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PREM 19/1867

Nationalised Industries Board Salaries

Nationalised Industries

PART 3.

pt 1: May 1980

pt 3: June 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
26.6.84							
<p>PREM 19/1867</p>							
21.11.85							
9.12.85							
19.2.86							
11.4.86							
29.4.86							
<p>PT3 ENDS</p>							

PART 3 ends:-

CST to SS/ENRGY 29.4.86

PART 4 begins:-

INTERVAL HMT MINUTE 21.10.86

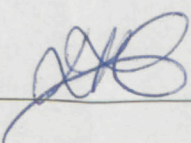
TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(NI)(85) 2	22/03/1985
E(PSP)(85) 1 st meeting minutes	13/06/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB (CABINET OFFICE) CLASSES**

Signed



Date

01/10/2014

PREM Records Team

PAY IN CONFIDENCE

CUB



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1

NBN

29 April 1986

Dear Peter,

NATIONAL COAL BOARD: SALARIES OF NON EXECUTIVE MEMBERS

Thank you for your letter of 11 April to Nigel Lawson. ^{attached}

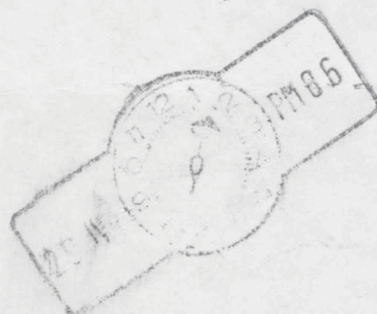
I am content with the proposals for the non-executive members of the National Coal Board to have 4.8 per cent pay increases from 1 November 1985 in line with the recent British Association of Colliery Management settlement for NCB management.

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

JOHN MacGREGOR

PAY IN CONFIDENCE

NAT IND : Board Salaries PT3



SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 11, ABINGDON ROAD, LONDON SW1P 3AG

01 211 6402

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

11 April 1986

R. MacGregor

Ian MacGregor has written to me seeking increases in the salaries of the part-time Board Members. As usual, the Board have delayed their approach pending settlement with BACM; agreement has now been reached on increases in salary ranges for management of 4.8% with effect from 1 November 1985.

No salary ranges now exist for full-time Board Members, and it is therefore not possible to fix part-time members' salaries at the traditional level of one-eighth of the mid point of that scale. Mr MacGregor therefore proposes an increase of 4.8% for all part-time members with effect from 1 November 1985, in line with the BACM settlement. A similar method was adopted last year for the 1983 and 1984 settlements.

The current salary for part-timers is £5,024, with the exception of Sir Melvyn Rosser who receives £11,067 for a commitment of 60 days a year. An increase of 4.8% would take these amounts to £5,264 and £11,598 respectively.

The salaries of the Deputy Chairmen and the full time Members are not yet subject to review.

I endorse Mr MacGregor's proposals and would welcome your agreement to them. I am copying this letter to the Prime Minister, members of E(NI) and Sir Robert Armstrong.

Peter Walker

PETER WALKER

Not Incl: Board Salaries



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MR NORGROVE

19 February 1986

NATIONALISED INDUSTRY BOARD PAY

There really is no reason why nationalised industry directors should continue to expect higher basic pay increases than their troops. (Your recent PQ answer showed the average Chairman's salary has increased by 45% in real terms since 1979). If their individual performance has been particularly good then the right and proper way to reward them is by a performance-related bonus.

Only four nationalised industries currently have such schemes. This may reflect a lack of specific objectives being set for the other industries - not just on profit and cash flow but on privatisation dates, productivity etc. Objective criteria to measure performance are essential not just for rewarding the management but to force individual Departments to make clear exactly what it is they expect of the industries they supervise.

The Hay-MSL salary survey is horrifying. More than any other organisation Hay-MSL must be responsible for the explosion in white collar salaries of recent years. To let them loose on nationalised industry boards would be to guarantee another TSRB row.

We recommend that:

1. basic board pay rises be limited to the same as the workforces they control;
2. the only way Ministers should be even allowed to propose higher pay rises is through performance bonus schemes.
3. the Hay-MSL proposal should not be pursued.

Peter Warry
PETER WARRY

cds/vf



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P 01922

PRIME MINISTER

Nationalised Industries' Board Members' Pay

FLAG A — E(NI)(86)3

BACKGROUND

The Chief Secretary, Treasury has circulated his now annual note summarising the pattern of pay settlements for Nationalised Industries' Boards (NIBs) and suggesting proposals for the Government's approach to 1986 settlements, before he holds further talks with the Nationalised Industries Chairmen's Group (NICG).

MAIN ISSUES

2. The main issue is to agree the principles which should guide sponsoring Ministers when considering pay proposals from NIBs. There are no specific proposals on the table for any particular NIBs: these will continue to be cleared by sponsoring Ministers as they arise in correspondence with the Chief Secretary.

3. The Government has two main objectives:

(i) as sponsor of the nationalised industries, to attract and retain first class managers, and reward outstanding performance; and a subsidiary objective to avoid any open dispute about pay if possible;

(ii) in relation to pay policy, to avoid settlements that give the wrong signals to both employers and unions in other parts of the public sector and more widely.

Assessment of 1985

4. Last year the Committee agreed that there could be no precise,

universal rule for setting NIB pay, and that Ministers would always have to take wider considerations into account when dealing with particular proposals. Within the inevitable constraints, Ministers should operate the arrangements in a robust and flexible way, giving particular emphasis to the performance of individuals. It was agreed that the general objective should be to avoid an average increase in 1985 higher than the previous year, ie 8 per cent. (E(NI)(85)2nd Meeting, Minute).

5. In the event, average increases in 1985 were 7.9 per cent for chairman and executives, and 8.4 per cent including non-executive board members. Although for some boards all members received the same increase, for some others there was a considerable range: for example increases for the BR exexutive board members ranged from 7.1 per cent to 19.7 per cent.

