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cc to Next Ind
Prime Minister (2)

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

M/S 8/10

7 October 1982

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

MT

Dear Secretary of State,

BRITISH TELECOM BOARD PAY

Thank you for your letter of 21 September about the salaries of the Chairman and members of the BT board. I have also seen Michael Scholar's letters of 30 September and 4 October.

The Prime Minister felt that the proposed increase in George Jefferson's salary was too great. I myself see serious difficulty about your proposals on his pension. As Paul Channon explained in his letter of 31 July 1980, the application of the BT board salary to the BAE continuation terms would be quite contrary to the recognised policy on board members' pensions and to the Inland Revenue's rules for continuation schemes. Given the need to maintain the policy generally, I can see no scope for a different approach in this case. Your proposed alternative of linking the pensionable salary to that of the Chief Executive of BAE also goes beyond the continuation policy which is confined to established entitlements in the former post. You might think it useful for officials to explore the pension options and implications further.

In the case of the other board members, I note that the Prime Minister was content with your proposals. However I am not altogether happy with the idea of putting them all (except the Deputy Chairman) on a range of £36,600 - £51,900. There is no reason why all members should be on the same range and I am very doubtful whether a range maximum of £51,900 is justified



in every case. A much better approach, and one more in keeping with the guidance contained in Annex A to my minute of 8 July to the Prime Minister, would be to tailor ranges to reflect the relative differences in the weight of particular jobs and the performance of members within them. This approach would get round the need to lay down limits to the way in which members move through their ranges. Your suggestion that the Chairman and Remuneration Committee of BT should be asked to recommend increases for existing members of no more than 10% above their current rates runs counter to the thinking behind the present system for determining board pay which is to give Chairmen considerable discretion (though subject to formal Ministerial confirmation) to move members through their ranges. For that reason it looks like a formula for conflict with the board.

I hope that the Chairman and Remuneration Committee can be persuaded to recommend individual ranges. In some cases a range maximum of £51,900 might be justified but in others it ought to be significantly less.

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

Yours sincerely,

Margaret O'Mara

for GEOFFREY HOWE

*(seen and approved by the Chancellor
and signed in his absence)*

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nat Ind. Board Salaries, etc

EC J.V.



DEPARTMENT OF INDUSTRY
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 123 VICTORIA STREET
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

12 October 1982

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

NBPM

MUS 12/10

Dear Geoffrey,

BRITISH TELECOM BOARD PAY

Thank you for your letter of 7 October concerning pay for the Chairman and full-time Board Members of British Telecom. This reply covers the full-time Board Members only.

2 I accept what you say about putting all the Board Members (apart from the Deputy Chairman) on the same range and have suggested to Sir George a lower maximum for the less onerous Board appointments. On your other point there seems to be some misunderstanding: I did not suggest that no Board Member should get more than 10% above their existing rate but that on average the increase should not exceed 10%. In putting this to Sir George I have stressed that I expect increases significantly above 10% for those individuals whose performance has merited it, balanced by increases below 10% for others.

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

Yours
 Peter

2-OCT-1982





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MS 19/10

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

18 October 1982

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

A handwritten signature in cursive script, appearing to read 'Patrick Jenkin'.

BRITISH TELECOM BOARD PAY

Thank you for your letter of 12 October. I am grateful that you have asked Sir George Jefferson to consider lower range maxima for the less onerous posts on the BT board. Could your officials consult mine about the actual figures when Sir George produces his proposals?

I am sorry that there was a misunderstanding about your suggestions for moving board members through their ranges. A spread of increases depending on performance but with an average not above 10% is certainly better than an arbitrary limit (which would inevitably become a norm). I hope that Sir George and the non-executive board members will not be timid in relating actual increases to performance.

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

A handwritten signature in cursive script, appearing to read 'Geoffrey Howe'.

GEOFFREY HOWE

19 OCT 1982

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5 6 7 8 9



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

21 September 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

BRITISH TELECOM BOARD PAY

In your minute of 28 July to the Prime Minister you invited sponsor Ministers to put to you considered proposals on Board pay where bids have already been made.

2 Sir George Jefferson and the non-executive Board members of BT have proposed new ranges of £39,700 - £51,900 for ordinary Board members and a range of £47,200 - £61,800 for the Deputy Chairman. These ranges are around 15½% higher than the existing ranges, while exceptionally the top of the ordinary Board members' range is 21% higher. The Chairman wishes to be free to determine the position of members within the ranges. The proposed ranges are justified by reference to salaries in TSRB 14, with 7% increases for each of the two years since then. The recommendation made by the non-executive members for Sir George Jefferson himself is £100,000 and a pension related to his final pay at BT, bearing in mind a very substantial offer he has received from a private sector employer, the nature of the work performed and to be performed by Sir George Jefferson within BT, and the need for headroom below the Chairman to attract good people. Sir George has now told me that he has to take a final decision by the end of the month on whether to take up the private sector offer.

