

VCCNO

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Prime Minister ②  
 Agree these proposals  
 subject to colleagues?  
 (Policy Unit are content)

AT  
 23/5

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

18 May 1984

The Rt. Hon. Norman Tebbit MP  
 Secretary of State for Trade and Industry

*Norman Tebbit*

*Yes*

**NATIONALISED INDUSTRIES:  
 BOARD APPOINTMENTS, DISMISSAL AND COMPENSATION**

At E(NI)(84) 1st Meeting on 17 January we agreed that:

- (i) Board members should be appointed for a fixed term normally of 5 years, but subject to 12 months' notice of termination from either side;
- (ii) the existing statutory restrictions on grounds for dismissal should be removed;
- (iii) the terms of appointment would stipulate that if notice of termination was given by the Minister, compensation would be payable in respect of the unexpired part of the full term of the appointment.

I was invited to give further thought to the details of compensation provisions and to circulate proposals to E(NI) in the hope that they could be cleared in correspondence.

Officials from the Treasury and sponsor Departments have been considering the issues involved and I enclose a note summarising the full range of measures which I now propose and setting out how they might be incorporated in legislation. I should draw your and colleagues' attention to the following points:

- (i) On compensation, I have concluded that it is important that the terms must be fair but not so generous as to leave Ministers open to criticism. I suggest our approach should therefore be modelled on the normal way in which the Courts handle these matters. This implies that unless Ministers decide that special reasons apply in a particular case, the lump sum compensation will be abated to take account of likely future earnings.
- (ii) I was also invited to consider the possibility of replacing lump sum compensation, in full or part, by continuing payments. This would have the presentational advantage of avoiding the payment of large sums of compensation at one time. But it would leave scope for continuing argument with the Board member concerned, on top of any rancour resulting from the termination of the appointment - particularly when the compensation had been abated to take account



of future earnings. My conclusion is that the possible friction which could occur if compensation were paid by instalments is more than likely to outweigh any possible advantage gained from the avoidance of paying a large sum. I therefore think we should stick with the existing arrangements of paying a terminal lump sum.

- (iii) Since our discussion in E(NI), it has become clear that a number of Departments are concerned about the requirement for a Board member to give a full 12 months' notice of resignation. This could oblige a Board member to remain in office when he obviously wished to leave and does not seem to me to be desirable managerially. If you and colleagues have no objection, I should therefore like to suggest we reconsider our earlier decision and propose that it would be sufficient if the new legislation were to specify a notice period of 3 months or such shorter period as the Secretary of State may approve.
- (iv) I have retained the original proposal that sponsor Ministers should generally give 6 months' notice if they intend not to reappoint a Board member at the expiry of his term of office. If 6 months' notice is not feasible for practical reasons, compensation will be payable. The NICG have campaigned in this area and I think this proposal will help to sweeten the whole package.

I should be grateful to have the reaction of you and other E(NI) colleagues to the enclosed proposals. If we are all content, the Treasury will let the NICG know what we intend and prepare the necessary instructions to Parliamentary Counsel so that the measures can be included in our Nationalised Industries Bill. I should like to press forward quickly and so would welcome an early response.

I am sending copies of this letter to the Prime Minister, to other E(NI) members, and to Sir Robert Armstrong.

NIGEL LAWSON

A handwritten signature in dark ink, appearing to read "Nigel Lawson", written over the typed name.

APPOINTMENT, DISMISSAL, AND COMPENSATION OF NATIONALISED INDUSTRY  
BOARD MEMBERS

PROPOSED NEW ARRANGEMENTS

Appointments

1. Board members will be appointed for a fixed term normally of 5 years. A board member may resign by giving 3 months notice in writing or such shorter period of notice as the Secretary of State may approve.

Grounds for declaring an office vacant

2. The Secretary of State may declare an office vacant if a board member:-

(a) is absent from meetings of the Corporation for a period longer than 3 consecutive months without the Corporation's permission;

(b) becomes bankrupt or makes an arrangement with his creditors;

(c) is incapacitated by physical or mental illness;

(d) is otherwise unable or unfit to discharge the functions of a member.

Instruments of appointments will be able to specify additional grounds if the Secretary of State considers it appropriate in the case of particular industries.

Dismissal

3. The Secretary of State may dismiss any board member on 12 months' notice with no reason for dismissal needing to be given.

Compensation

4. Compensation will be discretionary if a member's office is declared vacant. If a member is dismissed, lump-sum compensation will be payable in respect of the unexpired period of an appointment. Normal terms for compensation will be as follows:

(i) a period notice of 12 months, or compensation in lieu of notice equivalent to the salary that would have been earned in the notice period;

(ii) additional lump sum compensation calculated by taking the gross loss of remuneration for the expired period of appointment (ie the time between the end of the notice period and the termination date of the appointment), reduced by the amount which the member might reasonably be expected to obtain from immediate pension or to earn in other suitable employment, the resulting net figure being discounted for immediate payment and adjusted to take account of loss of pension rights and of actuarial and tax considerations.