Prospects for 1986

6. For the coming year, the Chief Secretary proposes that the objective should again be to negotiate aggregate average increases lower than in 1985. It will, as always, be difficult to hold this line, particularly following last year's TSRB settlement which NICG see as a precedent. They argue that there is a growing gap between NIB pay and that in the private sector. There has undoubtedly been a significant jump in pay in the senior levels of the private sector, and board members in newly-privatised companies have often given themselves substantial increases. NICG have argued for a comprehensive review by Hay/MSL to establish ranges for the members of each board, but such a review would be based largely on crude comparability arguments and the Chief Secretary has rejected it.

7. The Government's policy is that the determining factor should not be comparability but what it needed to recruit and retain good managers. But since it is recruiting in the same market as private sector companies, the Government cannot fail to have some regard to the levels of salary operating in that market. The Secretary of State for

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--- Transport (in a letter of 10 December to the Chief Secretary) argues that there is at least as good a case for applying to NIBs the criteria which the TSRB adopted in respect of the senior civil service last year and he is supported by the Secretary of State for Energy (letter of 19 December to the Chief Secretary).

--- 8. The Paymaster General argues on the other hand that there should be no special treatment for members of boards if the line is to be held on pay policy generally (letter of 31 December to the Chief Secretary). High increases for senior board members are clearly a factor leading to high aspirations among the workforce generally (and a feeling of guilt in the management weakens their hand in pay negotiations). Pay rises in the public trading sector last year averaged 5.5 per cent (slightly below the private sector), ie somewhat below those for board members. The Committee will therefore need to balance managerial considerations against the possible difficulties for pay policy.

Performance Incentives

9. The Chief Secretary raises again the importance of performance bonus schemes, which he sees as an effective and defensible way of rewarding successful performance. The principle was welcomed last year, but so far only the British Steel Corporation, The Post Office, the British Airways Authority and the Chairman of British Shipbuilders are covered. The Committee will no doubt endorse the principle again, but you may care to ask individual Ministers what scope they see in their own particular industries.

Minor Issues

10. The Chief Secretary raises two minor issues, following up last year's discussion. The Committee agreed that boards should be asked not to commission major reviews of internal relativities and absolute pay levels unless they have first consulted their sponsor minister. The NICG is resisting a formal requirement for prior consultation, and the Chief Secretary does not intend to press this point.


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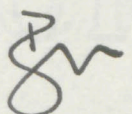
11. Secondly, the Committee agreed on the importance of settling annual increases promptly. The Chief Secretary now proposes a target of 6 months from the settlement date, and within 3 months of receiving proposals from each chairman. This seems reasonable.

HANDLING

12. You will wish to ask the Chief Secretary to introduce his paper. All sponsor Ministers are likely to wish to contribute, particularly the Secretaries of State for Transport and for Energy and the Paymaster General will wish to speak on the implications for pay policy.

CONCLUSIONS

13. You will wish to reach decisions on the six points set out in paragraph 18 of the Chief Secretary's paper.


J B UNWIN

19 February 1986
Cabinet Office

CS

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rec'd.

CC/BG



Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213...5949.....
Switchboard 01-213 3000

The Rt Hon Peter Walker MBE MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

December 1985

N BAN

Dear Peter,

BGC AND ESI BOARD PAY

I have seen your letter of 21 November to Nigel Lawson. I am pleased that you have been able to reconsider the proposed pay increases for board members of the British Gas Corporation. I am content to accept your revised proposal to offer 8% to board members of BGC and to make a similar offer to board members in the Electricity Supply Industry.

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

KENNETH CLARKE

cc 1/5 SOS
PLS Mr Clarke
Mr. DB Smith
Mr. N. Covington
Mr. Wragg
S.

1255

NAT IND PT 3

BOARD SALARIES



CCBG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

SNBMB

gn.

December 1985

Dear Peter,

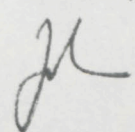
**BRITISH GAS CORPORATION AND ELECTRICITY SUPPLY INDUSTRY:
 BOARD PAY 1985**

You wrote to Nigel Lawson on 21 November with revised proposals for the pay of the British Gas Corporation (BGC) board members and making proposals for board members in the electricity supply industry (ESI).

I am grateful that you have felt able to propose lower increases for the BGC board members. From discussions between our officials, I understand that the uniform 8 per cent increase you now propose for both BGC and the ESI applies to the pay ranges and flat rates for all the chairmen, and the board members, both full and part-time.

On the above understanding, I am prepared to agree to your proposals. I suggest our officials should settle the precise ranges and flat rates. I should be grateful, however, if you would try to ensure that individual performance is taken into account when salaries are determined on the revised ranges. More generally, as I recently made clear to the NICG, I feel strongly that we should be encouraging the development of soundly-based performance-related pay schemes for nationalised industry boards. I hope we can pursue this for future years, and that you will be able to put forward proposals next year. Our officials might usefully discuss this.

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

Yours etc,


JOHN MacGREGOR

NAT IND
BOARD SALARIES
PT 3





cc: BG

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 3AG

01 211 6402

Prime Minister 2
Possibly relevant to
Thomas's dinner.

NBP 7.

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

21 November 1985

BGC AND ESI BOARD PAY

I wrote to you on 18 September with my proposals for the 1985/86 pay award for BGC Board Members. I have since received John MacGregor's letter of 31 October asking me to reconsider the matter and Kenneth Clarke's letter of 4 November. I have also now received proposals covering the electricity supply industry.

As far as BGC is concerned I have reviewed the position carefully. The tight privatisation programme is subjecting the Corporation to a heavy added burden and I remain convinced of the justness of my proposal for a 10% across the board increase. However, I am not prepared at this stage to enter into a protracted debate and, with great reluctance, I would be prepared to accept a uniform 8% increase.

In the case of the electricity supply industry Mr Philip Jones, Chairman of the Electricity Council, has argued for a 'significant enhancement' of Board Members' salaries with effect from 1 April 1985. Mr Jones did not convene the ESI Advisory Panel on Members' Salaries this year since he feels that the comments and arguments made by them last year are still valid. These related to adverse comparisons with the pay of TSRB groups and directors of industrial companies with a lower turnover than the ESI; difficulties over retention and recruitment; and minimal differentials between Board Members and senior management. He considers that, as the salaries of Board Members of nationalised industries were taken out of the TSRB ambit so that they could be treated more flexibly, it would be manifestly unfair and unreasonable if they were now to be treated less favourably than those covered by the recent TSRB settlement. He also argues that the achievements of the industry during the miners' strike and its financial performance should be recognised.

