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CC NO

Prime Minister

To note also Policy Unit views attached

BT 12/10

P.01124

PRIME MINISTER

Nationalised Industries: Board Pay
and Appointments

E(NI)(83)19

minutes attached

BACKGROUND

FLAG A. | When they last discussed this subject (E(NI)(83)4th Meeting), the Sub-Committee saw attractions in an arrangement under which full-time nationalised industry board members would receive the bulk of their remuneration by way of an executive salary determined by the board, with Ministers determining only a small fee in respect of board membership. It was, however, recognised that under existing legislation it would not be possible for Ministers in effect to divest themselves in this way of responsibility for the remuneration of board members. The Sub-Committee also thought that it would be necessary to couple such an approach with stronger Ministerial powers to dismiss board members whose performance was inadequate. The then Chief Secretary, Treasury was invited to explore the possibility of including appropriate legislation in the Bill which it is intended to promote in the 1984-85 Session to reform the legislation governing nationalised industry finances.

FLAG B. | 2. In his note (E(NI)(83)19) the Chancellor of the Exchequer argues that the particular approach previously discussed by the Sub-Committee would not in fact achieve its purposes; but he proposes a scheme which is broadly in the same spirit.



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(a) Ministers would remain responsible for appointing, and deciding the remuneration of, chairmen and non-executive members.

(b) Subject to (c) below, responsibility for appointing, and deciding the remuneration of, other board members would be transferred to the Chairman and non-executive members acting as an Appointments and Salaries Committee. (E(NI)(83)19 uses the word 'delegated' rather than 'transferred'; but it is clear from Annex A, and we have confirmed with Treasury officials, that transfer is what is intended. In other words, Ministers would retain no residual responsibilities).

(c) Ministers would have a veto over the appointment, but not the remuneration, of Chief Executives and executive Deputy Chairmen.

(d) Powers would be taken to dismiss chairmen and board members whose performance was unsatisfactory or whose approach was out of line with Government policy. The powers would be exercisable by the Minister, or the Appointments and Salaries Committee, depending on who had the power of appointment; but the Minister would have a reserve power in the case of posts mentioned at (c) above. Powers would also be taken to offer and pay compensation. The employment contracts of board members would set out compensation terms, which would normally be based on public sector practice; but in special cases more generous terms might be conceded if Ministers considered that they were necessary to secure a particular individual's services.

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3. Provisions on these lines would be included in the proposed Bill to reform the nationalised industries' financial statutes. The Chancellor of the Exchequer suggests that provisions on the lines of paragraph 2(d) above should be included, even if Ministers decide not to proceed with the proposals at paragraph 2(a) to (c).

MAIN ISSUES

4. The main issues before the Sub-Committee are as follows:

i. Should the Government relinquish responsibility for the appointment as well as the pay of executive Board members?

ii. If so, are the detailed proposals, notably the transitional arrangements, acceptable?

iii. Are the proposals on dismissal and compensation acceptable?

General approach

5. Relinquishing Ministerial responsibility for executive Board members' pay has great attractions, but the Sub-Committee will wish to bear in mind the following points:

a. Ministers will still have to answer for the pay of Chairmen, where the main presentational problems have arisen in the past.

b. It may be argued that Ministers ought to remain directly accountable for the pay and appointment of executive board members (even though in reality most of these appointments have effectively been determined within the industry).

c. Although the pay of executive Board members will not now become known until annual reports are published, and will no



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longer be determined by the Government, the public and Parliament may continue to regard the Government as having some responsibility in the matter.

d. While it is probably right that the Government should (as proposed) retain a veto over the appointment of Chief Executives and executive Deputy Chairmen where there is a part-time Chairman, it may be thought inconsistent not to retain responsibility for pay in those cases.

