement to normal remuneration and that in itself it provides no answer to the central question of how basic salaries are to be established.

5. It is earnestly requested that the views expressed in the Memorandum of 6th July and in this letter should be further considered by Ministers in

Barney Hayhoe Esq., M.P.

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3rd November, 1982

coming to decisions on Boards proposals for salaries in 1982. Copies have accordingly been sent to the Prime Minister, the Chancellor of the Exchequer and to Ministers in charge of 'sponsoring departments'.

Yours sincerely,

D. G. Dodds 2'

D. G. Dodds.



Treasury Chambers, Parliament Street, SW1P 3AG

M Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

11 November 1982

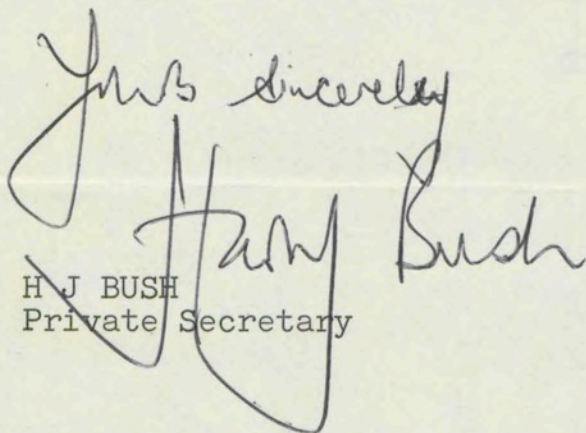
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Dear Scholar,

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS: MR DODDS' LETTER
OF 3 NOVEMBER

I understand that as well as writing to the Treasury, Mr Dodds
of the Association of Members of State Industry Boards wrote
to the Prime Minister and Ministers in charge of sponsoring
Departments on the same lines. You may be interested to see
... the attached reply that I have sent from this office.

I am copying this letter to the Private Secretaries to the
Secretaries of State for Energy, Industry, Trade, Transport,
Environment, and Scotland.

Yours sincerely

H J BUSH
Private Secretary



Treasury Chambers, Parliament Street, SW1P 3AG

D G Dodds Esq CBE LLB Comp IEE
Chairman
Association of Members of
State Industry Boards
South Western Electricity Board
Electricity House
Colston Avenue
BRISTOL BS1 4TS

11 November 1982

Dear Mr Dodds,

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

The Minister of State (C) has asked me to thank you for your letter of 3 November which has also been received by the Prime Minister, the Chancellor of the Exchequer and Ministers in charge of sponsor Departments.

The Minister of State has noted the points you make about the relative salary levels of nationalised industry board members and those in similar positions in the private sector. He will certainly bear these points in mind when considering increases for individual boards. He recognises the force of the argument in your second paragraph that problems of compressed or inverse differentials are attributable to the holding down of board salaries by successive governments. He is also well aware of the dangers of creating demoralisation and frustration.

On the longer-term issues, you will be interested to know that the Government has agreed that its officials should discuss with representatives of the Nationalised Industries' Chairmen's Group both appointments procedures (including the question of service contracts) and the idea of paying board members a salary as executives plus a supplementary board fee. However, on the latter issue you should be aware that all those nationalised industry statutes on which we have taken legal advice preclude the determination of any part of a board member's remuneration by anyone except the responsible Minister.

Yours sincerely,
Harry Bush

H J BUSH
Private Secretary

11 NOV 1982

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Prime Minister

I am acknowledging.

**ASSOCIATION OF MEMBERS
OF STATE INDUSTRY BOARDS**

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London. S.W.1.

MUS 23/7 Chairman: D G Dodds, CBE, LLB, Comp IEE

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OUR REF

YOUR REF

EXTENSION

DATE

20th July, 1982

Dear Prime Minister

Nationalised Industry Board Members - Pay (1982)

I enclose a copy of a Memorandum to the Government on the Salaries of Full-time Members of State Industry Boards. This was submitted on 6th July to the Minister of State at the Treasury following an earlier assurance that the views of Board Members would be taken into account before Government decisions were taken on their salary levels for 1982.

Ministers are accordingly requested to consider and accept the submissions made in the Memorandum and to approve either (a) updated salary proposals submitted by each State Industry or (b) updated salaries based on the recommendations made by the Top Salaries Review Body in 1980.

Their response is awaited with anxious concern.