In my view, there are strong arguments for giving ESI Board Members a significant increase this year, not least in recognition of the

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industry's performance during the miners' strike. However, I also recognise the arguments for restraint and, in the interests of a quick settlement, I would reluctantly be prepared to accept that they too should receive only an 8% increase across the board for this year.

In the circumstances I hope you can agree quickly to my proposals. I am copying this letter to the Prime Minister, to other members of E(NI) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'P Walker', with a large, sweeping initial 'P'.

PETER WALKER

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NAT IND: Board Salaries : Pt 3 .

PAY IN CONFIDENCE



NBPM.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Millbank
 London
 SW1P 4QJ

Dear Peter,

31st October 1985

BRITISH GAS CORPORATION: BOARD MEMBERS' PAY 1985

You wrote to Nigel Lawson on 18 September about pay increases from 1 April 1985 for the Chairman and members of the British Gas Corporation board.

I am surprised that you propose an across-the-board increase of 10 per cent. The Prime Minister's letter of 10 May pointed out to the Remuneration Committee that the BGC board had salary levels towards the upper end of those for board members of nationalised industries as a whole. Your proposal is not only far more generous than the approach to nationalised industry board members' pay agreed by E(NI) earlier this year, but also increases all range points and flat rates by the same percentage.

I do not believe that the planned privatisation of BGC in Autumn 1986 justifies treating their 1985 board members' pay review as a special case. I do not imagine that recruitment and retention of BGC board members will be a problem in the run-up to privatisation nor will lack of motivation. The BGC board are certainly not badly paid in comparison with other nationalised industries and I think that we are storing up trouble elsewhere if we pay them an above-average increase.

I should be grateful, therefore, if you would consider more moderate proposals for BGC board pay in 1985 in line with the discussions at E(NI). Of course, that would not rule out some increases being higher than others if justified, for example on retention and motivation grounds, so long as the average of the increases is acceptable.

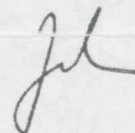
PAY IN CONFIDENCE

PAY IN CONFIDENCE

I would have liked to have considered your proposals for the Electricity Supply Industry (ESI) at the same time as dealing with this. I understand that you are not quite ready to bring forward your ESI proposals but I hope that you will do so shortly as they are now overdue.

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

Yours ever,



JOHN MacGREGOR

PAY IN CONFIDENCE

FILE

cc JOE D/N
SO DM
DT CZ
D/T CO
CO WO



10 DOWNING STREET

From the Private Secretary

16 October 1985

**NATIONALISED INDUSTRY BOARD MEMBERSHIP
GUIDANCE NOTE**

The Prime Minister is content with the revised version of the guidance note attached to your letter to me of 14 October.

I am sending a copy of this letter to the Private Secretaries to members of E(NI), Colin Williams (Welsh Office) and Michael Stark (Cabinet Office).

(David Norgrove)

Tony Kuczys, Esq.,
HM Treasury.

dg



a DTI
+ copy of Learmond's letter

10 DOWNING STREET

THE PRIME MINISTER

15 October 1985

Dear Mr Learmond

Thank you for your letter of 11 September.

I am grateful to you for writing about Bob Scholey. It was good of you to set out your views about his suitability for the job as Chairman of the British Steel Corporation in the way that you did. Let me also say how cheered I was to learn that Sheerness are now back to profitability. That is good news and I hope that business improves still further.

Yours sincerely
Margaret Thatcher

Peter Learmond, Esq.

slw



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

D Norgrove Esq
10 Downing Street
LONDON SW1

Prime Minister /

14 October 1985

This takes on board your comment
on para 4. Para 2 has also been changed
in the light of your comments - you will
want to look at that.

Content?

Dear David

Yes not DNV 15/10.

NATIONALISED INDUSTRY BOARD MEMBERSHIP GUIDANCE NOTE

The Chancellor's letter ^{of} 30 August to the Secretary of State for Transport, copied to E(NI) members and the Secretary of State for Wales, enclosed a draft guidance note for nationalised industry board members. This has now been revised in light of comments and I enclose a copy of what we hope is the final version.

We have taken account of all the comments made in your letter to Rachael Lomax dated 10 September. The Prime Minister additionally asked whether conflicts of interest are not in fact already dealt with in the Companies Act. They are but because nationalised industries are not generally companies this is not directly relevant. We do not think it worth extending the coverage of the note to cover those board members who are directors of nationalised industry subsidiaries (which will be companies).

Some sponsor Ministers indicated that in sending the note to their own industries in due course, they might want to supplement it with additional material specific to their own industries or subsume such material within the general note. It has also been suggested that sponsor Ministers should retain some discretion on terminology and over the circulation of the note including whether it should go in its entirety to all board members. The Chancellor is content with these points although he hopes that the note will in fact be widely circulated.

Before the note is sent to board members, by sponsor Departments, the Chancellor intends to send an advance copy to Sir Robert Haslam to let the NICG know what we are doing. If you or any Departments have any comments on the attached draft therefore,



I would be grateful if you would let Treasury officials or myself know by Monday 21 October.

I am sending a copy of this letter to Private Secretaries to members of E(NI) and the Secretary of State for Wales, and to Michael Stark.

Yours sincerely
Tony Kuczys

A W KUCZYS

NATIONALISED INDUSTRY BOARD MEMBERSHIP

Nationalised industry board members must comply with the obligations imposed on them by individual industry statutes and by the terms of their appointment. Subject to any such overriding obligations, board members are also expected to act in accordance with the guidance set out in this note. It aims to answer questions often raised by members, particularly on first appointment, and may be of particular interest to non-executive board members.

2. The normal channel of communication between a board and its sponsor Minister is the board's Chairman. Although all board appointments are made by the Secretary of State and direct communication between individual members and their appointing Secretary of State is not ruled out if circumstances require it, such communications will normally be with the knowledge and approval of the Chairman.

