



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

28 January 1983

The Rt. Hon. Patrick Jenkin MP
Secretary of State for Industry

Patrick Jenkin

MULTI-YEAR CONTRACTS FOR NATIONALISED INDUSTRY CHAIRMEN

In the context of the revision of Sir George Jefferson's salary last year, the Prime Minister asked me to consider with sponsor Ministers the desirability of putting the pay of nationalised industry chairmen on the basis of multi-year contracts in future (Michael Scholar's letter of 30 September to Jonathan Spencer). The purpose would be to prevent the kind of situation we faced with Jefferson from arising, namely a bid for a very large mid-term salary increase backed by a threat of resignation.

I am sympathetic to the idea of multi-year contracts, but having reflected on it I can see problems, and I am no longer sure that it would provide an easy solution to the difficulties raised by the Jefferson case. No contract (or, more accurately, letter of appointment, since chairmen, being appointed under statute, do not have contracts) could bind a chairman to serve the full term of his appointment. Our legal advice is that any attempt to provide financial penalties for chairmen not serving the full length of their term would be struck down by the courts unless the sum involved could be shown to be a genuine estimate of the loss caused to the employer by the employee's breach of contract (an impossible condition to meet in the case of the nationalised industries). We might, subject to the precise wording of the particular statute, be able to make qualification for a pension dependent on serving the full term or to design a remuneration package that included a substantial reward for those completing their terms. However, in so far as these factors were an effective disincentive to resignation or threats of resignation by chairmen in mid-term, they would also reduce the effectiveness of the total remuneration "package" in attracting good candidates for nationalised industry chairmanships.

A further problem would arise in fixing the salary at the start of the appointment. Two methods are possible: either a salary could be fixed for the whole period of the appointment, or an initial salary and a set of one or more increases during the period could be agreed. As long as there is any prospect of inflation, the first method would lead candidates to demand a significantly higher salary than they would want if they were eligible for periodic adjustments. The second method would give rise to the problem of deciding on suitable levels of increase some years ahead.

There may be individual cases where these problems do not apply, but it does not look, on the face of it, as if multi-year contracts would be easy to introduce generally. I should be glad to know whether you agree with this assessment and should welcome any comments from other sponsor Ministers to whom I am copying this letter.

*Not Incl.
Board Salaries
pt 2.*

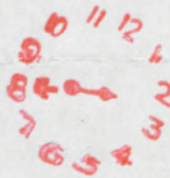


Copies go to the Prime Minister, other members of E(NI) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G. Howe", written over a horizontal line.

GEOFFREY HOWE

31 JAN 1985



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CC JV
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Secretary of State for Industry

14 February 1983

Sir Geoffrey Howe QC MP
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Geoffrey,

MULTI-YEAR CONTRACTS FOR NATIONALISED INDUSTRY CHAIRMEN

Thank you for your letter of 28 January about the possibility of multi-year "contracts" for nationalised industry chairmen.

I do not dissent from your conclusions that multi-year contracts would not be easy to introduce generally. However, I shall certainly bear your remarks in mind; as you say there may be individual cases where the general problems do not apply and where movements towards longer term arrangements, at least in some respect, would be to our advantage.

I am sending copies of this letter to the Prime Minister and to the other recipients of yours.

*Yours
Patrice*

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BOARD SALARIES

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