

MR. SCHOLAR

cc: Mr. Walters
Mr. Mount

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

I have seen John Sparrow's reply to your letter of 14 May conveying the Prime Minister's suggestion about Nationalised Industry Board pay.

I am bound to say that I do not find John Sparrow's ideas realistic. His first proposal, to leave the decisions entirely to the Boards, pays insufficient regard in my opinion to the dangers for pay in the public trading sector generally if Board salaries accelerate rapidly, as they would. As you know, I need no convincing about the desirability of paying according to market forces: but the public trading sector is our most intractable area for pay, and we cannot risk making it worse in this way.

John Sparrow's second suggestion is based on what I regard as a hopeless assumption that there is some objective way of establishing in the abstract what a job is worth. A glance at the recent White Paper on Board salaries shows the enormous variation, even among full-timers (and many are part-time). Nor am I convinced that, at this level, we necessarily get better results by paying more: the best paid nationalised industry chairman may soon find the job quite beyond him. A far better approach, in my view, would be to decide who would do the job best, and then pay whatever is necessary to secure that person's services. That of course is what we did in the case of Mr. MacGregor, and what we shall have to do in order to get Sir Walter Marshall for the CEGB. And such an approach ought also to enable us to avoid paying more than we need to in other cases - did we really have to offer Mr. Dearing £53,650 in order to take on the Post Office, when he had been serving as a Deputy Secretary?

But I do agree with the CPRS that an element of payment by results would make it easier to sell these high salaries to the public at large.

19 May 1982

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To: MR SCHOLAR
From: JOHN SPARROW

Prime Minister

of JV
④
The Chancellor's next paper
on NI's Board pay will provide an
opportunity for discussion of these
18 May 1982
ideas.
Mis 19/5

Pay of Nationalised Industry Board Members

1. I have been thinking further about the proposal, mentioned briefly at E(NI) and now put forward for consideration in your letter of 14 May, that executive members of NI boards should have both a salary for their executive duties (outside Ministerial control) and a fee for board membership (determined by Ministers).

2. One or two board members are already remunerated in this fashion, but it seems to me merely to cloud the issue. There is no point in controlling a small part of the remuneration package, whilst giving up control over the greater part - and if Ministers still wanted to control the salary of the Chairman or Chief Executive, there would be the same problem of embarrassing overlaps as for board appointments now, but at a higher level and with a greater public profile.

3. As I see it, there are only two ways of breaking out of this present muddle - to give up Ministerial control altogether, or to retain control but pay better.

(i) If Ministers are prepared to leave the decisions to the boards, the responsibility for determining salaries could be given to a Remuneration Committee, consisting of the Chairman (except for his own salary) and the non-executive directors. This type of approach is common among large private sector companies. It will become easier once progress has been made towards smaller boards, with a majority of non-executive directors drawn mainly from the private sector, as proposed in the CPRS Report and endorsed by Ministers.

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I asked the
Chancellor to
assess the idea
in his next
paper on the NI
pay
MCS



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(ii) But Ministers may take the view that these salaries will always be sensitive, in political and industrial relations terms, so that they have to retain control. On this approach, it will be important to decide first what the job is worth. Then people have to be found who are good enough to take it on, and willing to do so at this 'market' rate. It is no use appointing sub-standard people, even at lower salaries. If no-one good enough can be found, then a higher 'rate for the job' has to be offered. Preferably, part of the remuneration package should be pay related to performance objectives, on the lines of last November's CPRS report on payment-by-results - indeed this could be useful for new appointments on either approach, both to improve incentives and to show that higher pay would be linked to higher performance.

On the whole, I prefer the second approach, but it depends on Ministers being ready to approve, and defend, the higher salaries which are clearly needed.

4. I am sending copies of this minute to the recipients of your letter.

P.



SECRET

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119 MAY 1982

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10 DOWNING STREET

From the Private Secretary

14 May 1982

Dear John,

Pay of Nationalised Industry Board Members

No doubt the Chancellor of the Exchequer will be bringing proposals forward in due course on the pay of nationalised industry board members in 1982. The Prime Minister would be grateful if, when he does so, he could include consideration of the suggestion, discussed briefly at E(NI) earlier this week, that in future executive board members should receive the bulk of their remuneration by way of a salary for their executive duties with, at most, only a modest addition by way of fees for their board membership. The former would not be subject to Ministerial control; the latter would be.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for the Environment, Scotland, Industry, Transport, Energy, Employment, Trade, the Lord Privy Seal, Sir Robert Armstrong and John Sparrow.

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
H.M. Treasury.

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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(2)

Prime Minister

This suggestion ^{at x} was raised
28 June 1982

Michael Scholar Esq
Private Secretary
10 Downing Street
Whitehall
LONDON SW1

in E(N1) and 1

accordingly asked the Chancellor
to consider it in preparing
his proposals on NI Board members
pay in 1982.

