



REVIEW BODY ON TOP SALARIES

Report No. 4

Third Interim Report on Top Salaries

Chairman :

THE RT. HON. LORD BOYLE OF HANDSWORTH

*Presented to Parliament by the Prime Minister
by Command of Her Majesty
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TOP SALARIES REVIEW BODY

The Top Salaries Review Body was appointed in May 1971 with the terms of reference to advise the Prime Minister on the remuneration of the Chairmen and members of the Boards of nationalised industries; the higher judiciary; senior civil servants; senior officers of the armed forces, and other groups which may be referred to it. The Review Body was asked to undertake an immediate review and further reviews normally at two-yearly intervals.

The members of the Review Body are:

The Rt. Hon. Lord Boyle of Handsworth, *Chairman*

H. W. Atcherley

Lord Beeching

Sir George Coldstream, KCB, KCVO, QC

A. J. L. Lloyd, QC

Lady Seear

Sir Mark Turner

Gerard Young, CBE, JP

The Secretariat is provided by the Office of Manpower Economics.

THIRD INTERIM REPORT ON TOP SALARIES

Introduction

1. We have submitted two Interim Reports since our appointment in May 1971 as an independent Review Body charged to advise the Prime Minister on the remuneration of the Chairmen and members of the nationalised industry Boards, the higher judiciary, senior civil servants, and senior officers of the armed forces. The first of these¹ was intended to bring pay in the field of our remit more nearly up to date by broad comparison with outside salary movements since mid-1969 (when the components of our field had last been reviewed), pending completion of a substantive review (which we began in 1971). We planned to examine the pay structure in depth, to consider the principles governing the pay of those with whom we are concerned, and to look afresh at the pattern of relativities. Our work on the substantive review was overtaken by the Government's measures for controlling inflation but, in the period since their introduction, we have continued our various studies, all of which we see as essential to any long-term review. The recommendations in our Second Interim Report on Top Salaries² were consistent with the requirements of the Stage 2 Pay Code. On that occasion also our objectives were to prevent further falling behind; to relieve compression problems with salaries immediately below; to avoid the creation of potentially greater difficulties at a later stage; to avoid inequity to those currently serving and—most important—to those who retire and whose pensions are tied to the rates of pay prevailing at the time of retirement. We are glad to note that the Government has introduced measures which will mitigate the adverse effect on pensions of Stages 1 and 2 of the counter-inflation policy³.

The case for an immediate increase

2. The reasons which led to the submission of our previous Interim Reports, and which we have summarised, are no less cogent now. Since the implementation of our last recommendations, the index of retail prices has risen by 6.5 per cent and average earnings by 10.2 per cent⁴. The Stage 3 Pay Code sets an individual pay limit of £350. This represents an increase of 1.3 per cent at the upper end of the range with which we are concerned (£27,750) and 4.1 per cent at the lower end (£8,500). Taken in conjunction with the Stage 2 pay limit of £250, this inevitably intensifies the compression throughout our field, particularly when salaries net of tax are compared. These are matters with which we shall be bound to concern ourselves later and, meanwhile, we are reluctant to see the problem of compression with salaries immediately below our level exacerbated. In all these circumstances, we are in no doubt that there is a strong case for applying the increase permitted under the Stage 3 Pay Code in full to all those covered by our terms of reference.

¹ Review Body on Top Salaries, Report No. 2—Interim Report on Top Salaries (Cmnd. 5001—June 1972).

² Review Body on Top Salaries, Report No. 3—Second Interim Report on Top Salaries (Cmnd. 5372—July 1973).

³ Pensions (Increase) Act 1974.

⁴ April 1973–December 1973. No figures for movements in salaries are available for this period.