3. Non-executive board members share with executive members the collective responsibility of the board for the control and management of its business, and are expected to exercise their best judgement in the general interests of the industry. In the rare cases where a non-executive member is appointed to represent specific interests as well as sharing collective responsibility, this will be made clear at the time of the appointment.

4. The Chairman of a board may allocate specific responsibilities to individual non-executives. In general, non-executive members are expected to ensure that:

(i) the industry is developing in accordance with the objectives agreed by the Secretary of State. Non-executive members, being detached from the day to day affairs of the industry and without personal executive responsibilities, are expected to take an independent view of the issues involved and should ensure that appropriate alternative strategies aimed at meeting the industry's objectives are properly considered. They should draw the board's attention to any divergence from its objectives and to the need for corrective action, and to any objective which no longer seems appropriate.

(ii) adequate information about the business is available to the board including up-to-date management information on, for example, production statistics, profits and capital expenditure broken down by operating divisions and compared with approved budgets.

(iii) proper efforts are made by the industry to improve effectiveness and efficiency. Non-executive members should take a special interest in the internal efficiency of the industry. This will, for example, often involve non-executive members joining a formal audit committee responsible for monitoring performance and identifying areas requiring study and for following up the results of such studies. Efficiency scrutiny has particular importance in industries which are not fully exposed to market forces.

(iv) steps are taken to implement the findings of external efficiency enquiries, whether by the MMC, the industry auditors, or any other group from time to time involved.

Board pay

5. The Chairman and non-executive members of the board may be expected from time to time to recommend salaries for full-time board members; and non-executive members' advice may also be sought on the Chairman's salary. In making recommendations, a number of considerations should be taken into account. These include the performance of the individuals concerned and the whole industry; the need to recruit and retain able people whether from inside or outside the industries; the need to retain and reward Board members of experience and ability; pay settlements within the industry, including possible effects on those settlements from changes in board pay; the general approach of the Government of the day to public sector pay; and the general economic climate. Rewarding above-average performance, whether by individuals or by Boards as a whole, through soundly-based performance pay schemes may be appropriate in some cases.

6. Although it is open to boards to seek independent advice on pay levels, the considerations set out in paragraph 5 are still expected to apply. From time to time, major reviews of internal relativities and absolute pay levels of individual Boards may be necessary but such reviews should only be initiated after consultation with the responsible sponsor Minister.

Conflicts of Interest

7. For some boards, statutory provisions or specific standing instructions may apply about board members avoiding and disclosing conflicts of interest, and these should be strictly observed. The points made in paragraphs 8-11 below are all subject to this.

8. Members generally have a statutory duty to disclose the nature of any direct or indirect interest they may have in any contract made, or proposed to be made, by their board. Members should disclose the nature of any interest at a meeting of the board or by giving general notice that they are a member of a specified company. Any such member shall not take part in any deliberation or decision of the board with respect to the contract.

9. To avoid any potential conflict of interest, non-executive board members will wish to take particular care to avoid joining the boards of companies operating in such similar or related activities that the performance of their duties to the nationalised industry would be seriously impaired. Guidance should be sought in case of doubt. Before taking up any additional outside appointments, members should satisfy themselves about the solvency and general bona fides of the companies concerned in order to avoid any potential embarrassment.

10. Executive board members may be encouraged to take on non-executive directorships within the private sector to widen their horizons but the approval of the board's Chairman and the Secretary of State should be sought before any such appointments are accepted.

11. During their term of office, opportunities may arise for

non-executive board members to undertake consultancy or similar assignments on behalf of the industry or for them to take up appointments in associated companies. It is recognised that in certain circumstances they may be able to offer services beneficial to the industry without detriment to their independent position as non-executive members. However, any possible conflict of interest should be avoided, and if after consultation with the board Chairman and/or board's legal adviser there is still some doubt, or if any payment might be involved, the Secretary of State should be consulted before any such appointment is accepted.

Parliamentary Activities

12. Board members should be aware that under the House of Commons Disqualification Act 1975, and the European Assembly Elections Act 1978, they are debarred from holding office as members of either the House of Commons or European Assembly, while they are members of nationalised industry boards. Long-established conventions apply to the Parliamentary activities of members of the House of Lords who are also members of nationalised industry boards and a copy of these conventions is attached (Annex A).

Political activities

13. A copy of the standard guidance on board members' political activities is attached (Annex B).

October 1985

PEERS AND PUBLIC BOARDS : THE "ADDISON RULES"

A Lord who is a member of a public board, whether commercial or non-commercial in character, is not by reason of such membership debarred from exercising his right to speak in the House of Lords, even on matters affecting the board of which he is a member; and it is recognised that, in the last resort, only the Lord concerned can himself decide whether he can properly speak on a particular occasion.

2. The following guidance (based upon that given by the then Leader of the House, Viscount Addison, on the 21st March 1951, after consultation and agreement between the Parties) may be helpful to Lords who are considering whether or not to take part in a particular debate.

"When questions affecting a particular Board or public Boards in general arise in Parliament, the present Minister and the Government of the day generally are alone responsible to Parliament. The duty of reply rests with Ministers only, and cannot devolve upon members of public Boards who may also be members of the House of Lords. There can be no question of Board members replacing, or usurping the functions of, Ministers and dealing with matters of Ministerial responsibility. In the Commons, of course, the possibility could not arise, because a Member of that House must resign his seat on accepting an appointment of this nature.

Further, we agree that it is important that, as contemplated by the Statutes and, in the case of the BBC, by the Charter, the Boards shall be free to conduct their day-to-day administration without the intervention of Parliament or Ministers, except where otherwise provided. If Board members who happen also to be Peers were to give the House information about the day-to-day operations of the Board or to answer criticisms

respecting it, the House would in fact be exercising a measure of Parliamentary supervision over matters of management. It would also be difficult for the responsible Minister not to give similar information to the House of Commons.

We also agree that there is no duty upon the Board member to answer questions put to him in debate, and that no criticism should attach to any member of a Board who refrains from speaking in a debate. Nor should the fact that a member spoke in a particular debate be regarded in any way as a precedent for him or any other member speaking in any other debate.

