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PRIME MINISTER

Nationalised Industry Board Members' Terms of Appointment

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BACKGROUND

When you dined with the Nationalised Industries Chairmen's Group (NICG) last November one of the issues discussed was terms of appointment for board members. The Chief Secretary should now respond to the NICG's proposals, and is seeking agreement on the line he should take.

MAIN ISSUES

2. The two most important issues concern rolling term appointments and the power of a Secretary of State to dismiss board members.
3. Annex B to the Chief Secretary's paper lists nine proposals by the NICG. Proposals 1, 4, 7, and 8 are regarded by the Treasury as non-controversial and unless any member of the Committee disagrees, can be accepted without discussion.

Rolling Term Appointments

4. The NICG have proposed 'evergreen' contracts. These would be for a 3 year term, which would be continuously and automatically renewed unless a Secretary of State took specific action to end the process. You indicated to the NICG that you were not in favour of this approach.

5. The Chief Secretary proposes instead 3 year contracts reviewed at each anniversary, when a Secretary of State might agree to extend it for a further year. Under this scheme renewal would not be by





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default, but would require specific action. Moreover, if a Secretary of State decided not to renew, the appointment would end 2 years after the review rather than 3 years under the NICG proposals. The question of compensation would only arise if, in such circumstances, it was decided to terminate the appointment in less than 2 years.

6. The Chief Secretary's proposal is clearly more attractive from the Government's point of view. Short of conduct meriting dismissal, board members would always have at least 2 years security, which seems not unreasonable and is probably not out of line with practice in the private sector (I understand the Treasury have based their proposal on the practice introduced in the privatised BT). The Chief Secretary seeks authority to discuss the proposal with the NICG, although it would be for sponsoring Ministers to implement it in each industry as appropriate.

#### Dismissal

7. The Committee concluded in 1984 that it would be desirable to have a power to dismiss board members before the end of a formal term of office. While the NICG originally proposed this, they have since modified their position to the extent that they can accept dismissal providing there are certain safeguards, and, in the case of members, the Chairman recommends it. This does not go far enough, and it seems unlikely that complete agreement can be reached. Nevertheless, the Chief Secretary will need to continue to press the Government's case, perhaps with appropriate understandings with the NICG about how Ministers would operate a power of dismissal.

8. As a quid pro quo Board Members will expect some entitlement to compensation in respect of their un-expired term of office. To agree this in advance would require legislation (see below), but the Chief Secretary proposes that if entitlement to compensation is agreed in principle, the quantum should be fixed on a common law basis, which includes among other matters an offset on account of future income





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from employment. The NICG suggest more generous compensation should be payable. The Government's standard practice across the public sector is to follow the common law approach, and there seem no grounds for departing from this.

### Legislation

9. Many of the proposals being canvassed would require legislation. With the abandonment of a general Bill on nationalised industries, the only suitable vehicle will be Bills on particular industries as and when they come forward for other reasons. It will therefore not be possible to have complete uniformity, but this is unnecessary in any case. So whatever the outcome of the Committee's discussions and the further negotiations between the Chief Secretary and NICG, it will be for individual Secretaries of State to carry the action forward.

### HANDLING

You will wish to ask the Chief Secretary to introduce his paper. Ministers sponsoring nationalised industries will wish to contribute.

### CONCLUSION

11. You will wish to reach decisions as set out in paragraph 14 of the Chief Secretary's paper.

J B UNWIN

19 February 1986  
Cabinet Office



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MR NORGROVE

19 February 1986

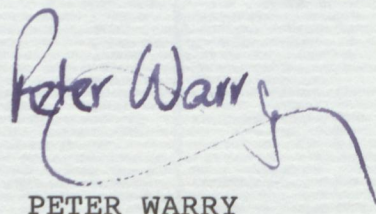
## NATIONALISED INDUSTRIES BOARD MEMBERS' TERMS OF APPOINTMENT

The Nationalised Industry Chairmans' Group want board members to have three year 'evergreen' contracts. The Treasury propose a variant of this - a three year rolling contract, which would need replenishing at the end of each year if the three year term was to be maintained.

In principle this should give Ministers the opportunity to let contracts of members with whom they are dissatisfied lapse two years after the initial failure to roll over. In practice, however, it has sometimes proved politically difficult not to renew even a simple fixed term contract of an unsatisfactory Chairman or Member. How much more difficult if Ministers in effect have to give two years notice of such a failure to renew? It would allow the disaffected member to cause endless trouble over the two years, which may well be longer than the Minister himself may expect to remain with the Department.

To counterbalance this disadvantage John MacGregor proposes sensible new dismissal provisions. But whilst these could prove a useful threat, it would need a very exceptional case for the Government to weather the political row that actually dismissing a board member would cause.

The three year rolling contract would be tantamount to giving nationalised industry members permanent tenure. We believe that new dismissal provisions do not represent an adequate trade-off against this disadvantage. We strongly recommend that the rolling contract proposal is not endorsed.

  
PETER WARRY