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P.01202

PRIME MINISTER

Nationalised Industry Board Pay
and Appointments

(E(NI)(84)1)

BACKGROUND

FLAG A
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The Sub-Committee have considered the question of nationalised industry board pay and appointments several times in the past, most recently in March and October last year (E(NI)(83)4th and 9th meetings). At their meeting in October, they considered a paper by the Chancellor of the Exchequer proposing a radically new approach. Only chairmen and non-executive board members would be appointed, and have their pay determined, by Ministers. Responsibility for the pay and appointment of other members would be transferred to an "Appointments and Salaries Committee" consisting of the Chairman and non-executive members.

2. The paper also proposed that power to dismiss board members should rest with the Minister or Appointments and Salaries Committee, depending on who was responsible for appointments; that grounds for dismissal should be widened to cover members whose approach was out of line with Government policy, and that the employment contracts of board members should set out the compensation which would be payable in case of premature dismissal.

3. The Sub-Committee did not favour these proposals. On appointments they considered it necessary, as a minimum, that Ministers should retain a power of veto in all cases;

CONFIDENTIAL

some members thought that Ministers should retain the substantive power of appointment in all cases. On remuneration they agreed that Ministers must retain full power to determine the remuneration of the Chairman and, if different, the senior executive board member. For other posts, some members of the Sub-Committee thought that the existing system should also be retained; but others thought that it might be possible to devise alternative and preferable arrangements based on a distinction between a fee in respect of board membership (to be determined by Ministers) and an executive salary (to be determined by the board). On dismissal they agreed that Ministers needed stronger powers to dismiss board members whose performance was inadequate, but were doubtful whether it would be wise to take power to dismiss on grounds of a difference of approach from Government policy: in particular, such powers could be used by a new administration to make sweeping changes in nationalised industry management on narrow political grounds. As a minimum, Ministers should have power to dismiss any board member, even if they did not appoint him; and to veto any proposed dismissal.

4. In E(NI)(84)1 the Chancellor of the Exchequer brings forward revised proposals taking account of these views. On remuneration he offers two options:

Option 1: distinguishing between executive salary and board fee, on the lines described in paragraph 3 above;

Option 2: maintaining the existing system, but making more effective and flexible use of it.

5. On appointments he suggests that it would be logical:

If Option 1 were adopted, to make the board responsible for the appointment, subject to Ministerial approval, of all members except the Chairman, the senior executive board member if different from the Chairman, and non-executive board members; while

If Option 2 were adopted, Ministers would remain responsible for all appointments.

6. On dismissal he recommends that board members should be appointed for a fixed term of office, terminable on notice "if the Minister considers it to be in the interests of the efficient exercise of the Corporation's functions"; there would, however, be the possibility of different approaches in individual cases as set out in paragraph 8 of E(NI)(84)1. As he proposed before, provision for compensation on dismissal would normally be written into the terms of appointment of board members. Annex D to E(NI)(84)1 discusses the basis of such compensation.

MAIN ISSUES

7. The ground is well trodden; and it is unlikely that further work will identify new options significantly different from those already discussed by the Sub-Committee. You will therefore probably wish the Sub-Committee to decide between the status quo and the specific changes identified by the Chancellor of the Exchequer on:

- i. pay;
- ii. appointments;
- iii. dismissal.

It will also be necessary to decide on the line to be taken in discussions with the Nationalised Industries' Chairmen's Group (NICG), and possibly, depending on the course of discussion, whether there should be any public announcements of the Government's decisions.

Pay

8. The main problem with board members' pay is presentational. There is no technical difficulty in setting pay at any level that may be desired; but it is presentationally difficult to pay in line with the market, particularly to those already employed in the industry rather than recruited from outside. Some Ministers have suggested that this makes it difficult to persuade senior executives within the industries to become board members: doing so may actually mean a cut in salary.