Finally, I should like to make it clear that what I have said applies only to debates relating to public Boards. Experience acquired as a member of a public Board will often be relevant to general debates in which the same considerations do not arise, and the contributions of Board members who are Peers may be all the more valuable because of that experience.

We do not think that this Statement can better be summed-up than by words taking from one of the memoranda exchanged:

"The House of Lords is a sensible body; and the latitude to speak or refrain from speaking, inherent in a Peer, is not likely to cause embarrassment. Indeed, any attempt to lay down a hard and fast rule would be more likely to cause embarrassment."

Bibliography

1. House of Lords Official Report 21 March 1951 Col 1241-2
2. Second Report from the Select Committee of the House of Lords on Procedure of the House 3 February 1971.

POLITICAL ACTIVITIES

Rules for the Guidance of Members of Public Boards

(a) Members of Boards, whether whole-time or part-time, should not serve as officers carrying out executive duties in any political Party.

(b) Whole-time members should abstain from controversial political activity.

(c) Subject to (a) above, part-time members should be free to engage in any political activities, provided that they are conscious of their general public responsibility and exercise a proper discretion, particularly in regard to the work of the Boards of which they are members. On matters affecting that work, they should not normally make political speeches or engage in other political activities.

(d) Members of Boards, whether whole-time or part-time, who are also Members of the House of Lords will no doubt be guided in their conduct in that House by the Statement made by Lord Addison in the House on 21st March, 1951 as amended by the Second Report from the Select Committee on Procedure of the House, 3rd February 1971 (see Annex A).

(e) All members of the Boards should be free to maintain associations with Trade Unions, Co-operative Societies, trade associations, &c., to the extent that such associations do not conflict directly with the interests of the Boards to which they belong.

(f) Any member of a Board who is doubtful about the application of these rules, or about the propriety of any political activity, should seek guidance from the Minister responsible for his Board.

(g) The foregoing rules apply equally to political activity on behalf of any of the political Parties.

NAT IND

BOARD SALARIES

PT 3

SECRET

File DA 10



10 DOWNING STREET

From the Private Secretary

30 September 1985

NATIONAL COAL BOARD: SIR ROBERT HASLAM'S SALARY

The Prime Minister has seen your letter to me of 27 September. She agrees the proposed basis of compensation to Sir Robert Haslam for the loss of his Tate and Lyle share options.

(DAVID NORGROVE)

A. W. Kuczys, Esq.,
HM Treasury.

JB



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

27 September 1985

David Norgrove Esq
10 Downing Street
London W1

Prime Minister

Agree the proposed

basis of compensation?

DN 27/9

Dear David

NATIONAL COAL BOARD: SIR ROBERT HASLAM'S SALARY

attached

The Chancellor has seen the Secretary of State for Energy's letter to him of 23 September, and your letter of 24 September to John Mogg.

He sees presentational difficulties in the proposed basis of compensation to Sir Robert Haslam for the loss of his Tate and Lyle share options. Taking Sir Robert's own figures, that the option might be worth 200p a share by 1988, he might receive a grossed-up payment of around £100,000 at that time. In defending this publicly, it would be clear that this payment did not relate to the performance of the National Coal Board under Sir Robert's chairmanship, but to the performance of Tate and Lyle since his departure. This could put Ministers in a difficult position.

Nonetheless, the Chancellor would be inclined to accept Mr Walker's proposal, provided the Prime Minister agrees. I should be grateful if you could let me know the Prime Minister's views.

Yours sincerely
Tony Kuczys

A W KUCZYS

Compensation = the loss. I agree the
proposed basis
re.

SECRET

FILE

7

DSG
8



10 DOWNING STREET

From the Private Secretary

24 September 1985

Dear John,

CHAIRMANSHIP OF BSC

The Prime Minister has seen the Secretary of State for Energy's report (letter to the Chancellor of 23 September) that Sir Robert Haslam has agreed a salary for his appointment at the NCB, and it seems likely that full agreement on a package will soon be reached.

In the light of this, she has asked what consideration has been given to finding a replacement for Sir Robert Haslam as Chairman of BSC. She hopes that an open mind will be kept on the possibility of outside candidates. She has, for example, heard good reports of Graham Day's performance at British Shipbuilders.

She believes that whoever is chosen, a clearly agreed mandate for the new Chairman will need to be given. This will need in particular to cover the objectives for privatisation to the maximum extent possible of parts of BSC.

I am sending a copy of this letter to Rachel Lomax (HM Treasury).

Yours sincerely,

David

David Norgrove

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

SECRET



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

24 September 1985

NBRM

Dear Nigel

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

Thank you for your letter of 30 August and the draft note attached to it.

I would myself see advantages in combining the statement on pay determination with the more general guidance about the role of non-executives, although I would question the need to repeat information about political and parliamentary activities which is already part of the standard appointments package.

On pay, however, I wonder whether much is added by the reference in paragraph 5 to Government policy on "Nationalised industry board pay in particular". The industries might argue that one of the main problems in this area has been a lack of positive overall guidance. I would also question whether it is necessary to refer to the possibility of using external consultants in the first sentence in paragraph 6. Would we not normally expect the involvement of such consultants to be in the context of the kind of major review described in the second sentence of that paragraph?

I agree with Peter Walker that it would not be appropriate to send this guidance to members of industries on their way to joining the private sector - such as British Airways, British Airports Authority and the National Bus Company in my own case.

The note might be redrafted to avoid the use of the word "industry" which is not really appropriate for boards such as the Civil Aviation Authority.

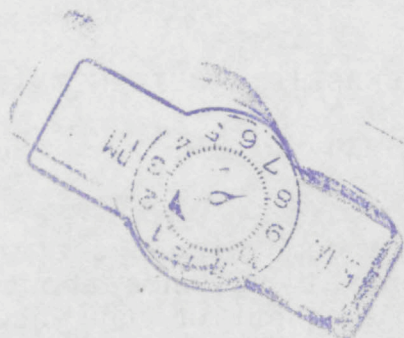
I am copying this letter to the Prime Minister, to other members of EN(I), to the Secretary of State for Wales, and to Sir Robert Armstrong.

