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

27 November 1984

Geoffrey Pattie Esq MP
Minister of State for Industry
and Information Technology
Department of Trade & Industry
1 Victoria Street
LONDON SW1

A handwritten signature in dark ink, appearing to read 'Geoffrey Pattie'.

POST OFFICE BOARD MEMBERS' PAY 1984 AND BONUS SCHEME

You wrote to me on 18 October about the 1984 pay increases for members of the Post Office Board, together with a proposal for the introduction of a performance-related bonus scheme. You subsequently wrote on 2 November about the salary level for Mr Wainwright's successor. *I will request if required*

I am content with your proposals for 1984 Post Office Board salaries, as set out in column (e) of the table enclosed with your letter.

I am also content in principle that a performance-related bonus scheme should be introduced for this Board, provided that the bonuses would be non-pensionable and that the scheme would not be retrospective (ie the qualifying period should not start until after the scheme has been approved). But while I have no objections to the overall shape of the proposed scheme, I have reservations about three specific aspects.

I am concerned at the proposal that bonus payments to the Board member for Giro should be based on exceeding Giro profits. Bonuses should reflect managerial performance, but Giro profits will be strongly affected by interest rate fluctuations. I should be grateful if you would consider how interest rates could be prevented from influencing this part of the bonus.

Meeting present targets for reducing real unit costs would enable the Board members for Counters, Mails Operations and Mails Marketing to secure half the individual element of their bonuses. I think this is too generous and that bonuses should mainly be earned for above standard performance. Could you consider how these bonuses could be restructured so that rather less

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weight is given to achieving the targeted cost reductions and more to exceeding them?

Finally, you point out that the Board itself sets the quality of service targets included in the bonus formula for both the Board members for Mails. I should prefer these bonuses to depend upon a measure of quality set from outside the Post Office. However, because I understand that the present quality of service targets are considered to be tough, I am reluctantly prepared to accept their use to trigger bonus payments, but we should need to review this element of the scheme if the quality of service targets were changed. If the targets became less demanding, for example, I would want to reduce the bonuses.

As far as Mr Wainwright's successor is concerned, I am not at present convinced that a salary of £70-80,000 is appropriate. But in any case, I do not think we are in a position to take a view on this appointment. As you say, we have not yet reached a judgement about the timing of privatisation. Nor have we decided the form in which Girobank should be privatised and its future role as a private sector bank. In these circumstances, I do not believe we can take decisions on the role of the new Managing Director and so we cannot yet determine the appropriate salary level for the post. At the very least, we need to agree outline plans before we can give headhunters instructions. Given the time constraints imposed by Mr Wainwright's retirement, I hope that it will be possible for you to bring forward your proposals very soon.

I am copying this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to be 'Nigel Lawson', with a large, sweeping initial 'N' and a stylized 'L'.

NIGEL LAWSON

NAT IND PT3

BOARD Salaries



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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

4 January 1985

Dear Nigel

POST OFFICE BOARD MEMBERS' PAY AND BONUS SCHEME 1984

Thank you for your letter of 27 November. I am grateful for your agreement to my proposals for Post Office Board pay for the current financial year and I have now told Sir Ronald Dearing of the outcome. In the light of my discussions with the Chairman, however, I would like to come back to you on two points.

First, Sir Ronald has returned to the charge on the pay of Sam Wainwright and I believe that he has put a convincing case for having another look at this. Mr Wainwright has given a very good account of himself as Managing Director of Girobank over the last 7 years. Under his guidance, Girobank has become an established and growing bank. The attached table (at Annex A) shows clearly just how much has in my view been achieved. I see a good deal of force in Sir Ronald's argument that Mr Wainwright's outstanding performance merits a larger increase in his salary in this, his final year. Moreover, I think we all agree that in order to attract a suitable successor a salary considerably in excess of £59,000 will need to be offered. In recognition of our own difficulties Sir Ronald has suggested, as a compromise, an additional £2,000 which would bring Mr Wainwright's salary to £58,000. This seems eminently reasonable and I would recommend that we meet this request.

The second point, about which Sir Ronald feels very strongly, is the proposal to defer implementation of the performance-related bonus scheme until 1985/86. He makes the point that he included a performance-related bonus scheme in his pay proposals for 1983/84, submitted to Cecil Parkinson on 11 July 1983. It was only after protracted discussions between our Departments that Sir Ronald was told by Kenneth Baker that the particular scheme in question was not demanding enough, but consideration would be given to a tougher performance-related scheme for 1984/85. As a

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result, a scheme which seemed broadly acceptable to our Departments at official level was thrashed out with Sir Ronald personally last summer. Sir Ronald argues that since the basis of the scheme had been accepted in July subject only to Ministerial agreement, and his Board had been motivated to the achievement of its targets from that time, it is most unreasonable at this stage to defer implementation simply because - as it will be perceived by the Board - Ministerial consideration has taken an unreasonably long time.

I must say that I agree with you that it makes sense to link the attainment of performance targets to a future date. On the other hand, I do take Sir Ronald's point that the delay in formally accepting the scheme was through no fault of the Post Office and to defer implementation is likely to cause the Board to call in question our intention to encourage performance-related bonus schemes.