9. The question is therefore whether Option 1 (distinguishing between board fees and executive salary) would significantly ease the presentational difficulties. On the face of things, it should, since Ministers would no longer be responsible for the bulk of the remuneration of most board members. Against that, it can be argued as follows:

i. Since Ministers would be responsible for determining at least part of the remuneration of all board members, and the whole of the remuneration of some (especially chairmen), they might not in practice escape being regarded as responsible.

ii. Board members' executive salaries, over which the Government would have no control, might be increased up to or beyond the remuneration set by the Government for the Chairmen and senior executive board members. The Government would then have to choose whether to adjust the Chairmen's and senior executive board members' salary upwards and, in doing so, face perhaps more presentational problems than at present.

iii. The consultants' report suggests that it would be difficult to prag in aid private sector practice as a justification: very few full time executive directors now receive a separately identified board fee in addition to remuneration for executive duties.

iv. Because Ministers represent the interests of the community in the nationalised industries it might be thought wrong in principle for them to relinquish any part of their responsibility for the pay of board members.

Appointments

10. The Sub-Committee are likely to agree with the Chancellor of the Exchequer's argument that responsibility for appointments should go with responsibility for determining

pay. If two different bodies held the responsibility, each could frustrate the wishes of the other.

Dismissal

11. The Chancellor's preferred option on dismissal (fixed term, terminable by the Minister on notice "in the interests of the efficient exercise of the Corporation's functions") would provide more flexibility than at present while minimising the risk of capricious dismissal on political grounds. The Sub-Committee may be content that this should be the normal model, particularly as the Chancellor is prepared to contemplate other options in appropriate cases.

12. At their previous meeting, the Sub-Committee were anxious to ensure that Ministers retained a power of dismissal in all cases. This might not be easy to achieve if boards were responsible for certain appointments, and dismissal were through termination of a rolling contract (as envisaged in the option at paragraph 8(iii)), since the contract would presumably be between the Corporation and the board member and the Minister would not be a party to it. If the Sub-Committee favour Option 1 (board fee/executive salary) on pay, and hence making boards responsible for certain appointments, it may be more difficult to pursue the "rolling contract" approach.

Compensation

13. The Chancellor of the Exchequer's proposals on compensation are a re-statement of those he previously put to the Sub-Committee. The Sub-Committee did not object to them then; and they are to some extent a codification and rationalisation of existing practice. They are likely to be acceptable to the Sub-Committee.

Communication of decisions

14. Ministers and members of the NICG are meeting on 19

CONFIDENTIAL

January for an informal dinner. The Sub-Committee will wish to decide what is to be said to the chairmen on that occasion about pay and appointments.

15. If Ministers decide to make changes in existing arrangements, legislation is likely to be needed. This could be included in the Bill to reform nationalised industry financial statutes which is envisaged for the 1984/85 Session. The Chancellor might be asked what his thinking is about the timing of an announcement.

HANDLING

16. To some extent, the proposals in E(NI)(84)1 on dismissal and compensation for dismissal are independent of the proposals on pay and appointments. You may therefore wish to divide the discussion into two main parts:

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

It would be appropriate to invite the Chancellor of the Exchequer to introduce each section. All sponsoring Ministers will wish to comment. The Minister of State, Privy Council Office may have particular comments on methods of appointment.

CONCLUSIONS

17. You will wish the Sub-Committee to reach conclusions on the following.

- i. On pay, whether to maintain the status quo or to introduce a new system for executive board members based on a division between board fees (determined by Ministers) and executive salary (determined by the board).

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- ii. On appointments, whether board members should continue to be appointed by Ministers, or whether most executive appointments should be made by the board itself, subject to approval by Ministers.
- iii. Whether the approach on dismissal should be as proposed in paragraph 8 of E(NI)(84)1.
- iv. Whether provision for compensation on dismissal should be included in board members' terms of appointment on the basis proposed in paragraph 9 and Annex D of E(NI)(84)1.
- v. What line should be taken in discussion with the NICG, and whether there should be any early public announcements.

PLG

P L GREGSON

13 January 1984