NICHOLAS RIDLEY

NAT IND

BOARD SACARIES

RT 3





DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

24 September 1985

NIBAT

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

De Nigel,

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

Your letter of 30 August to Nicholas Ridley invited comments on a guidance note which you propose should be sent to all members of the boards of nationalised industries. I have also seen the Prime Minister's comments as given in her private secretary's letter of 10 September; George Younger's letter of 13 September, and Kenneth Baker's letter of 19 September.

2 While I agree that it would be useful to issue a note, I have some reservations about the version you circulated. First, I think that the introductory paragraph could lay far greater stress on the need for board members to give priority to meeting their statutory obligations, which must override any non-statutory duties. A guidance note of general application such as the draft is meant to be can only supplement the statutory and other duties peculiar to each individual industry; that needs to be made clearer.

3 I also have a number of specific points on the draft as follows:

- (a) It would be helpful to clarify which parts apply to executive members. which to non-executives, and which to both. For example, under the side heading "Role of non-executive board members" paragraph 3 deals with the non-executives and executives; and paragraph 5, under the side heading "Board pay", deals with one of the roles of non-executive members.
- (b) It would also be helpful to spell out any differences between the statutory duties of nationalised industry boards and the predominantly common law duties of directors of companies governed by the Companies Act - which include subsidiaries of nationalised industries.
- (c) The note should cover the position of board members in dealing with proposals which reflect wider policy which

JFLAGI



may not coincide with the immediate commercial interests of the industry.

- (d) It might cover the rules for executive members taking on appointments outside the industry.
- (e) It might also cover whether, or under what controls, members may receive remuneration from the industry outside the board salary fixed by the Secretary of State.
- (f) As conflicts of interest are in many cases dealt with in primary legislation paragraph 7 should open "For some boards, statutory provisions or specific standing instructions.....". "Statutory provisions" includes primary and secondary legislation. This opening sentence should also qualify paragraphs 8 and 9. To make this clear, in the first sentence of paragraph 8 the phrase "in the absence of any statutory provisions or standing instructions" could be added after "interest".
- (g) In the light of the Prime Minister's comments you will no doubt be reconsidering the relationship between paragraphs 2 and 4(i). The wording of paragraph 4(i) could certainly be tightened up. I suggest the following:

"(i) the industry is developing in accordance with the objectives agreed by the Secretary of State. Non-executive members, being detached from the day to day affairs of the industry and without personal executive responsibilities, are expected to take an independent view of the issues involved, and should ensure that, where appropriate, alternative strategies are properly considered."

4 Depending on any revision of paragraph 2 it may be sufficient for paragraph 4(i) to conclude:

"They should draw the board's attention to any divergence from its objectives and to the need for corrective action, and to any objective which no longer seems appropriate."

5 I am sending a copy of this letter to the Prime Minister, other E(NI) members, the Secretary of State for Wales and Sir Robert Armstrong.

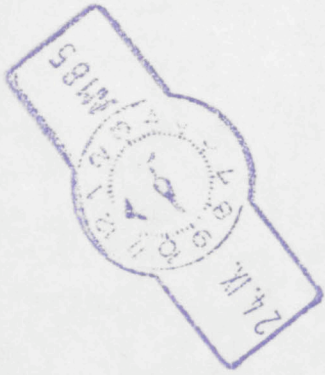
Leon Brittan

JFLAGI

LEON BRITTAN

NAT IND: Bond Salaries.

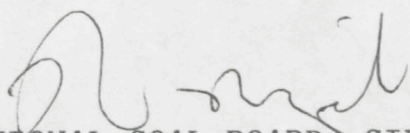
Pt 3.



01 211 6402

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

23 September 1985



NATIONAL COAL BOARD: SIR ROBERT HASLAM'S SALARY

Thank you for your speedy and helpful letter of 11 September about the salary proposals for Bob Haslam.

You will be glad to know that I was able to persuade him to accept an annual salary (both as full time Deputy Chairman and subsequently as Chairman of the NCB) of £145,000. This is a lower figure than the combined remuneration he will be receiving in the current financial year from Tate & Lyle and BSC. He has also agreed that his salary should not be reviewed until 1 November 1987 and that he should accept no remuneration over his period as part time Deputy Chairman. He does not seek to draw any immediate pension from the BSC scheme so that no question of abatement will arise. He will probably wish to find some way of transferring his BSC pension rights to the NCB. This should present no difficulty of principle but the details can be discussed by officials in due course.

He is however unable to accept the proposal that he should be compensated for the loss of his Tate & Lyle share option on the basis of the market price applying at the time when he leaves that company at the end of February 1986. This option, which is first available from 31 January 1988, dates only from 31 January 1985. There is likely to be only a small appreciation on the option price of 438p by next February. He is firm in the view that he would not be prepared to accept fixed compensation in advance for the value of the option at a figure less than 200p a share. He does not however favour settling the matter on that basis. He wishes to receive neither more nor less than he would have been able to receive by retaining the option and exercising it in 1988. I therefore suggest that we should devise a solution designed as far as possible to achieve that result. In essence this means that we should agree now to pay him a lump sum in 1988 which would, on a post tax basis, correspond with the sum he might have received by exercising the option at that time. One way of doing this might be to calculate the amount by which the Tate & Lyle share price, averaged over an agreed period of months in 1988, had exceeded the option price of 438p.

He might in fact have exercised it earlier

SECRET



Since Bob Haslam has been very co-operative in fitting in with our plans and over the rest of the remuneration package, I very much hope you will agree that we might settle the compensation for the share option on the lines set out above. Our officials might then work out the details.

I am sending copies of this letter to the Prime Minister, Leon Brittan and Sir Robert Armstrong.

A large, stylized handwritten signature in dark ink, consisting of several loops and a long tail.

PETER WALKER

SECRET

Not Industry; Board Salaries.





10 DOWNING STREET

Prime Minister

Mund
nr

Agree to use Mr Walker's
letter (below) as a peg for
Peter Wainwright's suggested
letter?

If so, I suggest a more
neutral approach:

- ✓ - what are their thoughts
on a replacement;
- ✓ - hope keep an open mind
on inside candidates
eg Day, of whom you have
heard good reports;
- ✓ - in any case need to
draw up a mandate.