I believe that it is not unreasonable to implement such a scheme for the last six months of this financial year, ie from 1 October 1984. There is no practicable way of measuring performance against the RUC target for this particular six month period and I would therefore propose that bonuses should be paid on the basis of half the amount that would have been payable had the scheme operated for the whole of 1984/85. Sir Ronald has, however, made it quite clear that if bonuses are to be paid on this basis both he and Sam Wainwright would forego the payments to which they would otherwise be entitled (and it has already been agreed that the Finance Member, Mr Sellers, should not be eligible for bonuses before 1985/86).

Turning to the details of the scheme, I quite agree that Girobank profits are affected by interest rate fluctuations but to nothing like the extent of the joint stock banks. Because Girobank's book divides roughly at 2% corporate lending, 7% personal lending, 66% fixed interest, including gilts, and only 25% in short-term funds, much of its lending is fixed term, fixed rate. It therefore has an interest rate risk exposure quite different from other clearers. But in any case, the interest rate argument can work both ways. When setting its profit targets, we have (with the help of the Treasury) to make an assumption about future levels of interest rates, which I accept is by no means easy. If our assumption proves to be wrong, Girobank finds it somewhat easier (or more difficult) to achieve the target set. But having once set a profit target for management, it seems to me reasonable that we should use it as a yardstick for performance bonus purposes. Nevertheless, if you have any alternative suggestion, I shall be glad to consider it for future implementation.

I note that you consider my proposals for reaching present targets on real unit costs too generous. I agree that bonuses should be earned, in the main, for better than average

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performance, though if the targets are stretching enough it may take rather better than average performance to achieve them. But I suggest that your point might be met by the modifications to the Scheme as set out in Annex B attached.

I note your reservation about quality of service targets being set by the Post Office itself but, as you say, the present targets are tough. Indeed they have not been achieved, in recent years, so there is no doubt that they remain a positive challenge. I naturally agree that if the Post Office proposed to relax them we should need to think again about that element of the performance related scheme.

Finally, I am concerned that we should not find ourselves in the same difficulty next year. Profit targets have yet to be agreed for both the postal business and Girobank together with the performance aim for Posts. This could well take a few weeks yet and a performance-related scheme based on these new targets could take a further few weeks to agree. That could take us beyond the beginning of the financial year and I should be grateful for your assurance that a scheme based on the new targets will be allowed to operate for the whole of 1985/86. I believe that this would be right, because I am satisfied that prior announcement of the principles to the Board members would provide the incentive that we are agreed is a necessary condition of a bonus scheme.

A handwritten signature in dark ink, appearing to read 'G. Pattie'.

A second handwritten signature in dark ink, appearing to read 'G. Pattie'.

GEOFFREY PATTIE

	Manpower at end of year	Personal Current Accounts ('000)	Turnover £m	Historic cost profit £m	Profit on mean net assets %
1976/7	3377 ¹	559 ²	42.4	2.0	N/A
1977/8	3131	588 ²	52.5	2.8	N/A
1978/9	4000	640	81.2	4.6	N/A
1979/80	4940	821	112.5	11.2	40.6
1980/1	5116	941	144.8	7.2	47.5
1981/2	5294	1080	177.0	12.2	29.4
1982/3	4134	1300	207.3	17.6	33.1
1983/4	5337	1542	227.1	15.5	25.3
1984/5 (est)	6019	1834	263.7	15.7	22.6

1 includes remittance services

2 all accounts

B.C.J.S SCHEME FOR POST OFFICE BOARD

Performance related bonuses should amount to a maximum of 14% of basic pay. Up to 7% should be related to individual performance and up to 7% to represent a corporate element. The individual performance element should be made up as follows:-

BM Giro: 1% for every 2% over profit target, up to a maximum of 7%

BM Counters: 2½% for achieving RUC target (5% reduction in 1984/85 compared with 1981/82);

5% for 5.5% reduction:

7% for achieving 6% reduction

BM Mails Ops) 2½% for achieving RUC target (5% reduction in 1984/85

BM Mails) compared with 1981/82);

Marketing) 3½% for 5.5% reduction;

4½% for 6% reduction;

2½% for achieving quality of service targets. (divided 1½% each between first and second class mail).

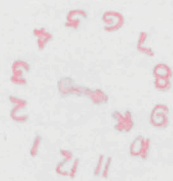
BM Pay and IR: 1/3 of what BM Counters, Mails Ops and Mails Marketing

BM Finance receive

The Corporate element would give each Board member (except the Chairman) an average of the six executive Board members' performance-related bonus pay to a maximum of 7%.

The bonus payable to the Chairman would be one sixth of what is paid to all his colleagues.

Board Salaries . NAT IND. P43.



-4 JAN 1985



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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Nigel Lawson QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

18 October 1984

Dear Nigel

POST OFFICE BOARD MEMBERS' PAY AND BONUS SCHEME

I have been giving some thought to proposals received from Sir Ronald Dearing for the 1984/85 round of pay increases and also a performance-related bonus scheme for the Post Office Board. It seems sensible to consider these together and I am therefore putting forward proposals for both which I hope you will agree amount to a reasonable package.

