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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

GOVERNMENT CONTROL OVER PUBLIC BOARD MEMBERS PAY AND PENSIONS

Note by the Minister of State, Civil Service Department

E Committee (E(80)15th meeting) invited me to produce a paper on the Government's control of public board members pay and pensions.

2. The attached memorandum by my officials was written after discussion with officials of sponsor departments but does not attempt to be an agreed paper. It does, however, set out a number of options. The present system is clearly not working satisfactorily. I am continually faced with requests for special treatment on pay and pensions for board members since it is apparently extremely difficult to find satisfactory people to fill the top nationalised industry jobs at TSRB salary levels. Yet we also have to face public criticism both in individual cases and when general pay increases are implemented following TSRB reports. We are getting the worst of all worlds. I believe we must therefore consider radical changes.

3. The only way in which we could make the present system work better would be explicitly to invite the TSRB to recommend much higher salaries. This would obviously be very difficult politically. Of the other options in the paper, I am attracted to the idea of relinquishing all Ministerial responsibility for nationalised industry board pay and leaving this to the boards themselves (option D). However, I think there would be great difficulties in operating such a system in practice unless we also gave up the powers of appointment which I am sure my colleagues will wish to retain.

4. I therefore favour option C of the attached paper which removes the TSRB from this area and relieves Ministers from much of our present detailed involvement. Sponsor Ministers would continue to determine the pay of Chairmen of commercial bodies but the

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boards of those bodies would determine the pay of executive directors according to the executive weight of the post. This would still require legislation.

5. Similar considerations apply to the boards of many non-commercial bodies that are not 'controlled fringe bodies' (ie they are not mainly financed from public funds) and I would favour a similar solution. I would, however, recommend that the present arrangements continue (including central CSD control) for the boards of controlled fringe bodies where closer Government scrutiny is probably unavoidable.

6. I therefore invite the Committee to agree:

i. that we should adopt option C of the attached paper in respect of board salaries and pensions for commercial organisations and those bodies which are not 'controlled fringe bodies';

ii. that the present arrangements should continue for board salaries and pensions of controlled fringe bodies.

PC

Civil Service Department
Old Admiralty Building
Whitehall
LONDON SW1A 2AZ

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GOVERNMENT CONTROL OVER PUBLIC BOARD MEMBERS PAY AND PENSIONS

MEMORANDUM BY CSD OFFICIALS

There are three parties involved in the present system of determining nationalised industry board members' pay and pensions. The Top Salaries Review Body (TSRB) sets the general level of remuneration subject to Government approval of its recommendations. Sponsor Ministers have statutory responsibility for the individual board salaries of their industries. The Minister for the Civil Service's consent is also statutorily required in each case and his role is essentially to help ensure reasonable consistency of treatment between industries. The reasons for central control could be summarised as propriety, consistency and economy. Central control has also been useful in times of incomes policy in the past. The greater the flexibility which is felt desirable and the more board salaries are allowed to be determined by the needs of particular circumstances rather than some central pattern, the less is the justification for the roles of the CSD and the TSRB; and beyond a certain point they cannot be sustained at all.

2. The present arrangements are patently not working very well. There have recently been a succession of requests for special treatment, including Mr McGregor at British Steel, the preferred candidate for British Telecommunications, Mr Robertson at the Scottish Development Agency and board salaries at Rolls Royce and British Aerospace. TSRB rates appear too low to attract suitable people in a number of cases and there have also been problems of compression and overlap with senior managers. Further, the completely free use of TSRB salary ranges for board members has had to be restricted to meet the need for consistency and the present concept of Ministerial responsibility.

Role of Ministers

3. Ministerial control for commercial boards is arguably wrong in principle and inconsistent with an arms-length policy towards the nationalised industries. An approach more closely mirroring

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private sector practice in leaving the boards effectively to settle their own remuneration might be preferable. On the other hand it might be difficult in practice for Ministers to avoid any involvement in salary matters if they retain the responsibility for appointment. The present CSD role, which is a consequence of the desire for central control would be of doubtful value in any looser system. Even if a co-ordinating and advisory role were felt to be useful the statutory CSD function would seem unnecessary, although legislation would be required to change it.

