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J. Hoskyns.  
2 December 1981

POLICY UNIT

PRIME MINISTER

INCENTIVES FOR NI CHAIRMEN: E(NI) 3 DECEMBER 1981

1. You have pointed out the danger that a system of incentive payments could allow the Boards of energy-based industries to do well by price increases. This can be avoided by designing the scheme properly. For example, the bonus could be inversely related to price increases. It could also be related to physical measures of productivity and performance. It must be consistent with our privatisation aims.
2. Difficult though it will be, we think the principle is absolutely right. The strongest argument in its favour is that it will force the industries and the Government to be absolutely clear about their objectives. The central point in the CPRS report on nationalised industries is the need for such clarity. It will oblige Whitehall to develop a higher degree of competence and precision in its monitoring. Departments pay lip-service to this but are reluctant to accept that it must mean changes in staffing and organisation.
3. CPRS have recognised the complexity and suggested that the first step would be to talk to a suitable NI Chairman, and then work out a scheme with that industry. They suggest BT. We hear that this whole idea is quite widely resisted within Whitehall; it is thought to be "too difficult". It follows that if Ministers do decide to experiment it will be crucial to select as a guinea pig an industry whose Minister really believes the approach is worth trying. Keith has pioneered it (successfully) with Ian McGregor. We believe that Patrick Jenkin is personally enthusiastic about trying to make it work more widely. We therefore recommend you invite him to try.
4. As CPRS acknowledge at paragraph 23(i) it will be difficult to meet the requirements of public accountability. These pressures cannot help but conflict with the prime requirements for running a business successfully: high profit motivation; risk-taking etc. To put public accountability first would be to end up with NI managements that took no risks and behaved like the Civil Service itself.

/Yet no-one

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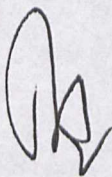


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Yet no-one believes that would be any answer to the problem of how to make NIs more efficient. It ought to be possible to explain to the PAC that the whole purpose of incentive payments is to act as a spur to efficiency. PAC difficulties are not a good reason for abandoning the attempt.

5. I am copying this minute to Geoffrey Howe, Robin Ibbs and Sir Robert Armstrong.



JOHN HOSKYNS

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