Board Salaries

Sir Ronald is again basing his salary proposals for the full-time members on advice he has received from Hay/MSL to reflect what they see as market rates. These seem rather high in some cases and in particular with reference to Sam Wainwright, Managing Director of Girobank and Deputy Chairman of the Post Office. It is understood from the Chairman that Hay/MSL and the Bank of England advise that this sort of job, without taking the Deputy Chairmanship into consideration, should command a salary in the region of £70,000-£80,000 although for this round the Chairman suggests £59,000. I am not persuaded that Mr Wainwright personally should receive much beyond the increases of about 5.5% which I am recommending for the Board in general. However, he is retiring next March, and if the arguments for such a high salary for this position are supportable, they will need to be taken into account when considering a successor.

So far as the rest of the Board is concerned, Philip Sellers, the newly appointed Member for Finance will receive the fixed amount of £52,500 until March 1986 and it was agreed last time round that Bill Cockburn as a special case should receive £50,000 for 1984/85. This was to reflect his youth and dynamism and to discourage him from being wooed away from the Post Office by head-hunters. Sir Ronald now asks for the same amount for Tony

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Garrett and Ken Young. I cannot accept that they should be brought up to the level of Bill Cockburn since there are no particular reasons why they too should be considered special cases. I therefore propose an increase of the 5.5% norm for them too. The Chairman also proposes that Alan Clinton should be given an increase of 8.2% to bring him up to £48,000 (the lowest point in the range recommended by Hay/MSL). However, I recognise that if 5.5% is about right for most other members, it would be difficult to justify a much larger increase for Mr Clinton this time given that his change in responsibility was so recently recognised in 1983 by a 12.5% increase.

Sir Ronald himself suggests an increase of around 5% for the non-executive members and I propose that the Chairman is accorded similar treatment.

A tabulation which sets out the present position, the Chairman's current bids and my proposals is attached.

Bonus Scheme

Sir Ronald's proposals for such a scheme which have been discussed at official level are on the following basis:-

Performance-related bonuses should amount to a total of 14% of basic pay. 7% should be related to individual performance and 7% to represent a corporate element. The individual performance element should be made up as follows:-

BM Giro:	1% for every 2% over profit target, up to a maximum of 7%.
BM Counters:	3½% for achieving RUC target (5% reduction in 1984/85 compared with 1981/82); 5% for 5.5% reduction; 7% for achieving 6% reduction.
BM Mails Ops:) BM Mails Marketing:)	3½% for achieving RUC target (5% reduction in 1984/85 compared with 1981/82); 4% for 5.5% reduction; 4½% for 6% reduction; 2½% for achieving quality of service targets. (Divided 1½% each between first and second class mail).



BM Pay and IR:)
BM Finance

1/3 of what BM Counters, Mails Ops
and Mails Marketing receive.

The corporate element would give each Board member (except the Chairman) an average of the six executive Board members' performance-related bonus pay to a maximum of 7%.

The bonus payable to the Chairman would be one-sixth of what is paid to all his colleagues.

It could be questioned whether Board members should receive a bonus for achieving (in the case of quality of service targets) targets which they themselves set. As Patrick Jenkin pointed out in a Written Answer to Robert Atkins on 25 February 1982, however, these targets although set by the Post Office are endorsed by the Secretary of State himself. They are as demanding as can reasonably be expected and it seems right therefore to reward their attainment.

All in all this seems to me to be a reasonable scheme which is in line with our present thinking and I hope you feel able to accept it together with my proposals on salary increases.

I am sending a copy of this letter to the Prime Minister.

GEOFFREY PATTIE



	1983 increase (a) %	Present salary (b) £	Chairman's proposals (c) £	Increase (c) over (b) (d) %	Revised Proposals (e) £	Increase (e) over (b) (f) %
Sir R Dearing	5.0	60000	-	-	63000	5.0
Mr Wainwright	10.7	53000	59000	11.2	56000	5.7
Mr Cockburn *	16.7	46000	50000	8.7	50000	8.7
Mr Clinton	12.5	44350	48000	8.2	46800	5.5
Mr Garrett	6.8	45500	50000	10.0	48000	5.5
Mr Sellers **	-	52500	(52500)	(-)	(52500)	(-)
Mr Young	6.8	45500	50000	10.0	48000	5.5
Total increase	9.4			9.7		5.9
Miss Cole	5.7	5400	5700	5.6	5700	5.6
Sir C Cornford	5.7	11100	11700	5.4	11700	5.4
Mr Gladwin	5.7	5400	5700	5.6	5700	5.6
Mr Hodson ***	-	5400	5700	5.6	5700	5.6
Mr Moody	5.6	6450	6800	5.4	6800	5.4

* Mr Cockburn's salary for 1984 already agreed.

** Mr Sellers appointed 11 June 1984, salary not to be reviewed until 1 April 1986.

*** Mr Hodson appointed 23 July 1984.