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bc PW.

10 DOWNING STREET

From the Private Secretary

5 August 1985

IAN MACGREGOR: PERFORMANCE REVIEW AWARD

The Prime Minister has seen your letter to me of 31 July. She acknowledges that the Government is bound to accept the award proposed by the Review Committee. On timing, she believes it would be better to postpone the announcement until the week beginning 12 August. She has commented, however, that the award should be presented as two separate payments relating to two separate years. The press should not be encouraged to aggregate the figures into one payment. She suggests, therefore, deleting "totalling £875,000" from the press release.

I am copying this letter to Rachel Lomax (H.M. Treasury) and Geoff Dart (Department of Energy).

(Andrew Turnbull)

John Mogg, Esq.,
Department of Trade and Industry.

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FORMAL ANNOUNCEMENT

Payments to Lazard Freres & Co. based on the performance of
the British Steel Corporation under the Chairmanship of
Mr Ian MacGregor

The Review Committee, set up in 1981 under arrangements to compensate Lazard Freres & Co., New York for the release of Mr Ian MacGregor to serve as Chairman of the British Steel Corporation (BSC) for three years, has now determined the amount of the performance-related payments to be made to Lazard Freres. The sums agreed by the Committee are £525,000 and £350,000, *Suggest deletion* [totalling £875,000]. The Committee has reported to Lazard Freres and to the Government.

A copy of the Committee's report has been deposited in the libraries of both Houses of Parliament.



PRESS RELEASE

Payments to Lazard Freres & Co. based on the performance of
the British Steel Corporation under the Chairmanship of
Mr Ian MacGregor

The Review Committee, set up in 1981 under arrangements to compensate Lazard Freres & Co., New York for the release of Mr Ian MacGregor to serve as Chairman of the British Steel Corporation (BSC) for three years, has now determined the amount of the performance-related payments to be made to Lazard Freres. The sums agreed by the Committee are £525,000 and £350,000, [totalling £875,000.] The Committee has reported to Lazard Freres and to the Government.

*Suggest
delete*

The Minister of State for Industry, Mr Norman Lamont, MP, said today that Mr MacGregor had made an outstanding contribution to the recovery of BSC, which had been making increasing losses during the late 1970s and was now making a profit.

Mr MacGregor had had to undertake difficult and painful measures to enable BSC to survive the worldwide steel industry crisis and to become competitive. BSC's performance during his Chairmanship, and more recently, showed however, that these measures had been necessary and worthwhile. There was still much to do before the steel industry in Europe and worldwide could look forward to a period of stable prosperity, but BSC could now claim to be among the leaders in the industry.



Mr Lamont also thanked Mr John Gardiner (the Chairman of the Review Committee) and the other members for the thorough and balanced approach they had adopted in ^{their} ~~the~~ difficult task of assessing every aspect of BSC's performance during the period covered by the review.

Background

The Performance Review Committee was set up in April 1981 to determine performance payments of up to a maximum of £1.15 million to Lazard Freres & Co., New York, who had released Mr MacGregor for his appointment as Chairman of BSC. The amounts were to be based on the Committee's assessment of the establishment under Mr MacGregor's Chairmanship of a strong and healthy Corporation and the improvement (or deterioration) in the performance of BSC in the three years from March 1981. The Committee comprised nominees of the Government and Lazard Freres, with an independent Chairman, Mr John Gardiner, Chief Executive of The Laird Group. The Government's nominees were Mr A G Manzie CB and Mr J A Knox (originally Mr K J Sharpe); those of Lazard Freres were Mr Albert Frost CBE and Lord Weir.

The Committee's original terms of reference required it to determine a first payment of up to £700,000 when the results for the year ending March 1984 were known, and a second payment of up to £450,000 soon after BSC's results for the



year ending March 1985 were available. In 1984 it was agreed between Lazard Freres and the Government that both payments would be determined at the same time, after the 1984/85 results were available.

CONQUETOR

IAN MACGREGOR PERFORMANCE-RELATED PAYMENT

Press Briefing Notes

(The Review Committee's Report setting out the terms of their decision is attached, together with their original terms of reference).

Q. Why is the amount so large?

A. The maximum level of £1.15 million announced in 1981 was arrived at by negotiation between the Government and Lazard Freres, New York. Within the maximum, the Review Committee took an impartial view of the evidence provided by BSC's performance and concluded that £875,000 was the right amount. The Government and Lazard Freres have accepted the result.

Q. Does the Government accept the Review Committee's decision?

A. The Government is bound by the terms of its agreement with Lazard Freres to act on the Committee's decision; the decision could only be altered by substituting a new agreement. The Minister of State, Mr Lamont, has indicated that the Government regard the result as having been reached through a thorough and balanced analysis by the Committee.

Q. (Any question about the way in which the Review Committee reached its decision)

A. That is the Committee's responsibility; the Government and Lazards provided nominees, but the Committee worked independently. The Chairman, Mr John Gardiner, is available to answer questions about the work of the Committee [on 01-839 6441].

Contd.

Q. Why has the announcement been delayed into the Parliamentary recess?

A. BSC's results for 1984/85 became available on 16 July.

The Committee naturally needed some time to consider and discuss the BSC results before the second performance payment could be decided and their report submitted. It would have been unwise to rush the final stage of a four-year process. There has been no delay, either, on the Government's part in announcing the result once the report had been received.

