

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(80) 16th Meeting

COPY NO 55

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 20 MAY 1980 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

Mr Paul Channon MP
Minister of State, Civil Service
Department

Earl of Gowrie
Minister of State, Department
of Employment

Mr Hamish Gray MP
Minister of State, Department
of Energy

Mr Kenneth Clarke MP
Parliamentary Secretary
Department of Transport

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

SUBJECT

GOVERNMENT CONTROL OVER PUBLIC BOARD MEMBERS' PAY AND PENSIONS

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

GOVERNMENT CONTROL OVER PUBLIC BOARD MEMBERS' PAY AND PENSIONS

The Committee considered a paper by the Minister of State, Civil Service Department (E(80) 40), and related correspondence. Their discussion and conclusions reached are recorded separately.

Cabinet Office
22 May 1980

CONFIDENTIAL

29

31

33

37

39

41

4

4

17

19

21

23

25

27

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO

20

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 16TH MEETING MINUTES
TUESDAY 20 MAY 1980 at 10.50 am

CONFIDENTIAL

GOVERNMENT CONTROL OVER PUBLIC BOARD MEMBERS' PAY AND PENSIONS
Previous Reference: E(80) 15th Meeting, Item 2

THE COMMITTEE considered a memorandum by the Minister of State, Civil Service Department (E(80) 40) about the method of determining Public Board Members' Pay and Pensions.

THE MINISTER OF STATE, CIVIL SERVICE DEPARTMENT, said that at present the Government was getting the worst of all worlds. It was extremely difficult to recruit people to fill the top nationalised industry jobs at the salary levels resulting from the reports of the Top Salaries Review Body (TSRB). The Government had to face public criticism, both in individual cases where it was necessary to make exceptions, and when general pay increases were implemented following the TSRB's reports. It was desirable to find a more flexible system which would recognise these problems, and to make it easier to allow for the considerable differences between the industries. It would be possible to keep the TSRB and encourage them to recommend substantially higher salaries; but there would be political difficulties in doing this, and it would not make it any easier to deal with exceptional cases. Nationalised industry chairmen and board members' remuneration could be removed from the TSRB's remit without legislation, but Ministers could not divert themselves of their statutory responsibility for the pay of chairmen and board members altogether without legislative powers of appointment. He recommended that the TSRB should no longer be asked to advise

CONFIDENTIAL

CONFIDENTIAL

on the nationalised industries. Instead, sponsor Ministers should continue to determine chairmen's remuneration when negotiating their appointment; and the remuneration of executive board members should be determined by the chairman and the non-executive directors of their industry. Until legislation could be passed to remove it, Ministers would have to retain statutory responsibility for settling board members' salaries, but could do so on the advice of the chairman and non-executive board members concerned. The Civil Service Department (CSD) could continue to play a co-ordinating role and to advise sponsor Departments.

In discussion it was generally agreed that the remuneration of chairmen and board members of nationalised industries should be taken out of the TSRB's remit. This would enable Ministers to respond more flexibly as cases required, in determining these salaries. In doing so, they would need to be on their guard against indefensibly high salaries and against leap-frogging. This called for the retention, at any rate in present circumstances, of Ministerial powers to determine these salaries, and for a more positive role for the CSD than was envisaged by the Minister of State. Each sponsoring Minister should clear his proposals on pay and pensions with the CSD, whose approval was in any case required before they could be implemented. If the Department raised no objection, the proposals could go ahead. Failing CSD clearance, however, a collective Ministerial decision would be required, either in correspondence or in a suitable Ministerial Sub-Committee (for example, the Sub-Committee on the Financing of Nationalised Industries). This approach would be significantly different from present practice in that it would allow for flexibility and for arrangements tailored to the needs of individual industries, but it would ensure that potentially contentious decisions were not taken by default. Although the final decision would be taken by Ministers, Chairmen and non-executive board members should have an important role in formulating proposals for their executive colleagues.

In further discussion the following were the main points made -

- a. In moving to the new system Ministers could be more exposed than now to criticism of their decisions on pay and pensions. They would no longer be able to defend those decisions by reference to TSRB recommendations. Ministers might have to spend considerable time in collective discussion of proposals. There could also be difficulties if the new system led to substantial increases in the pay of board members at a time when the Government was enjoining the boards to hold down increases in the pay of their employees. These arguments reinforced the case for a positive co-ordinating role for the Civil Service Department, and the proposed arrangements for approval of individual proposals.

