

PRIME MINISTER

cc Mr Walters  
Mr Mount

E(NI): PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

You agreed that it would be more appropriate for this subject to come to a meeting of E(NI) under your Chairmanship than under the Chancellor's, because of your close interest in the subject.

There are two issues for decision: the range of increases in basic pay for Board members this year, and whether to introduce a Performance Related Pay (PRP) scheme.

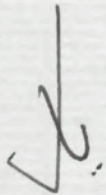
The approaches of the Chancellor and John Sparrow are different. The Chancellor sees PRP as being an ingredient in a solution to the general problem of getting Nationalised Industry Board salaries up to market levels without embarrassingly high increases. John Sparrow believes that PRP should be introduced because it has merit in its own right, that it should be additional to market rates of pay, and that other means (chiefly offering the market rate to new appointments) should be found to get the basic salary at the right level. And I understand that a letter will shortly be circulated from the Nationalised Industries Chairmen's Group expressing their view that PRP should not be introduced at all until the basic pay is put right.

We think that the Chancellor is right. Of course we should bite on the bullet whenever we can by making new appointments at the market level of pay; but we see no end to the difficulty of needing to award annual pay increases to Board members well above the level of increase generally appropriate for the industries in which they work. So we think a two tier system is necessary.

The Chancellor proposes to do this with the immediate introduction of a PRP scheme which would provide a bonus of up to 25% on top of basic pay. But he proposes that the Nationalised Industry Boards themselves design their own PRP schemes. We are doubtful: Alan Walters has suggested that it would be feasible to establish simple

joint labour-productivity and capital-productivity criteria for the bonus, which would be negotiated at the same time as the basic salary, and which would minimise the difficulty of securing an independent assessment of performance. The more clearly quantified the criteria, the more safely we can leave it to the non-executive members of each Board to assess performance - as suggested by the Chairmen themselves. But if we leave it to the Boards to design their own schemes, we think it unlikely that they will come up with anything at all clearly quantifiable.

As to the range for basic pay increases this year, we agree that 0 - 10% is about right. We suggest that, as with previous years, you ask that exceptions be submitted to the Chancellor and to you for approval - there were a few exceptions to last year's range of 5 - 15%. Of course, if PRP can be introduced, that improves the chance of keeping increases in basic pay down.



11 March 1983