

CONFIDENTIAL

hrat. Ind ~~DE~~ sv



Prime Minister (2)

Mrs G/1

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

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

5 January 1983

Dear Patrick

BT BOARD PAY

I am sorry to have been so slow in replying to your letter of 3 December about Sir George Jefferson's salary.

Your revised proposals still entail very large increases, 21% in both 1982 and 1983. But Jefferson's performance has been impressive. It would be a pity to lose him, and we should certainly have difficulty in finding a comparably effective successor at salary levels below those which you now propose. If, therefore, you are convinced that Jefferson will leave BT unless he is offered increases of this size, I accept that he should be awarded £70,000 pa from 1 July 1982 and £85,000 pa from 1 July 1983. I am also content that his pensionable pay should be £60,000 from this July and should thereafter increase in the same proportion as his actual pay.

I note that you are attracted to the idea of a share option scheme for BT's senior management. My own view remains that set out in John Wakeham's letter of 15 October to Norman Lamont, which dealt mainly with Rolls Royce but touched also on the BT case. The artificialities of trying to apply a share option scheme to a corporation while it has no quoted shares, and the uncertainties about the amounts that would have to be paid, lead me to believe that a performance-related bonus scheme would be a better method of providing a financial incentive to BT's senior management to cooperate to the full in achieving privatisation.

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

*[Handwritten signature]*



Nat Incl

Board Salaries

15 JAN 1983







DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

3 December 1982

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

Dear Chancellor,

BT BOARD PAY

Since I wrote to you on 19 November about the pay of executive members of the British Telecom Board, I have heard further from Sir George Jefferson about his own position.

2 You will recall that the non-executive members of the Board recommended that the Chairman's salary should be increased from the present level of £57,650 to £100,000 with effect from 1 July this year. They also proposed that his pensionable salary should be directly related to his final BT salary, rather than linked to the salary appropriate to his previous job at British Aerospace. At the same time, Sir George himself informed me that he had received an offer of a post with Racal that would have given him a total annual income of about £160,000 a year.

3 In the light of your comments and those of the Prime Minister on the non-executive directors' recommendations, I have negotiated hard with Sir George to try to persuade him to accept a significantly lower increase. At the same time, I have had to bear in mind that if he were to decide to leave BT now, this would present a very serious setback to our plans for privatisation.

4 With considerable reluctance, Sir George has now indicated that he would be prepared to accept a staged increase which would give him a salary of £70,000 backdated to 1 July this year and £85,000 from 1 July 1983. I understand that under the terms of his present pension arrangements, his pensionable salary would increase from its current level of £60,000 to a little under £73,000 from next July and would thereafter increase in line with any further enhancement of his BT salary.

*Not Ind*  
*cc J.V.*  
*Prime Minister*  
*£85,000 for Sir G*  
*Jefferson.*  
*Mus 3/12*





5 I hope you will agree that in all the circumstances this is a reasonably satisfactory outcome. I am quite clear from my own talks with Sir George that any less generous offer would almost certainly have resulted in his resigning from BT. I should now like to confirm to him as soon as possible that we are prepared to settle his salary on the basis proposed and I should therefore be grateful for an early response.

6 Sir George has also indicated that he would like to see a share option arrangement introduced which would give his senior management and himself a strong financial incentive to co-operate to the full in achieving privatisation of BT as soon as proves practical. I myself see considerable attractions in such a proposal and will be instructing my officials, in consultation with yours and our merchant bank advisers, to consider what might be feasible. Meanwhile, however, I will give Sir George a non-committal reply on this point.

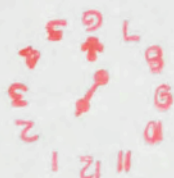
7 I am sending copies of this letter to the Prime Minister, to the other members of E(NI) and to Sir Robert Armstrong.

*Yours sincerely,*

*Jonathan Spence*

*HP* PATRICK JENKIN

(Approved by the Secretary of State and signed in his absence)



3 DEC 1982

Next Ind:

Ron Saleris

Pt 2