



SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

Barney Hayhoe Esq MP
 Minister of State
 HM Treasury
 Old Admiralty Building
 Whitehall
 London SW1

12 March 1982

Dear Minister,

PAY OF DEPUTY CHAIRMAN OF NSHEB

Thank you for your letter of 22 February about the salary arrangements from 1 April 1981 for the Deputy Chairman of the North of Scotland Hydro-Electric Board (NSHEB). I am afraid that I cannot accept your proposals as they stand but I am concerned to make progress and I set out below a possible solution on which I hope we can reach early agreement.

We recognised in our discussions last July that some nationalised industry Board members might have to be awarded increases in excess of 6-7%. We have since agreed increases of 13.3-17.5% for the Deputy Chairman of the Area Electricity Boards in England and Wales and for the Deputy Chairman of the South of Scotland Electricity Board (SSEB). This has produced the following pattern of salaries in the senior ranks of the electricity industry for 1981/82:-

	£
SSEB Chairman	32,625
NSHEB Chairman (part-time)	16,050
Area Board Chairmen	26,000-31,800
SSEB Deputy Chairman	25,850-31,160
Area Board Deputy Chairmen	23,500-25,500
Chief Officers (throughout industry)	up to 23,320

The NSHEB Deputy Chairman's 1980/81 salary was £24,125, the fixed mid-point of a range between £21,250 and £27,000. I proposed for 1981/82 a scale of £24,970-£30,590, involving increases of 17.5% at the bottom of the range and 13.3% at the top. You have proposed a range of £24,000-28,890, involving a 12.9% increase at the bottom of the scale and 7% at the top. In addition, however, you propose that the Board should be allowed no freedom within the range and that the Deputy Chairman's actual salary should rise by no more than 7%, giving him a 1981/82 salary of £25,800.

still consider that a higher range is well justified. NSHEB, unlike the Area Boards, in England and Wales, is responsible for generation in its area as well as distribution; indeed it has recently completed within budget a 1320 MW station at Peterhead. The NSHEB Deputy Chairman is unique among the Deputy Chairmen in that having a part-time Chairman he is also the Board's Chief Executive. Hitherto these considerations have been thought to justify a range similar to that paid to SSEB's Deputy Chairman and well above the Deputy Chairmen in the Area Boards.

I recognise that under the new arrangements for Board salaries announced by the Prime Minister last April salaries are to be based on managerial and market considerations rather than traditional comparisons and ranking. I also accept that at this stage in his career the present Deputy Chairman is unlikely to resign from the public service. I still consider, however, that from a managerial point of view, it is bound to be detrimental to the longer term interests and performance of the Board if I reduce its top salary range as compared with the rest of the industry. The electricity supply industry is to a large extent a UK one with a common career structure and such a decision would inevitably have repercussions on the Board's ability to attract candidates from the next generation of able senior managers elsewhere in the industry. As for market considerations, these have of course been assessed for the Board by management consultants who recommended a range for the Deputy Chairman of £32,000-£42,000.

The weight of these arguments still leads me to the conclusion that the salary range you have suggested is too low. As I have said, however, I want to make progress rather than burden E Committee with the details of a single case and I am reluctantly prepared to accept a range on the lines you propose, given your assurance about being willing to look again, if need be, at the salary arrangements needed to attract a successor as Deputy Chairman, and provided that the Board is given freedom to adjust the present Deputy Chairman's salary within the range. This has been conceded to the Area Boards, and to SSEB (on the understanding that it is to reflect performance). It has also been agreed in the case of the other industry for which I am responsible, the Scottish Transport Group, which like NSHEB has an executive Deputy Chairman with wide responsibilities and long service. At a time when we are trying to build a more satisfactory relationship with the industries in response to the CPRS Report it would be most unfortunate if, after encouraging the Board to commission an independent assessment, and put forward its proposals for the Deputy Chairman's salary, we were to respond by effectively removing all discretion in the matter from it. I also think it would be highly unfair to the present incumbent, who is a senior and highly respected figure in the industry and has managed the Board efficiently for the past 9 years.

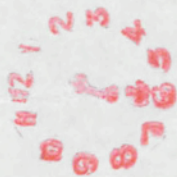
I therefore invite you to agree that the NSHEB Deputy Chairman's salary for 1981/82 should be set in the range £24,000-£28,890, and that his placing within the range should be decided by the Board in the light of its assessment of his performance.

I am copying this letter to members of E and E(EA) Committees, the Secretary of State for Transport and Sir Robert Armstrong.

Your sincerely,
ASWila

Approved by the Secretary of State
and signed in his absence

11.51MAR 1982





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Mr Burquer

Mr Dixon

22 February 1982

Mr Kemp

Mr Livers

Mrs Case

Mr Weeks

Mr Ridley

Mr Davis

Dear George,

NATIONALISED INDUSTRY BOARD MEMBERS PAY

Thank you for your letter of 11 February expanding your case for an increase in excess of 7% for the Deputy Chairman of the North of Scotland Hydro-Electric Board (NSHEB).

