



e/c IV

Prime Minister (2)

15/12

Treasury Chambers, Parliament Street, SW1P 3AG  
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13 December 1982

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

## BRITISH TELECOM BOARD PAY

Thank you for your letter of 19 November. Your new proposals for increases in the salaries of BT board members are in some ways preferable to the original ones. I am a little disappointed that Sir George Jefferson and the Remuneration Committee rejected the idea of relating salary ranges to individual members but I accept that in structural matters of this kind we should not overrule their judgement without strong reasons. At least the normal range now proposed for board members no longer has a maximum which would be difficult to justify in relation to a number of members. I quite agree that we should be prepared to consider going up to £51,900 in exceptional circumstances, for recruitment or retention reasons.

Hence, I accept your arguments for an overall increase in the members' range of 13 per cent. But it is on the high side and I am sure that you are right not to consider more than a very small increase for the present Deputy Chairman - you will have seen the concern which Norman Tebbit expressed in his letter to me of 2 December about increases in the upper half of our 5-15 per cent range. I also welcome the proposal to limit merit increases for individual members within the agreed ranges.

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

GEOFFREY HOWE

Not Incl

Board Salaries



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Secretary of State for Industry

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19 November 1982

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

*Dear Geoffrey,*

BRITISH TELECOM BOARD PAY

I have now had Sir George Jefferson's response to the proposals on the salaries of his executive Board members I put to him following my letter to you of 21 September.

2 He is very concerned that if he has to limit pay increases to the overall average of 10 per cent which I suggested, he will not be able to give fair and proper rewards to these key members of his senior management team, all of whom face a heavy burden of extra work in the build-up to privatisation, and could well be in danger of losing one or two of the younger and more able Board members to BT's private sector competitors. He is very much influenced by the fact that he has just had to recruit from outside BT a new Chief Executive for British Telecom Enterprise, the part of the group responsible for business in the apparatus and other liberalised sectors of the market. In order to attract an able man to fill this important job (which will not, however, carry with it a seat on the main Board, at least in the immediate future) he has had to offer a salary of £48,000. He and his non-executive Board members would not want to go as far as this, at this stage, for any of the present executive Board members, but they believe it will be impossible for BT plc to pay Board salaries which fall significantly short of the general market level and they want to begin to close the gap this year.

3 They are also unwilling to adopt your proposal that there might be different pay ranges for different Board members, tailored to reflect the relative differences in the weight of particular jobs and the performance of members within them. They make the point that in assessing the salary of individual Board members it is necessary to give weight not only to the functional job of a particular member but also to his corporate contribution to the Board outside his own function. In their view, a two-tier salary structure would be cumbersome and could make it more difficult to achieve the appropriate relativities between the salaries of different members.



4 I have some sympathy with the points Sir George and his colleagues have put to me, but I am unwilling simply to accept the new Board scale of £36,600 - £51,900 which we had earlier agreed to and leave the Board Remuneration Committee complete discretion to award individual members merit increases within that scale. Although I know that the Committee would take account of political realities as they see them, they have indicated to me that left to themselves they would award total increases to the six members concerned averaging some 18½ per cent. I do not myself believe that we should agree to go quite so far.

5 I therefore intend, subject to your agreement, to put the following proposal to Sir George which I believe he will accept, albeit reluctantly:

a there should be a general increase of 13 per cent in the Board member salary scale. This would put the minimum up from £34,250 to £38,700, rather than £36,600 as I had earlier proposed, but Sir George and his Committee- considered my proposal on this point to be unrealistic in the light of current market circumstances and, on reflection, I am inclined to agree, though I am still not prepared to accept their suggestion of a minimum of £39,700. At the top end, £48,500 would be regarded as the normal maximum (i.e roughly 13 per cent above the present maximum) but I would be willing in exceptional circumstances to consider going as far as the figure of £51,900 we had previously accepted if this was necessary to recruit from outside or to retain a particularly able member of the present Board.

b it would follow from (a) that all six Board members concerned would receive an increase of about 13 per cent. In addition the Remuneration Committee would be able to award merit increases to some of the members concerned, but on the understanding that these would not add more in total than another 4 percentage points to the average and that in no individual case would the resulting salary exceed £45,000.

c in order to reduce the overall average further, I would not be willing to accept any increase (or at most a very small one) for the present Deputy Chairman who has not been working harmoniously, owing to a clash of personalities, with Sir George and who is likely to be leaving the Board soon.



6 I hope you will agree that this would represent a reasonable outcome.

7 On a slightly separate issue, I have also been negotiating with Sir George about his own salary and expect shortly to reach an understanding with him which, subject to your agreement and the Prime Minister's, would give him a salary from July of next year that would fall some way short of the proposal for £100,000 from July this year which the non-executive members put to me. There are still some details outstanding, however, and I will write to you again as soon as they have been settled.

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

Your ever  
Kate

19 NOV 1982

