



10 DOWNING STREET

10 September 1985

From the Private Secretary

Dear Rachel,

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

The Prime Minister has seen the Chancellor's letter to the Secretary of State for Transport of 30 August, with its attachment. She has a number of comments on the draft guidance note.

The Prime Minister has asked that paragraph 2, and particularly the final sentence, should be reconsidered. In reading the note she has emphasised in the final sentence of paragraph 4(i), that non-executive members should approach the Secretary of State with the knowledge of the Chairman of the industry if dissatisfied. She has suggested adding "by the Chairman" to the end of the previous sentence in paragraph 4(i) so that it would read "...with a view to agreeing amended objectives to be put to the Secretary of State by the Chairman".

The Prime Minister feels that paragraph 4 should be strengthened. You might consider this generally. She has suggested that the second sentence of paragraph 4 should be amended to read "...non-executive members are expected to ensure that:...." In indent (ii), the Prime Minister suggests adding more specific instructions about the information that needs to be made available, which would include up to date management information on production statistics, profits, and capital expenditure broken down by operating divisions and compared with approved budgets. In indent (iii), third sentence, the Prime Minister has suggested: "this should involve membership by some non-executive directors of a formal audit committee responsible for monitoring performance and identifying..."

The Prime Minister questions whether conflicts of interest (paragraph 7-9) are not in fact already dealt with in the Companies Act.

I am copying this letter to Private Secretaries to members of E(NI) and the Secretary of State for Wales, and to Richard Hatfield.

Yours sincerely,
David

(DAVID NORGROVE)

Mrs. Rachel Lomax,
HM Treasury

SRW



DEPARTMENT OF TRADE AND INDUSTRY

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Secretary of State for Trade and Industry

24 September 1985

NBAT

The Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

De Nigel

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

Your letter of 30 August to Nicholas Ridley invited comments on a guidance note which you propose should be sent to all members of the boards of nationalised industries. I have also seen the Prime Minister's comments as given in her private secretary's letter of 10 September; George Younger's letter of 13 September, and Kenneth Baker's letter of 19 September.

2 While I agree that it would be useful to issue a note, I have some reservations about the version you circulated. First, I think that the introductory paragraph could lay far greater stress on the need for board members to give priority to meeting their statutory obligations, which must override any non-statutory duties. A guidance note of general application such as the draft is meant to be can only supplement the statutory and other duties peculiar to each individual industry; that needs to be made clearer.

3 I also have a number of specific points on the draft as follows:

- (a) It would be helpful to clarify which parts apply to executive members. which to non-executives, and which to both. For example, under the side heading "Role of non-executive board members" paragraph 3 deals with the non-executives and executives; and paragraph 5, under the side heading "Board pay", deals with one of the roles of non-executive members.
- (b) It would also be helpful to spell out any differences between the statutory duties of nationalised industry boards and the predominantly common law duties of directors of companies governed by the Companies Act - which include subsidiaries of nationalised industries.
- (c) The note should cover the position of board members in dealing with proposals which reflect wider policy which

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may not coincide with the immediate commercial interests of the industry.

- (d) It might cover the rules for executive members taking on appointments outside the industry.
- (e) It might also cover whether, or under what controls, members may receive remuneration from the industry outside the board salary fixed by the Secretary of State.
- (f) As conflicts of interest are in many cases dealt with in primary legislation paragraph 7 should open "For some boards, statutory provisions or specific standing instructions.....". "Statutory provisions" includes primary and secondary legislation. This opening sentence should also qualify paragraphs 8 and 9. To make this clear, in the first sentence of paragraph 8 the phrase "in the absence of any statutory provisions or standing instructions" could be added after "interest".
- (g) In the light of the Prime Minister's comments you will no doubt be reconsidering the relationship between paragraphs 2 and 4(i). The wording of paragraph 4(i) could certainly be tightened up. I suggest the following:

"(i) the industry is developing in accordance with the objectives agreed by the Secretary of State. Non-executive members, being detached from the day to day affairs of the industry and without personal executive responsibilities, are expected to take an independent view of the issues involved, and should ensure that, where appropriate, alternative strategies are properly considered."

4 Depending on any revision of paragraph 2 it may be sufficient for paragraph 4(i) to conclude:

"They should draw the board's attention to any divergence from its objectives and to the need for corrective action, and to any objective which no longer seems appropriate."

5 I am sending a copy of this letter to the Prime Minister, other E(NI) members, the Secretary of State for Wales and Sir Robert Armstrong.

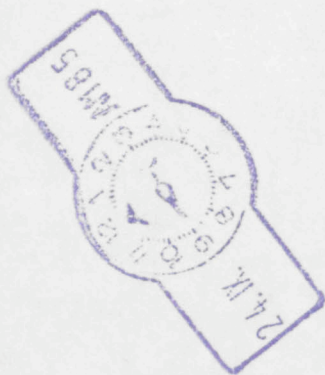
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LEON BRITTAN

NAT IND: Bond Salaries.