2

CONFIDENTIAL

CONFIDENTIAL

- b. The new arrangements should apply to all the nationalised industries and trading bodies at present dealt with by the TSRB except where they were primarily funded by the public purse rather than the market. This would appear to mean that the TSRB should be invited to continue to advise on the pay of Board members of the United Kingdom Atomic Energy Authority, the Scottish and Welsh Development Agencies, and the National Water Council. The precise dividing line would, however, need to be agreed by Departments and the CSD.

THE PRIME MINISTER, summing up this part of the discussion, said that the Committee agreed that the TSRB should no longer be invited to advise on the remuneration of Chairman and board members of nationalised industries and other essentially trading public corporations. The precise dividing line should be agreed between Departments and the CSD in the light of the Committee's discussion. The TSRB should complete their 1980 Report now expected in the second half of June - on the traditional basis. In future each sponsoring Minister should put proposals for the pay and pensions of chairmen and board members to the Civil Service Department. If the Minister in charge of that Department saw no objections, proposals could go ahead, subject to clearance with her of proposals for the pay of Chairman and Chief Executives. If there was disagreement, it would be a matter for decision by Ministers collectively. There would be no changes in the arrangements for other public sector bodies.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.
2. Invited the Lord President and Minister of State, Civil Service Department -
 - i. to agree with the Ministers concerned which boards should be removed from and which should remain in the TSRB's remit.
 - ii. to advise the Prime Minister at the appropriate time on arrangements for informing the TSRB of and announcing the removal of nationalised industries board members' remuneration from the remit of the TSRB.

THE SECRETARY OF STATE FOR INDUSTRY said that he had to appoint a Chairman of the new Telecommunications Corporation, and to do so as soon as possible since the present Chairman of the Post Office would be leaving shortly. It was

3

CONFIDENTIAL

83

CONFIDENTIAL

essential to recruit a chairman of high calibre, with both technical and commercial experience, to this post. The man he had in mind as the prime candidate was British and working for a major multi-national company. He would be willing to accept the post provided that his salary could be the same as in his present job. This was considerably in excess of the present TSRB level for this post. There was no prospect of the candidate accepting less. Nevertheless, in view of the importance of securing a chairman of the right quality for this key industry, the Secretary of State recommended acceptance of these terms and an appointment for five years. If the Committee agreed, he would wish to negotiate further on the details. As a separate matter he also asked for discretion to offer early increases in the order of £5,000 a year to certain members of the Board of British Aerospace. Unless he could make such an offer within the next month, the people concerned and possibly the whole of the Board, would resign.

THE PRIME MINISTER, summing up a short discussion, said that the Committee agreed that the Secretary of State for Industry should continue to negotiate the appointment of his preferred candidate for the post of Chairman of the Telecommunications Corporation on the lines he had outlined. There would undoubtedly be criticism of the salary proposed, but it could be defended on the grounds that it was the salary the candidate was earning now. It would help in the public presentation of this decision if the candidate could be appointed on secondment for a period from his present company. The Secretary of State should explore this possibility and other details of the appointment. He should make clear to the candidate that there was no question of any special relaxation for the Telecommunications Corporation of the general financial controls applying to the nationalised industries. The Secretary of State for Industry should report further to her when he had concluded his negotiations. If the appointment went ahead, he should then consult with the Paymaster General on the terms and timing of its public announcement. The Committee also agreed that the Secretary

4

CONFIDENTIAL

CONFIDENTIAL

of State for Industry should tell a limited number of key members of the Board of British Aerospace that their salaries would be increased in the order of £5,000 from 1 July 1980. He had discretion to deal with minor consequential increases of these increases.

The Committee -

3. Agreed that the Secretary of State for Industry should continue his negotiations for the appointment of a Chairman of the Telecommunications Corporation on the lines indicated by the Prime Minister in her summing up of their discussion.
4. Agreed that the Secretary of State for Industry should inform the Board of British Aerospace that there would be increases in certain of their salaries from July 1980.

Cabinet Office

22 May 1980

5

CONFIDENTIAL

84