Yours sincerely,

D G Dodds

D. G. Dodds.

MEMBERS OF STATE INDUSTRY BOARDS

MEMORANDUM TO THE GOVERNMENT

FULL-TIME MEMBERS OF STATE INDUSTRY BOARDS
SALARIES - (1982)

1. The views of Full-time Members on the Pay Procedure proposed by the Government in place of that based on recommendations by the Top Salaries Review Body, were submitted to the Government in March 1981. The new Procedure was announced in Parliament by the Prime Minister on 7th April 1981 and, since a number of provisions favoured by Board Members were included, it was given a cautious welcome. The Prime Minister indicated that market and managerial considerations would be among the factors that the Government would take into account in determining salary levels. In a matter of weeks, however, Ministers had decided that while these considerations were important, general economic requirements would need to take priority and that, in current circumstances, application of the new criteria would have to be deferred.
2. The proposals submitted after much study by national Boards to their Sponsoring Departments on the basis of criteria which they had good reason to believe would be applied, were consequently rejected and replaced, with few exceptions, by a general increase of about 7%. In the light of the legitimate expectations raised by the terms of the new pay criteria and the absence of any significant change in economic conditions between the Spring of 1981 when the new Procedure was announced and the Autumn when its terms were suspended, this information was greeted with dismay. It was thought inconceivable (despite disappointment with the actions of all recent Governments) that any Government would take such action. Had such an outcome been foreseen, strong public objections would have been made to the removal of Board Members' salaries from the purview of the Top Salaries Review Body. By placing reliance on the assurances which the Government so rapidly repudiated, Members have lost the benefit of an impartial appraisal of their salaries, but the Government has conferred on itself the freedom to pay very high salaries in particular cases while refusing 'market' salaries to the existing body of Executive Board Members.
3. The exceptions made in a few particular cases are acknowledged, but have served to moderate - not to remove - the insidious problem of inverse differentials. All State Industries continue to be afflicted with the acute difficulties of salary compression and inversion to which the Review Body made continuous reference. Nor do these difficulties arise from the over-payment of Senior Executives directly responsible to Executive Board Members. Market surveys have established that such Senior Executives are paid at the lower end of the salary ranges applied to Senior Managers with equivalent responsibilities in analogous "market" areas.
4. Since 1972, the pay of "all workers" has increased, in money terms, by 281% and that of management generally, by 202.8%. The pay of a typical Board Member has increased in the same period by only 116.7%. Even when account is taken of the 1981 increases, the pay of typical Executive Board Members in State Industries has declined, in real terms, by 38.3%. This has not happened to any other occupational group and represents in stark terms, the extent of the discrimination against them over a decade. They are

dedicated, in the national interest, to promoting the efficiency of their respective industries and it would be as unjust as it would be absurd to blame them for problems considered by the Government to arise from the nature and statutory structure of their organisations. State industries are collectively responsible for 11% of gross domestic product, provide about one sixth of the country's gross investment and employ 8% of the work force and to differentiate the salaries of their Board Members, from other concerns involved in the market economy on the ground that they are monopolies, is demonstrably indefensible and inequitable. A number have to compete fiercely in international markets and even those restricted to operations in Britain, compete for the most part with the private sector and with each other.

Board Members are by no means averse to working in an increasingly competitive environment. Meanwhile they represent that, while their dedication to their management role is unremitting, (a) their motivation is not enhanced by the Government's apparent under-estimation of their work and its significance and (b) their salaries should not be left in a vacuum while the rest of industry, the Higher Civil Service and the Judiciary moves on.

SEQUENCE OF EVENTS

5. The Government is reminded of the sequence of events.
 - (a) Between 1972 and 1978 no significant increase in the pay of Board Members was permitted. A particularly invidious discrimination was made in January 1975 between Board Members and other top salaries. In 1978 TSRB 10 drew attention to this state of affairs in no uncertain terms, but the new salaries they recommended were insufficient to restore the position and were only introduced by the Government in three stages concluding on 1st April 1980.
 - (b) Throughout the whole of this period there is no evidence that this discriminatory action against Top Salaries in general and Executive Board Members of State Industries in particular had the slightest impact on the general course of pay claims and settlements in other cases.
 - (c) In 1980 the TSRB recommended, in the light of a wide-ranging market survey, that the salaries of Board Members should be increased by an average of 25% from 1st April. The Government decided however that Chairmen should receive increases of only 9% and Board Members 13%.
 - (d) In 1981, the Government decided however, despite their announcement of new pay criteria, that increases to Board Members from 1st April, in common with other 'top salaries', would be limited to 7%. This decision was made in the face of increases in 1980 to Senior Management in the private sector, of 15.7% (BIM) and of earnings generally, of 19.5%.
 - (e) In the year to 31st December 1981 (to which any decision on 'top salary' pay in 1982 is highly relevant) overall average earnings increased by 11% and the pay of Senior Management in the private sector (up to October) by 11-13½% (IOD).
6. The position of Board Members' pay as at 1st April 1981 may now be summarised as follows :-
 - (i) Salaries (with one exception) are well below the market levels recommended by the TSRB as appropriate for 1st April 1980.

