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16 January 1984

PRIME MINISTER

E(NI), TUESDAY, 17 JANUARY

Tomorrow at E(NI) the question of Board appointments for the Nationalised Industries is to be taken.

The problems to be resolved are:

1. The difficulty of raising Board pay up to market rates when at the same time the Government is trying to lower expectations about pay increases.
2. The difficulty of recruiting able managers given the pay rigidities.
3. The difficulty of removing Chairmen and senior Board members who fail to achieve the targets set.

We do not believe that the idea of splitting Board and executive pay will solve the presentational difficulties of putting pay rates up. The Government will still be associated with the increase. We also think all Board members should be appointed by Ministers. Even though recruiting the right Chairman is the crucial first step in running any industry, he needs the support of others, and all need the confidence of the Minister.

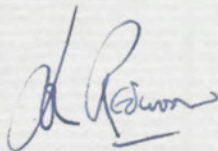
If you agree, you are therefore forced to support Option 2. What could be made clear at the meeting is that the status quo has to continue to evolve as it has been doing in favour of more performance-related pay for the senior Board members of nationalised industries. It is important in any system of high remuneration that there should be:

- (a) a clear correlation in the public mind between achievement and large sums of money paid to the individual;
- (b) clearly visible reduction in remuneration if the individual fails to achieve targets;
- (c) ultimately, powers to remove such people from office if they have failed to hit their targets by a substantial amount over a reasonable time period.

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Ministers can use existing powers to orient Board appointments towards a clear statement of objectives (as was done with Bob Reid at British Rail, and with Ian McGregor), and gear the supplementary remuneration needed to attract good people to achieving their targets.

It follows that Option (ii) in Section 8 is the appropriate one for dismissals.



JOHN REDWOOD