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(E flow)

Qa 05601

1 July 1981

To: MR LANKESTER

From: J R IBBS

Pay of Nationalised Industry Board Members

1. The memorandum by the Lord President of the Council (E(81)72) is to be considered tomorrow at E Committee. When this matter was last discussed at E Committee (E(80)16th meeting) there was a general wish to remove consideration of these salaries from the TSRB and instead to let them be determined more freely by the market price which such jobs could command, so that the salaries would be sufficient to attract and retain men of the calibre needed to do these jobs well. It was hoped that Sponsor Departments advised as appropriate, particularly by the Chairman and non-executive directors on each Board, would be able to make appropriate recommendations and that the CSD would need only to exercise a co-ordinating role.
2. It was known that the current salaries were below any range that assessment of the market price was likely to indicate. Not surprisingly, therefore, substantial increases are now being suggested both as annual increments and more especially when Chairmen and others are due for reappointment and can threaten to leave if substantially underpaid. However such increases would be difficult to reconcile in public with the stated need for wage and salary increases to be low except where more is justified by improved performance. Furthermore, the levels now being proposed are presumably for the job being done well, and it is questionable whether this is universally the case.
3. One way out of the present difficulty would be to limit any increase in basic salary to, say, 5% but to negotiate a performance bonus sufficient to raise the total remuneration to the required level if certain clearly specified targets were achieved. Such payment arrangements



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for top executives are as yet less common in this country than in America and there are well known difficulties in setting the targets. Nevertheless I believe this solution is worth exploring. There are leading consultants in the field (Towers, Perrin, Foster and Crosby Inc.) whose advice could be sought on what might be an appropriate scheme for a particular industry; obviously the arrangements made with Lazards when Mr MacGregor was appointed were of this kind. It would be wrong to suggest that this approach can offer a trouble-free solution, indeed it is bound to be contentious and difficult to administer. But it would help to preserve the Government's primary objective of not allowing any substantial pay increases that are within its gift, unless these are demonstrably related to performance.

4. In order to show that basic salaries are being strictly limited it would be necessary to announce in advance the increase in basic salary; there would be no need to publish details of the scheme for calculating performance bonus, merely that one existed. An Industry's Annual Report would subsequently show at the year end the total remuneration, the basic salary and the additional sum that was performance related.

5. The proposal that an element of payment by results should be introduced into the pay of Nationalised Industry Boards is in line with the general thrust of the outcome emerging from the current investigation by the CPRS into the relationship with Nationalised Industries.

6. I am sending a copy of this minute to Sir Robert Armstrong.

~~DoI~~

Scotland.

Trade

Enph.

*[Handwritten signature]*