- (ii) The gap between Senior management pay in the public and private sectors of industry has widened considerably and is increasing at an accelerating rate.
- (iii) Inverse differentials continue in overlaps between Senior Executives's salary ranges and Member's salary ranges. These amount, in some cases, to more than £2,400.

7. It should be noted particularly that in 1980, the Government adopted a radical departure from previous practice in treating 'top salaries' in the public sector, as the start of a new pay round and not, as previously, a culmination and reflection of the previous round. By dealing with them after other settlements had been arrived at, their repercussive impact was minimised. This continues to be the normal practice in dealing with 'top salaries' in the private sector. Salaries determined in this way are up to one year behind the 'market' and cannot be ahead of it. The Government's action has had a profoundly adverse effect in the public sector. All 'top salaries' recommended by the Review Body with effect from 1st April 1980 were based on market surveys carried out in 1979. In 1980, salaries directly controlled by the Government at lower levels, had been increased by up to 20% on the basis of similar retrospective surveys. A particular discrimination was therefore applied against public sector 'top salaries' in 1980 when the Government severely curtailed the increases recommended by the Review Body.

8. The cumulative effect of this and other changes made by the Government, can be seen from the following example of a typical Board Member whose salary in 1980, as recommended by the Review Body, should have been within the range of £28,500/£36,500:

- (a) This recommendation was reduced by the Government to £26,000/£32,750 with effect from 1st April 1980.
- (b) Had the Review Body remained responsible for making recommendations in 1981, it is probable that they would have taken account of the average increase of 15.7% received by Senior Managers in the private sector in 1980, as well as the increase of 19.5% in overall earnings. Had the recommended range been increased by 15.7% in 1981, it would then have become £32,975/£42,230. By applying an increase of only 7% to the already restricted range, it has in fact become £27,820/£35,045.
- (c) At the end of 1981, overall average earnings had increased by an average of 11%. On the assumption however that the average increase to Senior management in the private sector amounted to only 7%, and that the TSRB would have taken account of this in their 1982 recommendations, the recommended range would from 1st April become £35,285/£44,185.
- (d) Increases of 27% at the minimum and 26% at the maximum of the existing (1981) range would on this basis be necessary to update the ranges recommended by the TSRB in 1980 to reach even the lower levels of the appropriate market ranges and to make some impression on the problems of salary structure, compression and inverse differentials in each industry.

THE REVIEW BODY'S VIEWS

9. At a time when salaries unilaterally decided by the Government have replaced those based on independent assessment, it is important to recall the impartial judgement of the Review Body on the whole subject in 1980. Since there has been a clear deterioration since then, their comments are even more significant today than they were at the time they were made. In Report No.14 it is stated :-

- (a) "Many of the problems that have arisen as regards salaries at Board level in the nationalised industries are a direct or indirect consequence of the discriminatory action against this Group over the last decade. We cannot emphasise too strongly that this must not be allowed to happen again and that it is essential that these salaries be kept regularly up to date." (Para.32)
- (b) "We remain of the view that salaries in Nationalised Industries have to be competitive with rewards in the private sector". (Para.34)
- (c) Compression and overlap are still present on a scale that is undesirable." (Para.40). "Our recommendations are intended to reduce the problem significantly."

These views have so far gone unheeded.

10. The attitude of Board Members in the face of the overwhelming inequity of the Government's attitude has been one of mounting incredulity. The recent slight moderation of 'inverse differentials' is acknowledged but concern is felt strongly at the likelihood of further deterioration before long. It is most difficult for Members to accept that the present situation, so similar to that from which they had escaped with great difficulty in 1980, has been brought about by a Government claiming to be wedded to the motivation of efficient management and which had subscribed so recently to new criteria designed to avoid the very difficulties which have arisen again.