(It seems undesirable to
express too firm a view to Mr Butler
at this stage. He must be allowed
to have a first view.)

DHS
23/9

P.
MR NOBGROVE

23 September 1985

CHAIRMAN OF BSC

A successor is needed for Bob Haslam at BSC now that he is destined for the Coal Board. An obvious candidate would be Bob Scholey who has effectively run BSC for the last 10 years. But his formidable knowledge of the steel industry may be as much a disadvantage as an advantage, and his results at BSC over the years speak for themselves. Scholey is unlikely to tolerate interference by any new Chairman and might well leave - but perhaps it is time for a change.

Easily the best performer as Chairman of a declining nationalised industry is Graham Day. Once Government policy has been established he has carried it through cleverly and without demur. He is the only Chairman prepared to sell off profitable activities (in his case warshipyards), so as to concentrate management effort on the residual loss-making rump. The British Shipbuilders workforce has been more obstructive than that of BSC and its product markets even worse than those for steel. Day is well capable of running a larger industry, and both Brian Griffiths and John Redwood agree that he is the ideal candidate for BSC.

Whoever is chosen, DTI (perhaps in conjunction with Bob Scholey) should be drawing up a set of policies and plans that would act as a mandate for the new Chairman. This should include agreement to sell off all the profitable parts of BSC and disposal of their 'long legs' (the operations between primary steel-making and the processed product ready for the ultimate customer.)

Why not ask DTI to indicate their thinking on the new Chairman, to suggest that Graham Day seems an ideal candidate (perhaps with Scholey replacing him at Shipbuilders), and to ask them to start drawing up a mandate for the new Chairman?

Peter Warry
PETER WARRY



cc 20

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

My ref: J/B/PSO/16897/85

Your ref:

NBPN
BR

19 September 1985

John Major

Thank you for your letter of 30 August addressed to Nicholas Ridley and other members of E(NI) about the issue of a standard guidance note to nationalised industry board members.

We routinely issue to new members of water authorities and the British Waterways Board advice on conflict of interest and political activities. Your proposed guidance note will therefore provide useful additional information.

However, paragraph 5 of the note is a little awkward for us as regards water authorities and BWB. The structure of the water industry, with its nine separate but related regional water authorities means that in practice salaries for Chairmen and executive members are determined by Ministers after taking account of the effect on the industry as a whole. BWB has no full time or executive board members and non-executive members are less "detached" than on other boards. There is therefore no proper role for remuneration committees.

As your letter suggests we will be able to issue a supplementary note to make the position in the water industry clear.

/ I am sending a copy of this letter to the Prime Minister, other E(NI) members, and the Secretary of State for Wales and to Sir Robert Armstrong.

John Major

Kenneth Baker

KENNETH BAKER

The Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer

NAT INDUSTRIES
BOARD SALARIES

PT 3



CLW

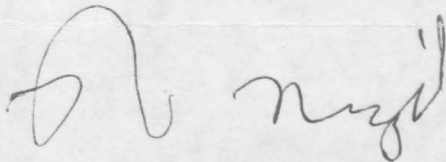
01 211 6402

Avant Treaty response

File with MEN

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

18 September 1985



NATIONALISED INDUSTRY BOARD PAY

I have received a recommendation for the 1985/86 pay award for BGC Board Members. The recommendation comes from the Corporation's Remuneration Committee and is for a minimum increase of 10% for full-time and part-time Members.

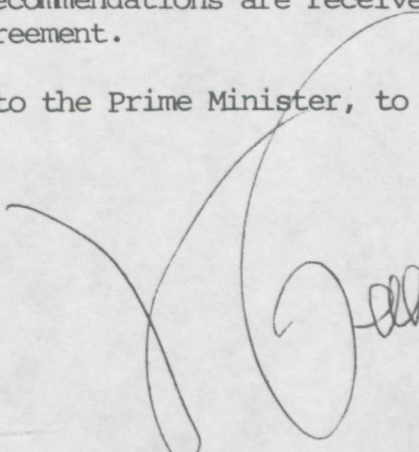
The recommendation is based on advice from the management consultants, HAY/MSL. The Remuneration Committee remain convinced that a more appropriate basis for salary awards would be the earlier HAY/MSL report (suitably updated); but in reaching their recommendation they have taken account of the Prime Minister's letter of 10 May (to Mr Greenbury, representing the part-time Members) and of my discussions with them.

pay please X

I consider that an across-the-board award of 10% is the minimum we could expect the Members to accept in view of the efforts they will have to make towards privatisation. There is no reason why this award should have direct implications for other nationalised industry boards, since privatisation makes BGC a special case. I believe similar considerations influenced awards made to the BT Board prior to privatisation.

I believe that the Corporation has taken a pragmatic approach to this year's salary review, and that we should recognise this by offering an award swiftly. As you yourself said at E(NI), it is certainly desirable that we avoid unnecessary delays once recommendations are received. I therefore hope you can let me have your early agreement.

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



PETER WALKER

NAT 113

Band Saleris



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

13 September 1985

Dear Nigel,

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

Thank you for copying to me your letter of 30 August to Nicholas Ridley enclosing a draft guidance note for members of NI Boards.

I am content with the terms of the text and agree that it provides a useful basis on which Board members can develop their roles. I wonder however if we need to separate the general considerations in your note from the industry-specific material which you suggest sponsor Departments prepare as a supplement. My own preference would be to produce specific guidance for the Electricity Boards and the Scottish Transport Group subsuming the important broad order principles embodied in the general guidance. One single text might also minimise the risk of confusion or misunderstanding in members' minds about the differing emphasis we might wish to place on their role vis a vis a particular industry.

You may wish therefore to let Sir Robert Haslam know that your note may be free-standing for some industries or subsumed in more specific guidance for others.

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

Yours wsr,

George,

NAT IND: Brand Labels

PT3



28 YORK HOUSE
YORK HOUSE PLACE
LONDON, W. 8.

01 - 937 7042

11 September 1985

Rt.Hon. Mrs Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London SW1

Dear Prime Minister

I read in the press that you had appointed Sir Robert Haslam as the new Chairman of the National Coal Board.