Q. Why are there two separate payments?

A. Under the original terms of reference, a first payment of up to £700,000 was to be determined after BSC's 1983/84 results were available, and a second of up to £450,000 when the 1984/85 results were available. It was agreed in 1984 between the Government and Lazard Freres that both payments should be made together in 1985. Nonetheless, the Review Committee maintained the distinction between the two, the purpose of which was to ensure that any major change in BSC's performance in 1984/85 which might have its origins during Mr MacGregor's period as Chairman could be taken into account.

Q. Why are the two payments of different percentage amounts?

A. The percentage differences are small. I understand that the Committee wished to cast their decision in terms of amounts rather than percentages, and wished to avoid an unrealistic degree of precision. [Any further questions on this should be directed to Mr Gardiner].

Q. Why was the first payment delayed?

A. It was agreed between the Government and Lazard Freres that it would be inappropriate to make the first payment in 1984, and that it should be deferred until the second payment was determined in 1985. [If pressed:

Q. What benefits does Mr MacGregor secure from these payments?

A. The payments are to Lazard Freres, and Mr MacGregor's only interest is by way of the small share which he retains in Lazard Freres.

Q. Would the Government be prepared in any future case to adopt a similar performance-related compensation procedure?

A. This is a hypothetical question, as everything depends on the circumstances. Performance-related payments to board members and management are an established part of industrial life. Where, as here, a third party is being compensated, every case would probably be different.





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PS/

Secretary of State for Trade and Industry

8 August 1985

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

cc Jean Cairnes

Dear Andrew,

Dr

r/s

IAN MACGREGOR : PERFORMANCE REVIEW AWARD

Thank you for your letter of 5 August. My Secretary of State proposes that the announcement should be made on Tuesday, 13 August. (Neither he nor Mr Lamont would be available to deal with the announcement at the end of the week, as suggested in Tony Kuczys' letter of 1 August). Lazard Brothers and John Gardiner, Chairman of the Review Committee, are content.

2 We have amended the press release as your letter suggests.

3 I am copying this letter to Tony Kuczys (Treasury) and Geoff Dart (Department of Energy).

Yours sincerely,

Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

JH3BZX

Board Salaries : NAT IND. R+3.





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MSA to note

PS/Mr Lamont

cc PS/Secretary of State
PS/Secretary
Mr Mountfield
Mr Murray, MM o/r
Mr Worman, MM
Mr Williams, Inf

IAN MACGREGOR: PERFORMANCE REVIEW AWARD

Issue

1. The handling of the announcement of Mr ^aMcGregor's performance review.

Recommendations

2. (i) That the announcement is made on Tuesday 13 August (the Prime Minister has said the announcement should be made in the week beginning 12 August, and Tuesday 13 fits in best with Mr Lamont's diary);
(ii) that the announcement is made by press notice, to be issued at 12 noon. I attach a copy of the Press Notice, incorporating the Prime Minister's amendments, but otherwise unchanged in substance. It has, however, been put into the Department's house style for press notices;
(iii) that we do not initiate any press briefing or live media interviews, but that Mr Lamont considers responding to requests for interviews, in the light of how the coverage comes out on the day. Mr John Gardiner, who will be available on 13 August, will respond to factual questions about the award.
3. In my absence on leave, Mr Williams will handle the press side of this.

CB

COLETTE BOWE
Head of Information
V/736
215 4282

8 August 1985

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1 Victoria Street, SW1H 0ET Press Office: 01-215
Out of hours: 01-215 7877

Ref:

BSC CHAIRMANSHIP: PAYMENTS TO LAZARD FRERES

The review committee, set up in 1981 under arrangements to compensate Lazard Freres of New York for the release of Mr Ian MacGregor to serve as chairman of the British Steel Corporation (BSC) for three years, has now determined the amount of the performance-related payments to be made to Lazard Freres. The sums agreed by the committee are £525,000 and £350,000. The committee has reported to Lazard Freres and to the government. A copy of the committee's report has been deposited in the libraries of both Houses of Parliament.

Norman Lamont, Minister of State for Industry, said today that Mr MacGregor had made an outstanding contribution to the recovery of BSC, which had been making increasing losses during the late 1970s and was now making a profit.

"Mr MacGregor had to undertake difficult and painful measures to enable BSC to survive the worldwide steel industry crisis and to become competitive," Mr Lamont said. "BSC's performance during this chairmanship, and more recently, show that these measures were necessary and worthwhile. There is still much to do before the steel industry in Europe and worldwide can look forward to a period of stable prosperity, but BSC can now claim to be among the leaders in the industry."

Mr Lamont also thanked Mr John Gardiner, the chairman of the review committee, and the other members for the thorough and balanced approach they had adopted in the difficult task of assessing every aspect of BSC's performance during the period covered by the review.

Notes to editors

1. The Performance Review Committee was set up in April 1981 to determine performance payments of a maximum of £1.15 million to Lazard Freres & Co, New York, who had released Mr MacGregor for his appointment as chairman of BSC, for the three years from 1 July 1980. The amounts were to be based on the committee's assessment of the establishment under Mr MacGregor's chairmanship of a strong and healthy corporation and the improvement (or deterioration) in the performance of BSC in the three years from March 1981.

2. The members of the committee were Mr A G Manzie CB and Mr J A Knox (originally Mr K J Sharpe) nominated by the government, and Mr Albert Frost CBE and Lord Weir, nominated by Lazard Freres, with an independent chairman Mr John Gardiner, chief executive of the Laird Group.

3. The committee's original terms of reference required it to determine a first payment of up to £700,000 when the results for the year ending March 1984 were known, and a second payment of up to £450,000 soon after BSC's results for the year ending March 1985 were available. In 1984 it was agreed between Lazard Freres and the government that both payments would be determined at the same time, after the 1984/85 results were available.

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