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

10 March 1983

John Sparrow Esq  
Central Policy Review Staff  
Cabinet Office  
LONDON SW1

A handwritten signature in cursive script, appearing to read 'John Sparrow'.

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

... Thank you for your letter of 7 March. I note what you say about the danger of confusing the problems over basic pay for Nationalised Industry Board Members with the introduction of performance-related pay (PRP) schemes. However, in practice the two issues are closely linked. I enclose a copy of a recent letter from Norman Payne which shows that the NICG will insist on this in the further discussions to which we are committed.

To answer your question, I would see advantage in introducing PRP schemes if basic pay were at market levels. But I would go further and say that PRP is sufficiently advantageous that it should not await the rectification of basic pay, a process that, as you recognise, will inevitably take some time.

I accept most of your other points, although I think we shall need to be flexible over individual cases. My paper (E(NI)(83)7) makes it clear that PRP bonuses ought to be a reward for better than standard performance. It is clearly necessary to pay what the market requires in order to attract candidates for Board membership of the right calibre, but we must recognise that internal candidates will often not be able to demonstrate a case for such high salaries as external ones.

On relating performance bonuses to individual performance, I agree that this should be the aim. However we cannot move faster than the Chairmen are willing to go since they will often be the only people who can properly assess a Board Member's performance. We may have to accept bonuses based on the performance of the whole Board in the early stages and move towards a more individual approach as Boards become familiar with PRP schemes.

I am copying this letter to members of E(NI).

GEOFFREY HOWE

A handwritten signature in cursive script, appearing to read 'Geoffrey Howe'.

# Nationalised Industries' Chairmen's Group

Chairman

Norman J. Payne CBE

Hobart House  
Grosvenor Place  
London SW1X 7AE

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24th February 1983

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The Rt. Hon. Sir Geoffrey Howe, QC, MP,  
Chancellor of the Exchequer,  
Treasury Chambers,  
Parliament Street,  
London SW1P 3AG

ACTION: Mr A. R. Williams —  
CST MST(R),  
Sir J. Wallis  
Mr. B. T. Morgan  
Mr. T. Wicks  
Mr R. H. Wilson

Dear Geoffrey,

## PERFORMANCE-RELATED BOARD SALARY SYSTEM

I am writing to let you have the Chairmen's Group's reactions to the Interim Report of the Joint Working Party headed by Michael Quinlan.

We feel that the Joint Working Party has done a very competent job in establishing the main technical issues which would need to be considered before specific performance-related Board salary schemes could be formulated which would be appropriate to the peculiar circumstances of the public sector industries. With this analysis available to us, discussion on the policy aspects of the issue can proceed on a better-informed basis.

Detail apart, what emerges from the Interim Report is that the technical issues requiring consideration and decision are both numerous and difficult to resolve, and that the performance-related approach is much more complex a matter than Ministers have sometimes implied. Whatever else it may offer, this approach does not provide a quick and easy way of dealing with the difficulties over Board salaries which have plagued Minister and Chairmen alike for so long.

Nevertheless, we accept that these complexities do not preclude movement towards performance-related Board salary systems. Thus, if you still wish to continue work on this matter having read the Report, we should be ready to consider taking part in further exploratory work, along the lines suggested in para. 6 (b) of the covering letter which Michael Quinlan sent to us when presenting the Joint Working Party's report.

/....



CC/IT

Prime Minister (2)

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

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7 March 1983

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
SW1

Dear Geoffrey,

Pay of Nationalised Industry Board Members

with  
FERB

I have some difficulty with the main conclusions you reached in your paper E(NI)(83) 7 on pay of nationalised industry board members. By formally linking the introduction of performance related pay (PRP) and the uplift in basic pay we are in danger of confusing two issues. We need to ask ourselves: if pay were now at market levels, would we want PRP? Only if the answer were 'yes' should we go on to consider what form of PRP we favour.

PRP has its own logic (and its own drawbacks - see the CPRS Report of 20 November 1981) and it will be discredited if payments are made for anything other than performance recognisably beyond what is reasonably expected and paid for in basic salary. And PRP in any other form would be as difficult to defend as proper increases in basic pay.

The need to improve NI Board performance by recruiting or promoting the right quality of executive talent is paramount. We shall not succeed in this unless we pay the market rate on appointment or reappointment. Therefore I would recommend continuing to use the opportunities offered by vacancies to pay the market rate for first-class candidates for new external appointments. In addition, however, whenever a vacancy occurs we should set a market-related figure designed to attract people of suitable calibre. If this figure fails to

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attract the right candidates then it should be increased to a level which does so, rather than being reduced to a level which matches the sort of people attracted. Over five years this policy should lead to improved quality of Board members, as well as to reasonable levels of remuneration overall.

This does not help present NI Board members (except to the extent that we adopt a policy of bringing forward certain selected reappointments). But I see no satisfactory alternative. There is no inconsistency in approving a staged increase in basic pay as well, but - since 'the increase in any one year would have to be moderate' - I doubt that this will be an effective way of getting NI Board pay right.

Any PRP scheme proposed as an addition to market pay rates should certainly be restricted to better than standard performance. This means that, even though schemes would be Board Schemes, payments should relate primarily to judgements of individual performance. I know this may be less acceptable to NI Boards, but I believe it to be essential to the credibility of PRP. And in the longer term NI Boards should view matters rather differently.

I am sending copies of this letter to recipients of your E(NI) paper.

*Yours sincerely,*  
*John*

John Sparrow

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