Transitional arrangements

6. The Chancellor of the Exchequer recommends the transitional arrangements outlined in paragraph 13 of Annex A to E(NI)(83)19. In essence, board members up to standard would be reappointed under the new arrangements when their existing term of office ended (or earlier if they might be lost to outside offers). Those not up to standard would not be reappointed. Until their existing appointments expired, both categories would receive increases in line with the general level of the industry. Those reappointed could be expected to receive large pay increases, as their pay would be brought more closely into line with outside rates. It is suggested that such increases might be staged. It seems realistic however to accept that if the proposed new arrangements are introduced, they will rapidly lead to increases in the general level of board pay, and that Ministers will have to defend this.

Dismissal and compensation

7. The Chancellor of the Exchequer's proposals for dismissal and compensation could go ahead separately from his other proposals. The Sub-Committee are likely to welcome greater freedom to dismiss. It should be borne in mind, however, that (as is logical) the power of dismissal of executive Board members will under the new arrangements rest not with Ministers but with the Chairman and non-executive members.

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8. Without going into details, the Sub-Committee will need to be sure that they are content with the principles of the proposed compensation arrangements, ie a normal formula (set out in paragraph 5 of Annex B) in line with the approach which the Courts would take in assessing damages for breach of contract, with the possibility of more generous terms if the sponsor Minister, in consultation with the Treasury, considered that they were defensible in the particular circumstances to secure an individual's services. We understand (although the paper does not make this clear) that Ministerial approval for compensation would be involved only in those appointments for which Ministers will retain direct responsibility. If the Chancellor does not make this clear in his opening statement, it would be useful to have it brought out in discussion.

HANDLING

9. It would probably be convenient to divide the discussion into two main parts:

- i. appointments and remuneration;
- ii. dismissal and compensation.

10. For each part you might invite the Chancellor of the Exchequer to introduce his proposals. The Secretaries of State for Energy, Scotland, the Environment, Trade and Industry, and Transport will wish to comment as sponsoring Ministers. The Secretary of State for Employment and the Chancellor of the Duchy of Lancaster may have general comments.

CONCLUSIONS

11. You will wish the Sub-Committee to reach conclusions on:

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- i. whether the powers to appoint and determine the remuneration of nationalised industry executive Board members should be transferred to the chairmen and non-executive members;
- ii. whether a power of veto should be retained over the appointment (but not the pay) of Chief Executives and executive Deputy Chairmen, where there is a part-time Chairman;
- iii. whether the transitional arrangements should be as proposed in paragraph 13 of Annex A of E(NI)(83)19;
- iv. whether the arrangements for dismissal and compensation should be as proposed in paragraph 9 and Annex B of E(NI)(83)19;
- v. whether these changes should be included in the Bill to reform nationalised industry statutes.

PLG

P L GREGSON

mt

14 October 1983



10 DOWNING STREET

Prime Minister

E (NI)

One further point.

If the Chancellor's proposals are adopted, a great responsibility will fall on the non executive members.

This enhances the need to ensure that they are better represented on NI Boards, and by people of high calibre

AT

17/10

30 September 1983

MR TURNBULL

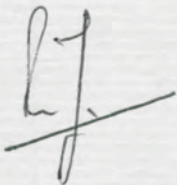
NATIONALISED INDUSTRIES - BOARD PAY AND APPOINTMENTS

The Chancellor's proposals in E(NI)(83)19 ought to make a robust contribution towards the improvement of nationalised industry board performance.

At present, Ministers fix the appointment and pay of all Board members but they have shied away from dismissing poor performers. Pay has lagged behind market rates for fear of political embarrassment. As a result, it has been very difficult to recruit or retain high-calibre people.

The cardinal virtue of the Chancellor's new proposal lies in fully delegating to the Chairman and non-executive members responsibility for the pay, remuneration and dismissal of executive members. Since executive members influence decisively the performance of corporations, it is entirely to the national good that they should work to disciplines set by the (private sector) non-executives, without the protection or fetters of Ministerial caution. The distancing provides an equal and opposite benefit to Ministers.

There is no need to agonise over the fine print of compensation for early dismissal. Paying market rates need not lead to the sort of extravaganzas that have hit the headlines in the past couple of years. Nor should Ministers seek a leisurely transitional period. The benefits are there to be grasped quickly.



ROBERT YOUNG