Role of TSRB

4. The TSRB is not in practice an adequate shield for Ministers who have the worst of both worlds - pay rates that are too low and political criticism for their being too high. The embarrassment caused by successive pay increases occurs all too frequently. The role of TSRB derives from a policy requiring central control and consistency. If that policy is changed the need for TSRB involvement in this area is unclear. One option would be to restrict its scope to the salaries of Chairmen; another to abolish it altogether.

Options

5. Among possible options are the following:

- a. Change nothing but agree to tighten up on control and resist pressures for special case treatment.
- b. Keep the role of TSRB in this field but encourage them to recommend substantially higher salaries. Sponsor Ministers would retain their responsibilities but CSD would give up its statutory role and retain, if desired, a co-ordinating function (see paragraph 12 below). A variant of this option would be for TSRB to make recommendations for Chairmen only and for the sponsor Ministers to receive advice on board members pay from the Chairmen and non-executive directors.
- c. Abolish the TSRB's role in this field. Sponsor Ministers could continue to determine Chairmen's pay rates

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by negotiating with them on appointment whilst executive board members would receive a salary for their executive work determined according to each industry's criteria. These executive salaries could be determined by a Salaries Sub-Committee consisting of the Chairman and non-executive directors and would not be subject to the control of the sponsor Minister. (As a variant of this option, if Ministers wished to retain some involvement in board salaries, they could determine an additional small fee for board membership.) The CSD would give up its statutory function but could retain a co-ordinating role.

d. Give up Ministerial responsibility for the pay of Chairmen and board members altogether, leaving this to the boards themselves to determine; perhaps on the advice of outside consultants or non-executive directors. This is, in effect, what happens in the private sector. The discipline on the board to behave responsibly would be public and Parliamentary opinion and ultimately the threat of dismissal.

6. Option a. Would leave little changed and solve no problems. Moreover a decision in principle to avoid special case treatment would not necessarily prevent such cases being pursued when the time came.

7. Option b. Would solve a number of the problems that arise provided that the TSRB recommend high enough salary levels and Ministers accepted those recommendations. It would also allow a greater measure of flexibility for sponsor departments to treat board members differently. There would however be political difficulty in encouraging TSRB to recommend higher salaries; Ministers would still suffer the criticism which comes from approving apparently high salaries; and would also have to agree and defend exceptional salaries, such as that paid for Mr McGregor and sought for the new British Telecommunications Chairman, as being outside the system. TSRB could not be expected to recommend

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salaries at these levels. In the long run, continued exceptions could prove fatal to the whole system.

8. Option c. Would allow board salaries to reflect the needs of particular industries and would eliminate the problems of overlap and compression. Ministers would be freed from the annual publicity of agreeing TSRB recommendations. However they would have to defend each Chairman's salary on its own merits and there would be a tendency for there to be a bidding-up process as the new practice became known.

9. Option d. Would save Ministers the embarrassment of agreeing high salaries and would result in realistic board rates. It would also be consistent with an arms-length approach to the nationalised industries. However there would be no direct governmental check on the potentially irresponsible use of the board's power to determine their own remuneration except for the ultimate power of dismissal. There would also be a restriction on the Ministerial power of appointment, if that must be retained, in that a board could refuse to determine a high enough salary for a particular candidate if they did not welcome his appointment.

Non-commercial boards and fringe bodies

10. Similar considerations apply to other public boards which are not mainly financed from public funds even if they are non-commercial in character; for example, the Civil Aviation Authority, the National Dock Labour Board and the White Fish Authority. However, in the case of controlled fringe bodies, where, because of the high degree of Government financing, it is felt right for the pay and conditions of the staff to be controlled centrally by CSD, it seems appropriate to continue the same central control for the pay of board members; examples of such bodies are the Atomic Energy Authority, the Research Councils, most national museums and the new Urban Development Corporations.

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Pensions

11. Pay and pensions together form a total remuneration package and it would be desirable for what is done for pay to be done also for pensions. Thus, at a minimum, CSD might give up statutory control while, at the other extreme, pensions also could be left in the hands of the boards themselves.

A co-ordinating role for CSD

12. All the above options, except the complete relinquishing of Ministerial determination of board salaries, would leave CSD with a co-ordinating role. The CSD could issue general guidance and maintain a central record of the pay and pensions arrangements which are determined. However the CSD's views would be advisory only and it would be for sponsor departments, who are in the best position to do so, to make their own judgments about the needs of their particular organisations.

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