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Reference P.0606

PRIME MINISTER

Nationalised Industry Board Members' Salaries

Flag D - (Minute of 20 November from Mr Ibbs, CPRS,
to the Private Secretary to the Prime Minister)

BACKGROUND

Flag A — In his letter to you of 30 September Sir Robert Marshall complained on behalf of the Nationalised Industries Chairmen's Group (NICG) of the Government's decision to keep increases in board members' pay, with a few exceptions, to within 6 or 7 per cent this year. He argued that this was inconsistent with the new arrangements, introduced when the nationalised industries were removed from the ambit of the Top Salaries Review Body, whereby increases would be based on managerial and market considerations rather than on traditional comparisons and rankings.

Flag B — In your reply of 13 October, you said that you would ask a Treasury Minister to meet the chairmen. The Chancellor of the Exchequer, together with sponsoring Ministers, intends to hold a meeting with the NICG in mid-December.

Flag C — 2. As recorded in his Private Secretary's letter of 12 October to your office, the Chancellor of the Exchequer feels that it would be desirable to show willingness to allow a greater degree of flexibility in future years. He suggested that the chairmen might be told that the Government would like to discuss with them the best way of achieving this, together with the objective of relating pay at lower levels of management more directly to performance. You asked the Central Policy Review Staff (CPRS) to advise urgently on how the Chancellor of the Exchequer's wish to relate salaries more directly to performance, both individual and corporate, might best be put into effect. The outcome is the report circulated

Flag D — under cover of Mr Ibbs' minute of 20 November to your Private Secretary.

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12/05/81 — 3. Mr Scholar's minute of 25 November records your scepticism of the CPRS recommendations and your fear that the oil based industries would do well from the scheme but that the rest would not, except by heavy increases in prices. I think that the CPRS would argue that your point would be met provided the scheme was related not to profits but to agreed objectives which would include meeting not only financial targets and EFLs but also performance aims (see paragraph 20 of their paper). The immediate question before the Committee is whether they are sufficiently persuaded that the CPRS' proposals are worth discussing with the chairmen and whether there should be a pilot scheme. It would not be necessary to enter into a firm commitment now. It is doubtful whether it would be worth calling for any further internal work on the CPRS proposals; if they are to be carried forward, it seems necessary to bring the nationalised industry chairmen in now.

4. It is an important feature of the CPRS scheme that it should not be seen as a substitute for paying 'a proper basic salary'; they point out that, in private sector schemes, bonuses are not used as a substitute for inadequate pay and conditions. The NICG may well respond to this by saying that while they are willing to look at the idea of a bonus scheme this is not much to do with their complaints over basic salaries in 1981 and, potentially, in 1982. They could, for example, point out that, apart from any industries subject to a pilot scheme, bonuses would not be applying in 1982. They could well ask whether the Government intends to apply a 4 per cent norm to them in 1982. This is not something which Ministers have discussed so far, and the meeting may well like to hear from the Chancellor of the Exchequer how he will handle such questions at his mid-December meeting. His answer will probably be that he will be there to listen to the chairmen but not, at this stage, to say what will happen in 1982.

HANDLING

5. After Mr Ibbs has introduced the CPRS paper you might ask the Chancellor of the Exchequer to reply and then hear the views of each of the sponsoring Ministers.



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6. The immediate question before the Committee is whether the Chancellor of the Exchequer at his mid-December meeting with the NICG can, without commitment, invite the chairmen to give their reaction to the CPRS ideas preparatory to arranging for a detailed scheme to be worked out for a particular industry - the CPRS suggest British Telecom. The Committee may also wish to hear from the Chancellor of the Exchequer how he will handle questions on the basic salary for 1982.

CONCLUSIONS

7. You will wish to record conclusions on whether there is to be further work on the lines proposed by the CPRS and on whether the Chancellor of the Exchequer can discuss the scheme, and the possibility of a pilot scheme, at his forthcoming meeting with the NICG.

PLG

P L GREGSON

2 December 1981