You say that my proposal would not remove the differential problem but 7% would give the current Deputy Chairman a differential of some £2,500 with the Chief Officers, since he is at the mid-point of the range. However if you feel strongly that an overlap between the bottom of the range and the Chief Officer's salary is unsatisfactory, I would not object to starting the range at £24,000 providing the range maximum and the Deputy Chairman's actual pay do not increase by more than 7% from 1 April 1981. This would give a new range of £24,000 to £28,890.

I do not consider that a higher increase is justified on recruitment/retention grounds. You do not say that the current Deputy Chairman might resign if he was given 7% and when he does retire we can, if need be, look at this salary range again.

I am not convinced by the argument that the NSHEB has a more economical management structure than the SSEB particularly as the SSEB is a much bigger organisation with more demanding management responsibilities. However, if your argument is right then we ought to be making the SSEB structure more economical rather than pushing up salaries in the NSHEB.

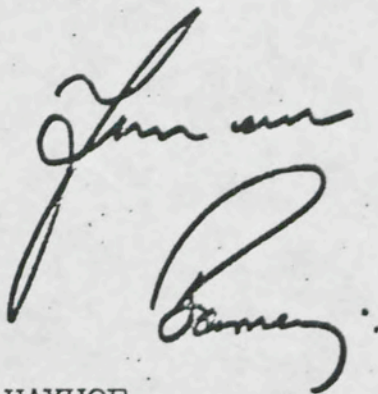
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As to performance, I accept that there have been no serious shortcomings. On the other hand, the performance of the Board has not been so outstanding as to justify a large increase for its Deputy Chairman on these grounds alone.

I therefore believe I must maintain my proposal for a 7% increase in the pay of the Deputy Chairman of the NSHEB (if necessary with a shortening of the range to £24,000-£28,890) and if you cannot agree we must consider the matter at E.

I would be grateful for an early sight of any E paper you decide to prepare so that I can add my comments.

I am copying this letter to members of E and E(EA) Committees, the Secretary of State for Transport and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Barney Hayhoe', written in dark ink.

BARNEY HAYHOE

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// February 1982

NATIONALISED INDUSTRY BOARD MEMBERS PAY

will request if required.

Thank you for your letter of 4 February. I am grateful for your agreement to the increases I have proposed for the Deputy Chairman of the South of Scotland Electricity Board (SSEB) and for the full-time members of the Highlands and Islands Development Board.

Your proposal for the Deputy Chairman of the North of Scotland Hydro-Electric Board (NSHEB) does not strike me as satisfactory. You envisage a 7% increase in the present scale of £21,250-£27,000, giving a new scale of £22,737-£28,890. My proposal was for a scale of £24,970-£30,590. The scale agreed for the Deputy Chairmen of the area electricity boards in England and Wales was £23,500-£25,500.

In the first place your proposal would not, as you suggest, remove the problem of differential. The Chief Officers in the Board currently receive £23,320, under nationally negotiated arrangements. The starting point on the new scale for the Deputy Chairman would still be below the Chief Officers' salaries. It seems to me essential that the scale should start above this level.

Secondly, I do not think that it is possible to divorce, as you suggest, recruitment and retention needs from relativities with the Area Boards in England and Wales. To a considerable extent the electricity industry throughout the UK has a common career structure. If the differential between the NSHEB Deputy Chairman's salary and that of his counterparts in the Area Boards is reduced, it will have implications for recruitment when the present incumbent, who will be 59 this year, retires and also for other senior staff in the Scottish Boards, who will be more ready to seek appointment south of the border, to the long-term detriment of the Scottish Boards.

Thirdly, I see a case in terms of management structure for a substantial differential between the Deputy Chairmen and the Chief Officers. As you know NSHEB is responsible, unlike the Area Boards, for both generation and distribution in its area. Despite these additional responsibilities, the Board has managed to maintain a top

management structure in which no-one below the Deputy Chairman ranks above Chief Officer. SSEB, by contrast, has found it necessary to have two Directors between the Deputy Chairman and the Chief Officers. Your proposals would penalise NSHEB for its more economical structure, because it is only the absence of any posts between the Deputy Chairman and the Chief Officers which make the differential problems in NSHEB less severe than in SSEB. Furthermore they ignore the fact that the Deputy Chairman of NSHEB carries an extra load of responsibility which none of his counterparts carry, either in SSEB or in the Area Boards, in that he has a part-time Chairman and is therefore the Board's Chief Executive.

The other criterion to which you refer is performance. The measurement of performance is, as we recognised when we discussed the question of bonus payments at E(NI) before Christmas, particularly difficult in the case of nationalised industries. The present Deputy Chairman of NSHEB has been in post since January 1973, during which time the Board has successfully commissioned within budget a major pumped storage scheme and a major oil/gas-fired power station. There have been no serious shortcomings in the Board's performance in this period and it has been consistently profitable except during the years of price restraint. I believe that the present incumbent is as capable as many of the Area Board Chairmen in England and Wales.

I hope that in the light of these considerations you will be able to reconsider your objection to my proposals. I am copying this letter to members of E and E(EA) Committees, to the Secretary of State for Transport and Sir Robert Armstrong.

GEORGE YOUNGER



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