Pt 3.





CC 10
DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

24 September 1985
NBPA

Dear Nigel

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

Thank you for your letter of 30 August and the draft note attached to it.

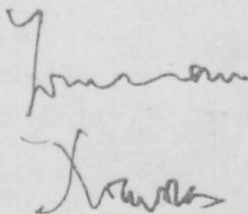
I would myself see advantages in combining the statement on pay determination with the more general guidance about the role of non-executives, although I would question the need to repeat information about political and parliamentary activities which is already part of the standard appointments package.

On pay, however, I wonder whether much is added by the reference in paragraph 5 to Government policy on "Nationalised industry board pay in particular". The industries might argue that one of the main problems in this area has been a lack of positive overall guidance. I would also question whether it is necessary to refer to the possibility of using external consultants in the first sentence in paragraph 6. Would we not normally expect the involvement of such consultants to be in the context of the kind of major review described in the second sentence of that paragraph?

I agree with Peter Walker that it would not be appropriate to send this guidance to members of industries on their way to joining the private sector - such as British Airways, British Airports Authority and the National Bus Company in my own case.

The note might be redrafted to avoid the use of the word "industry" which is not really appropriate for boards such as the Civil Aviation Authority.

I am copying this letter to the Prime Minister, to other members of EN(I), to the Secretary of State for Wales, and to Sir Robert Armstrong.

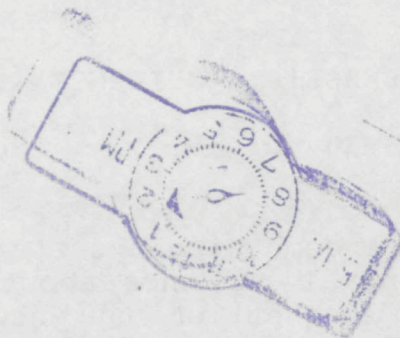


NICHOLAS RIDLEY

NAT IND

BOARD SACARIES

RT 3





CC 20
2 MARSHAM STREET
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01-212 3434

My ref: J/B/PSO/16897/85

Your ref:

19 September 1985

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BK

Thank you for your letter of 30 August addressed to Nicholas Ridley and other members of E(NI) about the issue of a standard guidance note to nationalised industry board members.

We routinely issue to new members of water authorities and the British Waterways Board advice on conflict of interest and political activities. Your proposed guidance note will therefore provide useful additional information.

However, paragraph 5 of the note is a little awkward for us as regards water authorities and BWB. The structure of the water industry, with its nine separate but related regional water authorities means that in practice salaries for Chairmen and executive members are determined by Ministers after taking account of the effect on the industry as a whole. BWB has no full time or executive board members and non-executive members are less "detached" than on other boards. There is therefore no proper role for remuneration committees.

As your letter suggests we will be able to issue a supplementary note to make the position in the water industry clear.

/ I am sending a copy of this letter to the Prime Minister, other E(NI) members, and the Secretary of State for Wales and to Sir Robert Armstrong.

KENNETH BAKER

The Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer

NAT INDUSTRIES
BOARD SALARIES
PT 3





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
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LONDON
SW1P 3AG

13 September 1985

Dear Nigel,

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

Thank you for copying to me your letter of 30 August to Nicholas Ridley enclosing a draft guidance note for members of NI Boards.

I am content with the terms of the text and agree that it provides a useful basis on which Board members can develop their roles. I wonder however if we need to separate the general considerations in your note from the industry-specific material which you suggest sponsor Departments prepare as a supplement. My own preference would be to produce specific guidance for the Electricity Boards and the Scottish Transport Group subsuming the important broad order principles embodied in the general guidance. One single text might also minimise the risk of confusion or misunderstanding in members' minds about the differing emphasis we might wish to place on their role vis a vis a particular industry.

You may wish therefore to let Sir Robert Haslam know that your note may be free-standing for some industries or subsumed in more specific guidance for others.

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

Yours sincerely,

George.

NAT IND: Brand Labels

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The Rt Hon Nigel Lawson MP
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SW1P 3AG

10 September 1985

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N. Ridley

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

I am content with the guidance note for Board members attached to your letter of 30 August to Nicholas Ridley.

While I am, of course, pleased that my suggestion of additional guidance on recommendations for increases in full-time Board member's and Chairmen's salaries has been adopted, I suggest that it would be more appropriate to send this part of the guidance only to Chairmen and those non-executive members who take part in formulating Board pay claims.

I also think it would irritate unnecessarily to send the guidance to the members - and especially the non-executive members - of those Boards, such as BGC, which are on their way to joining the private sector.

Copies of this letter go to the Prime Minister, other members of E(NI), the Secretary of State for Wales and Sir Robert Armstrong.

Peter Walker

PETER WALKER

NAT IND: Board Salaries

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