3 I see no particular merit in the argument based on the TSRB report Sir George has used to support his claim on executive Board salaries. It bears little relation to the kind of market criteria we are trying to develop and may, I suspect, if accepted, have undesirable consequences elsewhere. Whatever level we finally accept I would propose to make this plain to Sir George Jefferson.



4 Turning now to the actual level of BT Board pay, there are clearly arguments in the period up to privatisation for progressively adjusting Board pay levels to the higher market related levels one would expect for BT plc. These arguments have particular force in relation to new appointments - we may need one or two very high calibre people prior to flotation - but less so to existing Board members.

5 I propose therefore that the top of the range should be increased by the full amount recommended; that the bottom of the range be increased by no more than the figure of 7% that BT's senior staff have on average settled for, and that I should ask Sir George Jefferson and the Remuneration Committee, in recommending actual figures for individual existing Board members, to ensure that these amount to no more than 10% on average above existing rates. This would provide for some scope for moves towards more market related salaries within the present Board and provide head-room to attract good new people, while at the same time avoiding excessive increases.

6 The scales, compared with the present scales, would be:

	£ Old scale	£ New scale
Deputy Chairman	40,800-53,550	43,600-61,800
Board Members	34,250-42,950	36,600-51,900

7 Turning to Sir George Jefferson, I believe a big improvement needs to be made in his position for two reasons:

i) First, his performance merits it; we need to get over in the City and to public opinion, as we prepare for the flotation of BT plc, that this is a commercial enterprise where performance is rewarded and the increase would do this.

ii) Secondly, there is a definite possibility that he will otherwise leave; the private sector offer he is considering is financially most attractive and he is under family pressure to accept.

Sir George himself regards his pension rights as even more important than his salary: he would clearly like his final BT salary to be treated as if it were his final salary under the continuation terms which relate his pension to the British Aerospace scheme. This would result in a very substantial actual increase in pension which would be expensive to BT, but, in presentational terms, I would see some attraction in

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limiting his salary to £80,000 and I believe this would probably be acceptable to him if we also agreed that it should be his pensionable salary.

8 The only alternative on the pension front which might prove satisfactory to him would be to link his pensionable salary in future to that being paid to the Chief Executive of BAe to which post Sir George would naturally have expected to succeed had he remained at BAe. But this would result in only a rather marginal improvement in pension and I am not confident that Sir George would stay with BT on this basis unless we were to accept in full the £100,000 pa recommendation for his salary.

9 As you may realise, I have had to consider the increases for Sir George Jefferson with extreme care, and I realise that what I am putting forward represents a very substantial improvement indeed on his current terms. I commend my proposal, however, on the grounds that if we do not make the improvement, it is very probable that Sir George would accept the private sector offer which he has had. I would regard this quite simply as a disaster. Under pressure from my predecessor and myself, and in the changed circumstances engendered by the BT Act, Sir George has done more to bring BT into the modern world than any of his predecessors every dreamt of doing. There is a marked change of attitude among BT's management; and considerable progress is being made in improving BT's performance. I am in no doubt that Sir George's leadership and drive are a very key factor in this and that if he were to go, the resulting hiatus would be extremely damaging. Moreover, he has taken a very constructive and helpful view on our plan for privatisation, contrasting markedly with attitudes in some other parts of the public sector. He has given his management a very firm lead on this as was evidenced when I addressed a conference of 300 senior BT managers. If he were to go we would have great difficulty in finding a successor. We have already decided that the present Deputy Chairman must be moved and he would certainly not be up to the job. Moreover, he has proved far less amenable to the new competitive regime and would be quite unsuitable to succeed Sir George. We would, therefore, have to look outside and I would regard it as in the highest degree improbable that we could find anyone able and willing to take on this very testing job with its high exposure over the next couple of years on terms less generous than those I am now putting forward for Sir George. Indeed, we could well have to pay a good deal more - compare, for instance, the terms we have agreed for the new Chairman of Rolls Royce, a significantly smaller enterprise.

10 I hope very much, therefore, that you will be able to agree to the proposals in this letter.

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

*Your ever
Patel*

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Board Salaries

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