MS

Dear Michael

My Secretary of State has seen your letter of 14 May putting forward for consideration the proposal that, in future, Executive Board Members should receive the bulk of their remuneration by way of a salary for their Executive duties with, at most, only a modest addition by way of fees for their Board membership with only the latter being subject to Ministerial control. He has also seen John Sparrow's response of 18 May.

MLs 29/6

He echoes the sentiments expressed in John Sparrow's letter and wishes to add that, if the suggestion outlined in your letter is accepted then the statute under which salaries are paid to members of the Scottish Electricity Boards would have to be amended. At the moment my Secretary of State determines the salaries of the Scottish Electricity Board members and these have to be approved by Treasury Ministers. If the suggestion is accepted this would effectively devolve the responsibility for determining salaries to the Board members. My Secretary of State is therefore opposed to the suggestion and favours the second approach outlined in John Sparrow's letter.

I am sending copies of this letter to the recipients of yours.

Sincerely
Michael Ewart

MICHAEL EWART
Private Secretary



Prime Minister

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P.0742

MR SCHOLAR

cc Sir Robert Armstrong
Mr Sparrow
Mr M Buckley

REMUNERATION OF NATIONALISED INDUSTRY BOARDS

At yesterday's meeting of E(NI) there were references in passing to the need for more satisfactory arrangements for the remuneration of nationalised industry boards. Some Ministers revived the idea, which they acknowledged had been turned down in the past, that executive board members should receive the bulk of their remuneration by way of a salary for their executive duties, with a modest additional fee for board membership; the fee would be subject to Ministerial control but the executive salary would be free of control. I undertook to look out the previous papers for the Prime Minister.

2. The then Minister of State in the Civil Service Department put proposals to E Committee about changing the arrangements for nationalised industry board remuneration in a paper (E(80)40) on 16 May 1980. The preferred option in the paper (option c.) was to take nationalised industry board remuneration out of the TSRB's remit, to retain Ministerial responsibility for determining the salaries of chairmen, but to leave responsibility for determining executive board members' salaries to the chairmen and non-executive directors. The idea revived yesterday is referred to in paragraph 5c of the memorandum attached to E(80)40 as a variant, not pursued by the Minister of State, of option c. The thought evidently was that Ministers might not want to give up all responsibility for the remuneration of board members and might therefore retain if they wished responsibility for a small fee for board membership, leaving the executive salary to be determined by the chairmen and non-executive directors. When the paper was discussed on 20 May 1980 (E(80)16th meeting) the minutes do not record any reference to this particular variant. In fact the course of action adopted was a different variant of option c., not mentioned in the original paper. Under the arrangement adopted, and now in force, nationalised industry board remuneration is outside the TSRB's remit but Ministers retain responsibility for settling the remuneration both of chairmen and of board members.



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3. The important question is not whether some distinction can be drawn between remuneration for executive duties and remuneration for board membership but whether Ministers are prepared to give up responsibility for settling board members' remuneration either entirely or substantially. Drawing a distinction between executive salaries and board fees is essentially a device for enabling Ministers to retain some formal responsibility for board remuneration while giving it up in practice. So far however Ministers have been unwilling to give up responsibility for fixing these salaries, no doubt feeling that this is a matter on which the public and Parliament would want to regard Ministers as accountable. Even if Ministers were now to take a different view in respect of board members, they would probably still feel that they had to retain responsibility for settling chairmen's salaries, and this is where many of the most difficult problems arise.

4. It seems unlikely therefore that drawing a distinction between executive salaries and board fees will be of much help to Ministers in devising a sensible and defensible policy on nationalised industry board remuneration in 1982. If, however, the Prime Minister would like the idea pursued further in that context, you could write to the Chancellor of the Exchequer's Private Secretary on the lines of the draft attached.

PLG

P L GREGSON

12 May 1982

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DRAFT LETTER FROM PRIME MINISTER'S PRIVATE SECRETARY TO THE PRIVATE SECRETARY
TO THE CHANCELLOR OF THE EXCHEQUER

copies to: Private Secretaries of
the Secretaries of State for
the Environment,
Scotland,
Industry,
Transport,
Energy,
Employment,
Trade and
Lord Privy Seal.

RTA

John Spamm

Pay of Nationalised Industry Board Members.

No doubt the Chancellor of the Exchequer will be bringing proposals forward in due course on the pay of nationalised industry board members in 1982. The Prime Minister would be grateful if, when he does so, he could include consideration of the suggestion that in future executive board members should receive the bulk of their remuneration by way of a salary for their executive duties with, at most, only a modest addition by way of fees for their board membership. The former would not be subject to Ministerial control; the latter would be.

2. The Prime Minister is aware that this idea has been previously considered, and rejected, by Ministers. But it is clear that the Government faces serious and continuing problems over the pay of nationalised industry board members; and the Prime Minister would like this option to be considered afresh.

, discussed
briefly at
E(M) earlier
this week,

I am sending copies of this letter to

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