3. The problem of compression is currently particularly acute in the Higher Civil Service. The first instalment under a recently concluded settlement as an anomaly¹ (under paragraph 177-180 of the Pay Code) for the Assistant Secretary has already reduced the differential between his scale maximum and the salary of the Under-Secretary to £512 (from 7 November 1973). The agreed maximum "payable ultimately" as the second instalment (under paragraph 183 (iii) of the Pay Code) is £8,500 which is the rate at present paid to the Under-Secretary. Faced with this problem, we have considered the extent to which the compression can be relieved within the Stage 3 provisions. The Pay Code provides that a flexibility margin of 1 per cent of the pay bill of the group may be added to the pay limit to cover "changes in pay structures or grading structures or in systems of payment designed to remedy anomalies or secure specific improvements in efficiency"². We consider that the present reduction and the prospective elimination of the differential between the Assistant Secretary and the Under-Secretary warrants the use of the flexibility margin to relieve the compression to the extent permitted under the Pay Code. This provides an additional amount of £150 per annum outside the "pay limit". We have considered whether a degree of compression exists within the other three areas with which we are concerned which would justify the use of the provisions of the flexibility margin to afford relief. We have evidence of certain difficulties within some of the nationalised industries at Board level and immediately below, but it does not seem to us that the detailed requirements in the Pay Code could be met by a broad general recommendation. The problem does not arise in an acute form in the armed forces or the judiciary, although there has inevitably been some compression: the existing differentials are not inadequate, and we would not wish to recommend a course which, even if it could be reconciled with the Pay Code, would create new structural anomalies and might well distort the results of the detailed work we have done.

Effective date

4. The Stage 3 Pay Code provides that, where the last principal increase was deferred as a result of the standstill under the First Stage of the Programme for Controlling Inflation (Cmnd. 5125), the interval of 12 months between increases may count from the date on which the last increase would have operated but for the standstill. In recommending an effective date of 1 January 1972 for the pay rates proposed in our first Interim Report, we saw advantage in bringing the senior grades of the Higher Civil Service into line with the effective date of pay reviews for the Assistant Secretary, thus giving the whole of the new Administration Group a common operative date. At the same time, we did not consider that a single operative date for the whole of our field would necessarily be appropriate for future reviews. However, in the light of the developments since 1972 and, in particular, of the interim nature of our three reports on this field to date, once again we consider a common operative date appropriate. Had it not been for the standstill, we would have recommended that the Stage 2 £250 a year increase should be effective from 1 January 1973, which is 12 months from

¹ Pay Board Advisory Report—Anomalies 1 (Cmnd. 5429).

² The Counter-Inflation (Price and Pay Code) (No. 2) Order 1973; paragraph 139.

the implementation of the increases recommended in our first Interim Report. On this occasion, we consider that the increases which we recommend should be implemented with effect from 1 January 1974.

Threshold arrangements

5. The Pay Code provides a cost of living safeguard by which threshold arrangements may be made outside the pay limit: payments under these arrangements are linked to a rise of 7 per cent in the Retail Price Index over the base October 1973 figure, and to each subsequent 1 per cent rise up to October 1974¹. We have considered very carefully the justification for, and the implications of, an arrangement of this kind in the top salaries field. We conclude that threshold arrangements should apply across our field, for the reasons that we explain above as justifying the pay increase we propose.

Recommendations

6. We accordingly recommend:

- (i) that the salaries of the Chairmen and full-time members of nationalised industry Boards, the Under-Secretary and above in the civil service, the Major-General (and equivalent) and above in the armed forces and the members of the judiciary (as defined in our 1972 Interim Report) should be increased by £350 a year;
- (ii) that the salary of the Under-Secretary should be increased by a further £150 a year under the "flexibility margin" arrangements in the Pay Code;
- (iii) that these increases should be paid with effect from 1 January 1974 or, where applicable, from dates 12 months after the effective dates of the implementation of our last recommended increases²;
- (iv) that threshold arrangements as defined in the Pay Code should be introduced for all those within our terms of reference.

7. We have taken the necessary steps to assure ourselves that our recommendations are in conformity with the Pay Code.

Our main Report

8. We are nearing the completion of the studies for our substantive review, in which we are looking afresh at the relationships within and between groups, and considering the basic principles which should govern their pay. The circumstances in which we shall be considering our recommendations have changed fundamentally since we began our review, primarily as a result of the introduction of the counter-inflation programme, but we have been in no doubt about the need to complete it. We have still to reach conclusions on the many and complex issues which—not unexpectedly—arise in a far-reaching review of this nature, covering the most senior appointments in a wide area of the public service. In carrying out our task, we are

¹ The Counter-Inflation (Price and Pay Code) (No. 2) Order 1973; paragraph 176.

² When the recommendations in our 1972 Interim Report were implemented, statutory instruments were required to effect increases in salaries for those holding certain judicial appointments: we understand that these were approved during July 1972.

concerned to take a long-term view of the problems, and to devise pay structures for the component groups that meet their particular requirements and provide equitable rewards.

BOYLE OF HANDSWORTH

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