TOP SALARIES 1982

11. On 12th May, the Prime Minister announced in Parliament the Government's decision on the current recommendations of the TSRB. The Review Body had recommended increases ranging from between 18% and 25% in the salaries of the Higher Civil Service, the Judiciary and Senior Officers in the Armed Forces with effect from 1st April 1982. The Government, she stated, had restricted these increases to between 13% and 21% since, while there were sound management reasons for bringing these salaries up to date quickly and keeping them up to date, the Government still felt obliged to impose some abatement this year which would be taken into account in next year's pay review.

12. In these cases, at all events, it seems that the Government has concurred with and echoed the reasoning so long and independently expressed by the Review Body, reasoning which, in the past, has been directed with equal force and authority to the salary position of Chairmen and Board Members in State industries. If there are 'sound management reasons' for bringing the salaries of senior Civil Servants and others up to date and keeping them up to date the case for according not less favourable treatment to Board Members in State Industries seems to be unanswerable.

13. The decision of the Government in 1980, to remove the pay of Board Members from the terms of reference of the Review Body was influenced to a great extent by their need (while rejecting the increases recommended) to pay even higher salaries to attract the right calibre of certain Chairmen. It would be evidence of discrimination indeed if as a consequence of their detachment from the Review Body, Board Members were deprived of treatment consistently recommended in their case at a time when the Review Body's recommendations, for the groups remaining within their purview, have at last been accepted.

14. The Government is accordingly urged to approve either (a) updated proposals submitted under the new Pay Procedure to appropriate Sponsoring Departments by each State Industry or (b) updated salaries based on the recommendations made by the Review Body in 1980.

THE LONGER TERM

15. While the subject for early decision is that of basic remuneration in 1982, reference is made below to longer term matters which have been the subject of earlier representations or which have emerged recently. Consideration of these representations is requested as soon as the immediate issue of pay in 1982 has been dealt with.

(a) Performance Pay It is understood that the Government may wish to consider the practicability of 'performance pay' in the longer term. Board Members are familiar with this concept and would emphasise that in any application, assessments would need to be made within each industry (by the Chairman advised by part-time Members) and not by Sponsoring Departments. Performance pay is however essentially a supplement to normal remuneration at market levels and in itself therefore provides no answer to the central question of how basic salaries are to be established.

(b) Conditions of Service Previous representations made to the Government and to the Review Body on Contracts of Service, Security of Tenure and Superannuation are confirmed and active consideration of them is requested. Attention is drawn in particular to the following statement made by the Review Body in Report No.14. "We endorse the view put to us in evidence that full-time Board Members should have the benefit of service contracts which include adequate notice of the renewal of appointments. This contract should extend to the question of re-employment as a senior executive or compensation, where a Board appointment is not renewed." A number of cases have arisen recently where Board Members have been given only two or three weeks notice of re-appointment or otherwise and great concern exists at the absence of any consideration by the Government of the Review Body's recommendation.

(c) Pay Procedure Since the criteria in the Government's new Pay Procedure were placed in abeyance soon after its introduction last year, it is desirable to re-affirm the view of Board Members that

(a) they should be employed in the first instance as senior executives in their own industries at salaries based on the value system used by their Boards for other senior executives

(b) supplementary payments determined by the Government should be paid for their responsibilities as Board Members.

The role of part-time Board Members in the new Pay Procedure represents a move in the right direction but falls short of these proposals since the Government has retained ultimate responsibility and exercised its veto at the very inception. The proposals do not appear to represent a new principle, since salaries are already decided in this way in a number of existing concerns such as the Bank of England, British Petroleum and British Leyland which are publicly owned, wholly or in part. The criterion does not appear to be 'profitability' but 'company' status as distinct from 'Board' status. Since both types of formation are engaged in commercial activities, the extent of the distinction between them in pay seems to be wholly unjustified.

CONCLUSION

16. It will be clear from the nature of these representations and those which have preceded them, that the confidence of Board Members in the intentions of successive Governments has been seriously eroded. The insidious dangers of inflation are well understood and Members have at all times been ready to play their part in the equality of sacrifice necessary if they are to be overcome. They have been called upon to accept sacrifices in inverse proportion to the relative gains secured by other sections of the working community. This example however has had no impact on pay settlements in other quarters. A halt to this process (which has lasted for more than a decade) is essential if mutual confidence is to be restored and if Board Members are to be free to concentrate on promoting the efficiency of the State Industries in the years to come.