5. Board members will expect to be given 6 months' notice of the Secretary of State's intention not to reappoint them at the expiry of their term of office. If due notice is not given, compensation up to the equivalent of 6 months' salary will normally be payable. The Secretary of State may agree to exclude groups of part-time members from this provision.

Legislation

6. The proposed Nationalised Industries Bill will provide that

(a) board members can be dismissed on 12 months' notice without reason

(b) board members may resign by giving 3 months' notice or such shorter notice as the Secretary of State may approve

(c) each board member shall hold and vacate office in accordance with the terms of the instrument appointing him

(d) a board members' office may be declared vacant on certain grounds (see paragraph 2 above)

(e) instruments of appointment may provide for compensation of an amount determined by the Secretary of State with the approval of the Treasury to be payable if an office is terminated before the expiry of the period specified in the instrument of appointment; or if notice of an intention not to reappoint is not given before the time specified in the instrument of appointment; or if it otherwise appears to the Secretary of State that there are special circumstances which make it right to do so.

7. Details of compensation and miscellaneous provisions will be determined administratively and incorporated in individual instruments of appointment.

Implementation

8. The new arrangements will apply to all appointments made from the date the legislation is enacted. Appointments made after these proposals are announced but before they are enacted will be liable to review on enactment.

Nat Ind Board Salaries

A 2

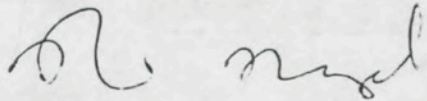
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01 211 6402

nb pm  
DUB  
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The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

29 May 1984



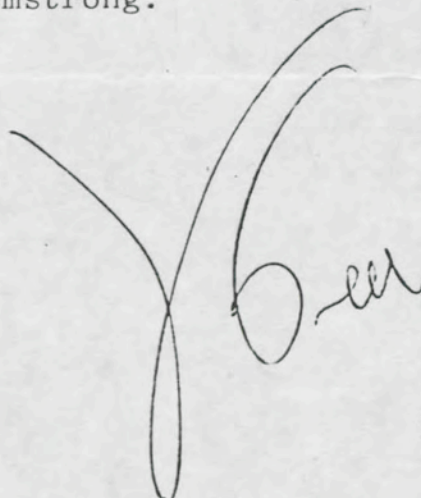
NATIONALISED INDUSTRIES: BOARD APPOINTMENTS, DISMISSAL AND  
COMPENSATION

I am generally content with the proposals in your letter of  
18 May to Norman Tebbit and agree that NICG should be informed.

I note your proposals for compensation and agree that Ministers  
should have discretion to offer more generous terms in special  
cases.

I also note that you propose that the length of appointment  
would normally be five years. We usually appoint part-time  
members for three years and sometimes make other appointments  
for shorter periods also; I would wish to be able to continue to  
do so.

I am copying this letter to the Prime Minister, other members of  
E(NI) and to Sir Robert Armstrong.



PETER WALKER

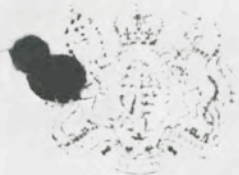
Nat Ind Board Salaries Pt 2





LCNO

BR with other Ministerial responses.

CABINET OFFICE  
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

23 May 1984

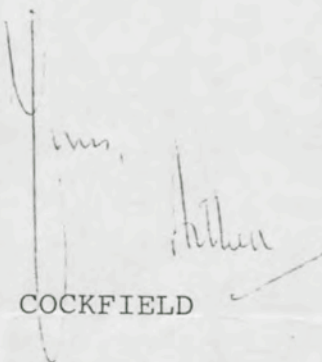
Nigel Lawson

NATIONALISED INDUSTRIES  
BOARD APPOINTMENTS, DISMISSAL AND COMPENSATION

I have two points on your letter of 18 May to Norman Tebbit.

1. "Dismissal" carries with it a considerable stigma and is likely therefore to be strongly resisted. For these reasons the course usually adopted is to induce the individual to resign, commonly on generous compensation terms. The Note as at present drafted would appear to exclude such a course of action as the Board member had neither been "dismissed" nor in most cases would the "Grounds for declaring [the] office vacant" be satisfied. Incidentally the Taxes Act uses the description "the termination of the holding of the office or employment".
2. Compensation limited to what the Court would award in a breach of contract case would (having regard to the proposed terms of the contract) be likely in many cases to be much less than would be normal for senior appointments in the private sector. In particular if the individual could secure another appointment at the same or a higher salary compensation could be negligible. However fair this might be in the abstract, as a practical matter it would frustrate the main purpose of the exercise, which is to get rid of the individual quietly and without a great public row.

I am copying this to the Prime Minister, to other E(NI) members and to Sir Robert Armstrong.



COCKFIELD

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
H M Treasury  
Parliament Street  
London SW1P 3AG

Nat Ind: Board Salaries  
Pt 2

