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CCND

Treasury Chambers, Parliament Street, SW1P 3AG
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25 July 1984

APPOINTMENTS - IN CONFIDENCE

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

Norman

BRITISH SHIPBUILDERS: BOARD SALARIES

Thank you for your further letter of 26 June about the salary proposals for Mr Hares and Dr Milne.

I accept that these two Board members will be facing heavy and increased responsibilities in the immediate future and that if either were to leave British Shipbuilders, the task of reshaping the Corporation would be considerably impeded. Moreover, in the case of Dr Milne, the increase proposed, though high in percentage terms, is from a fairly low base.

The increases agreed for the other Board members are relatively modest and Graham Day's willingness to limit any increase in his own salary to that approved for BS' unionised workforce is also helpful presentationally. On this basis, I can now agree to your proposals for Mr Hares and Dr Milne.

I hope that any publicity for these increases can be avoided until the pay negotiations with the BS workforce are completed. This does not seem likely to cause a delay of more than about two weeks.

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

*Yours
Nigel*

NIGEL LAWSON

NAT IND PT3

Board Salaries

27 JUL 1954





Secretary of State for Trade and Industry

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26 June 1984

APPOINTMENTS IN CONFIDENCE

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

D Nigel,

BS BOARD SALARIES

Thank you for your letter of 13 June setting out your response to the proposed increases for BS executive board members' salaries.

2 I am quite satisfied that Mr Phelps' performance - in particular, his efforts to secure at national level the new productivity arrangements, and the increased importance of his role generally - fully justify the increase proposed. I welcome your agreement in respect of this and other 1983/4 increases.

3 Turning to the 1984/5 proposals, I welcome your agreement to the recommendation for an increase for Mr Phelps. You asked for more background on the proposed increases for Mr Hares and Dr Milne.

4 The roles of these two members have grown more onerous over the last year and, given the problems to be faced by the Corporation, will develop still further this year. Mr Hares and Dr Milne are effectively numbers 2 and 3 respectively to the BS Chairman. Should either be lost to the Corporation over the next critical months through inadequate remuneration, there are no obvious successors willing (or indeed able) to take on their tasks.

5 In the absence of the Chairman, Mr Hares assumes full executive responsibility for the Corporation, involving contacts with Government and customers at the highest levels. In addition, his is a key role in the control of BS finance, losses and disposals. He played a key role in the successful disposal of Scott Lithgow

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APPOINTMENTS IN CONFIDENCE

and will assume a similar role with the privatisation of warshipbuilding.

6 Dr Milne is the top operational man in BS - the senior professional shipbuilder. His long experience in the industry and engineering background is invaluable to the Board.

7 You will recall that we discussed the question of nationalised industry Board salaries at E(NI) on 17 January. The conclusion that we came to was that our existing system of determining Board pay should be operated in a more robust and flexible way. I welcomed the move to encourage the relating of salaries to performance, and the opening out of performance-related differentials between board members. Furthermore, I am very conscious of the need to support, through sympathetic consideration, such initiatives, where (as in the case of BS) these are embodied in NI Chairmen's proposals. To accept a nil increase for one board member where this reflects less than satisfactory performance, but not to accept proposals to reward another where his performance merits it, is to defeat the objectives we set ourselves in deciding board pay. In short, if we want the job done properly we have to be prepared to pay the going rate to retain good calibre board members (where we are fortunate enough to procure their services). And we have to be prepared to defend this position robustly - as I see your Department recently did in the context of the pay of the new Head of the Government Accountancy Service.

8 In view of all this, and of the advice I have received from the senior non-executive board members of BS - which is that the proposed increases are low, especially for Phillip Hares - I am not able to reconsider my proposals for Messrs Hares and Milne in 1984/5.

9 Finally I should mention that Graham Day has recently written to Norman Lamont asking that any increase in his own salary should be limited to that approved for BS' unionised personnel. He stresses that he would far prefer any increase above that level for Executive Members to be distributed to his executive colleagues rather than himself, since he believes that his key executives are currently underpaid and that the prime consideration should be to reward those who comprise the backbone of the Corporation.

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

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BOARD SALARIES

27 JUL 1964

