

CONFIDENTIAL



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

16 January 1985

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

Dear Secretary of State,

NATIONALISED INDUSTRY BOARD PAY

In your letter of 10 December, you express your concern that arrangements for determining nationalised industry board pay are not working satisfactorily and suggest that an E(NI) discussion would be helpful. George Younger and Nicholas Ridley have written subsequently to say that they too would welcome a discussion.

E(NI) last discussed board pay arrangements about a year ago (E(NI)(84)1st Meeting). We agreed then that the existing system should be retained but operated in a more robust and flexible way. We have tried to do this in 1984 but I would not object to a further E(NI) discussion. May I therefore suggest that as soon as the 1984 nationalised industry board pay round is completed (BGC, ESI, BWB and BSC are the four industries still outstanding), I should circulate a note reviewing the outcome and responding to the general comments that you and other colleagues have made? We could then discuss the ground rules for the 1985 round. To enable me to do this, it would be helpful if any outstanding proposals for 1984 could be brought forward as quickly as possible.

Copies of this letter go to the Prime Minister, to other members of E(NI) and to Sir Robert Armstrong.

*Yours sincerely,
Margaret O'Hara*

NIGEL LAWSON

*(Approved by the
Chancellor and signed in
his absence)*

Not Ind : Board Salaries 43.

RECEIVED
JAN 12 1985

JAN 17 1985

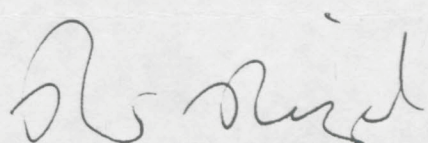
u/w

File

01 211 6402

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

10 December 1984



NATIONALISED INDUSTRY BOARD PAY

will obtain if required
I am writing about my concern that the arrangements for determining nationalised industry board pay which the Prime Minister announced on 7 April 1981 are not now working satisfactorily.

In the statement on 7 April 1981 we said we would give more weight to managerial and market considerations. These included recruitment and retention. They also included rewarding experience and ability; achieving the right timing and differentials in relation to management staff; and taking account of the performance of the industry. We also said that chairmen and non-executive directors (ie Remuneration Committees) should have an important role in making recommendations on full time board pay to Ministers.

In fact, this system does not at present work well. Remuneration Committees have tended to recommend large increases by reference to outside comparisons which we have then largely rejected. Differences between nationalised board and private sector salaries have if anything widened rather than narrowed. Board salaries in the private sector have tended to increase faster than average pay recently while nationalised board pay increases have actually been less than those recommended by the TSRB for the public services.

We have not in fact taken much account of the success of industries in achieving Financial Targets or EFLs. We have usually applied "norm"-like increases. And we have done so without inordinate delays so that, for example, in 1983/4 we were settling salaries up to 12 months or more after the operative dates.

Inevitably this combination of delay and rejection of Remuneration Committee recommendations has caused irritation and produced an impression of Government inefficiency. Our readiness to give very large increases when privatisation was imminent, though understandable, has not made it easier to justify what we were doing in the remaining nationalised industries.



One factor in all our minds has been the fear that substantial salary increases for nationalised industry board members could have an adverse impact on pay negotiations in the industry concerned. I do not know of any evidence to support this fear. There are no indications that in industries like gas or electricity pay changes for board members are a material factor in the negotiating positions of the Trade Unions. We defended higher TSRB awards in 1982 and 1983 without any indication of an impact on staff or manual pay in the relevant services. In the special case of British Telecom we have accepted the risk of raising board salaries, but it is not so far obvious that this has attracted militant Trade Union attention or had an adverse effect on wage settlements generally. I think it would be very easy to exaggerate the degree of risk we run in fixing board salaries, or the extent to which pay increases in the remaining nationalised industry boards nowadays affect opinion on pay generally.

One possibility would be to change our practice radically in the direction of what happens in the private sector and give more responsibility to chairmen and non-executive board members to determine board salaries. But I assume for the purposes of the rest of this letter that we should continue to operate within the Prime Minister's statement of 1981, while making more robust and flexible use of the system, as you argued at E(NI) in January. If that is so, I think we ought to look for some real improvements in our present procedures. Some of these could be built without too much difficulty on the statement of new arrangements sent to the Nationalised Industries Chairmen's Group (NICG) in 1981.

My suggestions are as follows:-

- (i) There should be new and more explicit guidance for Remuneration Committees.
- (ii) That new guidance should refer to the distinction between ordinary periodic adjustment and major reviews of pay structures made in the note to the NICG of 1981; and should ask Remuneration Committees to undertake a "Major Review" only after consultation with the relevant Secretary of State.
- (iii) In a period of inflation at 4 or 5 per cent, "ordinary periodic adjustments" for a board as a whole certainly ought not to reach double figure percentages and ought normally to be very substantially less than that. I think it would be going too far to repeat the 1981 statement that ordinary period adjustments ought in general to lead to increases not greater in percentage terms than those granted to a board's own management staff. We would be restricting major reviews compared with the 1981 statement. It would balance that to be a little more flexible on ordinary adjustment, especially at a time when board pay has fallen behind TSRB increases.



- (iv) We would normally be looking for a spread of increases taking more account of merit and less of seniority.
- (v) Increases should take account of the need fully to maintain or in some cases improve vertical relativities with management staff, so as to offer an incentive to such staff, as well as of other internal management requirements. The need to recruit, to retain and to reward would of course be covered as in the Prime Minister's statement.
- (vi) In considering proposals from industries we would recognise the desirability of at least "catching up" with TSRB increases over a reasonable period. But that "catching up" would in no sense be an entitlement for individuals. It would relate to pay increases for a board as a whole and would be consistent with greater or lesser increases for individuals. Moreover, there would be no intention of re-establishing any formal relationship with the TSRB.
- (vii) We should make it a rule within Government to settle these increases much more quickly and to get the industries to make their proposals in good time to make this possible. It should be our aim to settle these increases without fail within 3 months of the operative date, except where the delay was the fault of the industry rather than of ourselves in Government.

I do not suggest that this list of proposals is incapable of improvement but I do believe that their application would make a considerable change for the better in the handling of these pay questions and in our dealings with the industries on them. I hope that we can reach speedy agreement on them and would be happy to discuss them in E(NI) on the basis of this letter if that were a general wish. In the meantime however I have proposals from my industries for 1984/5 which must be processed without delay. I will be putting my recommendations to you shortly in the spirit of the above comments.

I am copying this letter to the Prime Minister, to other members of E(NI) and to Sir Robert Armstrong.

PETER WALKER

Board Sales