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P 01922

PRIME MINISTER

Nationalised Industries' Board Members' Pay

FLAG A — E(NI)(86)3

BACKGROUND

The Chief Secretary, Treasury has circulated his now annual note summarising the pattern of pay settlements for Nationalised Industries' Boards (NIBs) and suggesting proposals for the Government's approach to 1986 settlements, before he holds further talks with the Nationalised Industries Chairmen's Group (NICG).

MAIN ISSUES

2. The main issue is to agree the principles which should guide sponsoring Ministers when considering pay proposals from NIBs. There are no specific proposals on the table for any particular NIBs: these will continue to be cleared by sponsoring Ministers as they arise in correspondence with the Chief Secretary.

3. The Government has two main objectives:

(i) as sponsor of the nationalised industries, to attract and retain first class managers, and reward outstanding performance; and a subsidiary objective to avoid any open dispute about pay if possible;

(ii) in relation to pay policy, to avoid settlements that give the wrong signals to both employers and unions in other parts of the public sector and more widely.

Assessment of 1985

4. Last year the Committee agreed that there could be no precise,

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universal rule for setting NIB pay, and that Ministers would always have to take wider considerations into account when dealing with particular proposals. Within the inevitable constraints, Ministers should operate the arrangements in a robust and flexible way, giving particular emphasis to the performance of individuals. It was agreed that the general objective should be to avoid an average increase in 1985 higher than the previous year, ie 8 per cent. (E(NI)(85)2nd Meeting, Minute).

5. In the event, average increases in 1985 were 7.9 per cent for chairman and executives, and 8.4 per cent including non-executive board members. Although for some boards all members received the same increase, for some others there was a considerable range: for example increases for the BR exexutive board members ranged from 7.1 per cent to 19.7 per cent.

Prospects for 1986

6. For the coming year, the Chief Secretary proposes that the objective should again be to negotiate aggregate average increases lower than in 1985. It will, as always, be difficult to hold this line, particularly following last year's TSRB settlement which NICG see as a precedent. They argue that there is a growing gap between NIB pay and that in the private sector. There has undoubtedly been a significant jump in pay in the senior levels of the private sector, and board members in newly-privatised companies have often given themselves substantial increases. NICG have argued for a comprehensive review by Hay/MSL to establish ranges for the members of each board, but such a review would be based largely on crude comparability arguments and the Chief Secretary has rejected it.

7. The Government's policy is that the determining factor should not be comparability but what it needed to recruit and retain good managers. But since it is recruiting in the same market as private sector companies, the Government cannot fail to have some regard to the levels of salary operating in that market. The Secretary of State for

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--- Transport (in a letter of 10 December to the Chief Secretary) argues that there is at least as good a case for applying to NIBs the criteria which the TSRB adopted in respect of the senior civil service last year and he is supported by the Secretary of State for Energy (letter of 19 December to the Chief Secretary).

--- 8. The Paymaster General argues on the other hand that there should be no special treatment for members of boards if the line is to be held on pay policy generally (letter of 31 December to the Chief Secretary). High increases for senior board members are clearly a factor leading to high aspirations among the workforce generally (and a feeling of guilt in the management weakens their hand in pay negotiations). Pay rises in the public trading sector last year averaged 5.5 per cent (slightly below the private sector), ie somewhat below those for board members. The Committee will therefore need to balance managerial considerations against the possible difficulties for pay policy.

Performance Incentives

9. The Chief Secretary raises again the importance of performance bonus schemes, which he sees as an effective and defensible way of rewarding successful performance. The principle was welcomed last year, but so far only the British Steel Corporation, The Post Office, the British Airways Authority and the Chairman of British Shipbuilders are covered. The Committee will no doubt endorse the principle again, but you may care to ask individual Ministers what scope they see in their own particular industries.

Minor Issues

10. The Chief Secretary raises two minor issues, following up last year's discussion. The Committee agreed that boards should be asked not to commission major reviews of internal relativities and absolute pay levels unless they have first consulted their sponsor minister. The NICG is resisting a formal requirement for prior consultation, and the Chief Secretary does not intend to press this point.

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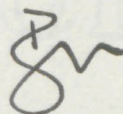
11. Secondly, the Committee agreed on the importance of settling annual increases promptly. The Chief Secretary now proposes a target of 6 months from the settlement date, and within 3 months of receiving proposals from each chairman. This seems reasonable.

HANDLING

12. You will wish to ask the Chief Secretary to introduce his paper. All sponsor Ministers are likely to wish to contribute, particularly the Secretaries of State for Transport and for Energy and the Paymaster General will wish to speak on the implications for pay policy.

CONCLUSIONS

13. You will wish to reach decisions on the six points set out in paragraph 18 of the Chief Secretary's paper.



J B UNWIN

19 February 1986
Cabinet Office