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*Prime Minister* 4

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

9 June 1982

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

*ms*

*Dear Patrick*

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

Many thanks for your letter of 3 June telling me of the contacts you have had with the British Steel Corporation about board salaries.

Your letter does not put forward any specific proposition, and indeed we cannot sensibly take a view on BSC until we have considered our general stance this year on board salaries in the nationalised industries. I am considering this now, and plan to put ideas to you and other colleagues very soon. I think performance-related concepts may well have a part to play, at least in the longer term, and I am glad that you gave this a push in your discussions with BSC. Meanwhile, I need hardly say that "basic" salaries at the rates envisaged in the attachment to Mr Frost's letter - substantially double what the rates were before the last 7 per cent increase - would on any view present sharp difficulty; and I am inclined to share your judgement that the salary-plus-fee route does not really help.

I note that you will be writing separately about the succession to Ian MacGregor. We shall obviously have to handle this as a special item.

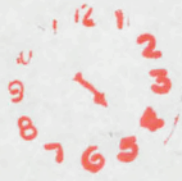
One other point in the paper puzzled me a bit. I am not clear why it is apparently assumed that the fact that the BSC Finance Director (Mr Colin Barker) now gets more than most of all Board members prevents his joining the Board. I can see that there might be relativity problems and indeed that Ian MacGregor might not welcome having to bring into direct Government control the rate of pay for a job which at present lies in the Board's own discretion; but for my part I see no strict formal bar.

I am sending copies of this letter to those who received yours.

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*Jenkin*



JUN 1982





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Secretary of State for Industry

Prime Minister (2) *not ind*  
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3 June 1982

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Whitehall SW1

*Dear Geoffrey,*

PAY OF NATIONALISED INDUSTRY BOARD MEMBERS

In February I received proposals for increases in the pay of the Chairman and executive members of the BSC Board. The proposals were put forward by the BSC Board Salaries Committee, which is made up of 3 industrialists who are non-executive board members of BSC: Mr Albert Frost, who chairs the Salaries Committee, Lord Gregson and Mr Ronald Halstead.

2 I attach a copy of Mr Frost's letter to me of 12 February, from which you will see that his proposals have 3 elements:

- i an immediate increase of 7 per cent on pay scales;
- ii a change in the method of paying Board members to a fixed fee for Board membership plus a salary for executive duties;
- iii very substantial increases in total pay for the Chairman and executive Board members.

3 The 7 per cent increase in pay scales has been agreed and implemented, but on 10 May I met Mr Frost and his colleagues on the BSC Salaries Committee to discuss their other proposals. I also attach a copy of the record of that meeting, and I would like to draw attention in particular to several important points which emerged during the discussion.

- First, it is crucial to have a chairman of the right calibre, and to be prepared to pay accordingly. We did this to get Mr MacGregor. I will be writing separately about the future of the BSC chairmanship, but it seems clear that if we do have to attract a suitable successor on the open market, we may need to be prepared to pay in the range £100,000 to £125,000 as proposed in Mr Frost's letter.





- Second, there is an absurd situation in which the BSC Finance Director cannot be appointed to the Board since his salary is above the current range for Board members.
- Third, Mr Frost explained that the "fee plus salary" proposal was simply a presentational device intended to help the Government. I told him that I was not attracted by the proposal, which would require legislation and would give the impression that Ministers were ducking the real issue. On this question I agree with John Sparrow's minute of 18 May to Michael Scholar, that there is no point in Ministers controlling only a small part of the remuneration package.

4 One of the most encouraging features of the meeting was that Mr Frost and his colleagues undertook very readily to look at the possibility of devising a suitable performance-related pay scheme for BSC executive board members. Mr Frost has since written to confirm that the BSC Salaries Committee has now set to work to devise a suitable scheme. When I hear further from him on this subject, I will write to you again.

5 I am sending copies of this letter, without attachments, to the Prime Minister, Michael Heseltine, George Younger, John Biffen, David Howell, Nigel Lawson, Norman Tebbit, Janet Young, Sir Robert Armstrong and John Sparrow.

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Your ever

Patric