

Prime Minister

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CONFIDENTIAL

MR. SCHOLAR

I doubt if there is any point in pursuing John's idea about Mr Benton, Mr Jenkin and Sir P Carey and others in the DoT are clear that he could not be chairman (I am told he

Agreed - but if Benton has 'gone native' in DoT - why are we keeping him? not

BRITISH TELECOM BOARD PAY has 'gone native' in BT). Otherwise agree X?

(attached)

We had a word about Mr. Jenkin's letter of 21 September to the Chancellor, and you said that you had arranged for the Treasury not to respond until the Prime Minister had had a chance to intervene. I have discussed this in some detail with Alan Walters and Ferdie Mount.

We think that the Prime Minister could accept what Mr. Jenkin proposes for the Board members other than the Chairman. In particular, the formula in paragraph 5, under which there is a wide possible range but the total cost is to be kept within 10%, is sensible. But the proposed increase for ^{Sir G} Mr. Jefferson is too large in either of the two forms suggested by Mr. Jenkin. Now that the top marginal tax rate is down to 60%, an increase in his salary from £57,560 to £100,000 is worth over £25,000 after tax.

We think that the first lesson from this situation is the foolishness of engaging nationalised industry chairmen on 5-year contracts without tying them down to sensible rates of pay in the first place: Mr. Jefferson was hired at a reasonable enough figure, but now thinks he has us over a barrel because he thinks he is indispensable.

he isn't

Mr. Jenkin suggests that one way out is to offer a smaller salary increase (to £80,000) and better pension rights. That might be presentationally easier, but it is certainly more expensive. The extra pension rights would cost us over £11,000 a year for as long as Mr. Jefferson is retired, which more than offsets the saving of £20,000 in salary.

So we have to decide how hard we are prepared to negotiate with him, and whether we can risk losing him. I understand that he may have been offered the chairmanship of RACAL, and of course it may be that we cannot keep him any way. It would certainly be difficult

/ to find a

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to find a replacement for him at BT, because he has indeed made good progress in turning what was a rather bureaucratic civil service department into a serious commercial organisation. The DOI clearly have a poor view of the present deputy chairman, Benton, but that must be at least partly based on Jefferson's own view of him, and could be probed. We must be in a position to risk losing Mr. Jefferson, or we would have no basis for negotiating with him; and the increases he seeks could cause enormous difficulties later, both as a precedent for other nationalised industry chairmen, and when it comes to the next BT staff pay negotiations.

No-Mr
Jenkin
knows him
quite well,

If the Prime Minister agrees, therefore, you could write to Mr. Jenkin's office along these lines:

- (i) we accept what Mr. Jenkin proposes for Board Members other than the chairman;
- (ii) we would hope that the Chancellor and sponsor Ministers would give some thought to the desirability of future arrangements with chairmen being on the basis of a multi-year contract which prevents this kind of situation arising; and
- (iii) in the case of Mr. Jefferson, we think the proposed increases are too high in either form, and would want to negotiate with him to bring them down; before doing so, however, we would need to have in mind the possibility (which we would certainly hope would not arise) of losing him, and we should therefore investigate carefully whether either Benton or some outside appointment could replace him.

J.M.M. VEREKER

27 September 1982



10 DOWNING STREET

CC: Emp
En
Ch Sec, HMT
Tpt
Trade
SO
Env
HMT
CO

file BM
Wait Tnd

J. Verelker

30 September 1982

From the Private Secretary

BRITISH TELECOM BOARD PAY

The Prime Minister has seen a copy of the letter your Secretary of State wrote on 21 September to the Chancellor of the Exchequer about the pay of the BT Board.

The Prime Minister is in agreement with the line your Secretary of State is proposing for BT Board members other than the Chairman. As regards the Chairman's salary, she thinks that the increase proposed is too great in either version canvassed in your Secretary of State's letter. She therefore hopes that your Secretary of State will negotiate with Sir George to bring the increase down. The Prime Minister has commented that in the negotiation it will be essential to have in mind the possibility that the outcome will not be acceptable to Sir George, so that you should investigate carefully whether some replacement for Sir George could be found. Mrs. Thatcher understands that Mr. Benton is not regarded as a suitable replacement for Sir George. This has led her to enquire why, then, Mr. Benton is being retained in BT.

The Prime Minister has further commented that she hopes that the Chancellor of the Exchequer and sponsor Ministers will give some thought to the desirability of future pay arrangements with Chairmen being on the basis generally of a multi year contract, so as to prevent this kind of situation from arising.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI) and to Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry

Shy



Mr Flesher

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Nat (und)

Thanks. Noted.

Ms 22/7

MR. SCHOLAR

BT SALARIES

You put into the box a Department of Industry submission on salaries for the Board and Chairman of BT. I understand that the question was raised in connection with the latter as to the acceptability of Mr. Benton, the present Deputy Chairman, if Sir George Jefferson did not continue as Chairman. I understand from Jonathan Spencer that Mr. Benton's appointment as Chairman would be likely to provoke resignations on the part of both executive and non-executive members of the Board and he would, therefore, not be a runner to replace Sir George.

Jonathan Spencer cited this as a further argument in favour of acceding to the suggestion as to Sir George's future salary; if, therefore, the Prime Minister demurs from the proposal he would be grateful if you could have a further word with him before promulgating a decision.

29 September 1982

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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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MANAGEMENT IN CONFIDENCE



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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