This change obviously leaves a successor to be chosen for the British Steel Corporation. If you have not done so already I would most respectfully recommend for your consideration the appointment of Robert Scholey as Chairman of the British Steel Corporation. His total commitment to you and your policies are an unquestioned fact.

I know he was not chosen on the last two occasions when a successor was required, due possibly to his outspokenness to civil servants.

/2...

His performance to date has been outstanding, and any doubts about his ability to deal with bureaucrats must surely now be dispelled when one considers his success as President of Eurofer to which position he was elected by people with widely held views and conflicting interests.

He understands the need for a private steel industry. While running the British Steel Corporation he has still had time to take a great interest in Sheerness and, in fact, helped us with quotas which we needed desperately to keep going whilst we were restructuring.

He has a group of executives who are intensely loyal and a great credit to the corporation.

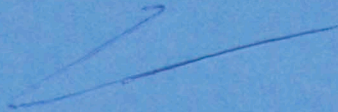
On a subject such as this I would normally have approached the Minister involved - but there have been a great many ministerial changes and I felt that, as in the past, you would not object to me writing direct.

You will be pleased to know that we at Sheerness seem to have weathered the storm and are now back to profitability, albeit modestly. The coming year will be the final proof, but if quotas are removed may still make our task very difficult. I had a meeting last week with Peter Morrison on this subject who I felt sure understood what our problems might be if quotas ceased.

May I add that my faith and confidence in you is
as staunch as ever.

Yours truly

Peter Leonard

A large, stylized handwritten flourish or signature mark, possibly a stylized 'L' or a similar symbol, written in blue ink.

Deputy Chairman, Sheerness Steel Co p.l.c.



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

10 September 1985

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

A handwritten signature in cursive script, appearing to read 'Peter Walker'.

NATIONAL COAL BOARD CHAIRMAN AND DEPUTY CHAIRMAN

You wrote to me on 2 September about the appointment of a new Chairman and Deputy Chairman of the National Coal Board. I understand you now need a response today.

I am happy with the choice of Bob Haslam as the eventual successor to Ian MacGregor. But I need to consider further your salary proposal, including compensation for Haslam's share option, and will write again on that aspect later this week.

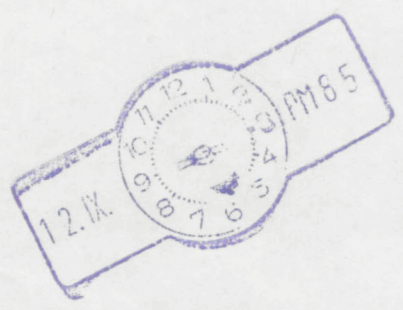
I am now content with your salary proposals for Jimmy Cowan and Ken Couzens, but in both cases I hope you will be able to reach agreement below the figures of £62,529 and £59,440, respectively. As mentioned in my letter of 5 August, Couzens' salary will be abated to take account of his Civil Service pension.

I am copying this letter to the Prime Minister, Leon Brittan and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

NAT IND : Board Salaries Pt 3



As

01 211 6402

N/BPT
JHR
10/9

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

10 September 1985

As usual

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

I am content with the guidance note for Board members attached to your letter of 30 August to Nicholas Ridley.

While I am, of course, pleased that my suggestion of additional guidance on recommendations for increases in full-time Board member's and Chairmen's salaries has been adopted, I suggest that it would be more appropriate to send this part of the guidance only to Chairmen and those non-executive members who take part in formulating Board pay claims.

I also think it would irritate unnecessarily to send the guidance to the members - and especially the non-executive members - of those Boards, such as BGC, which are on their way to joining the private sector.

Copies of this letter go to the Prime Minister, other members of E(NI), the Secretary of State for Wales and Sir Robert Armstrong.

Peter Walker

PETER WALKER

NAT IND: Board Salaries

Px 3





10 DOWNING STREET

10 September 1985

From the Private Secretary

Dear Rachel,

NATIONALISED INDUSTRY BOARD MEMBERSHIP: GUIDANCE NOTE

The Prime Minister has seen the Chancellor's letter to the Secretary of State for Transport of 30 August, with its attachment. She has a number of comments on the draft guidance note.

The Prime Minister has asked that paragraph 2, and particularly the final sentence, should be reconsidered. In reading the note she has emphasised in the final sentence of paragraph 4(i), that non-executive members should approach the Secretary of State with the knowledge of the Chairman of the industry if dissatisfied. She has suggested adding "by the Chairman" to the end of the previous sentence in paragraph 4(i) so that it would read "...with a view to agreeing amended objectives to be put to the Secretary of State by the Chairman".

The Prime Minister feels that paragraph 4 should be strengthened. You might consider this generally. She has suggested that the second sentence of paragraph 4 should be amended to read "...non-executive members are expected to ensure that:...." In indent (ii), the Prime Minister suggests adding more specific instructions about the information that needs to be made available, which would include up to date management information on production statistics, profits, and capital expenditure broken down by operating divisions and compared with approved budgets. In indent (iii), third sentence, the Prime Minister has suggested: "this should involve membership by some non-executive directors of a formal audit committee responsible for monitoring performance and identifying..."

The Prime Minister questions whether conflicts of interest (paragraph 7-9) are not in fact already dealt with in the Companies Act.

I am copying this letter to Private Secretaries to members of E(NI) and the Secretary of State for Wales, and to Richard Hatfield.

Yours sincerely,
David

(DAVID NORGROVE)

Mrs. Rachel Lomax,
HM Treasury

SRW

PRIME MINISTER

COAL BOARD APPOINTMENTS

The Secretary of State for Energy's letter of 2 September at Flag A seeks the Chancellor's approval for salary packages for Sir Robert Haslam as potential new Chairman of the Coal Board, for a salary for Mr Cowan to encourage him to step down as soon as possible, and for a salary for a newly appointed Deputy Chairman.

The story so far is that Mr Walker investigated alternative candidates to Sir Robert and found none of them acceptable. You agreed orally last month that he could therefore approach Sir Robert Haslam.

The Chancellor did not know this and it will be a surprise to him. He is now being asked to approve a salary for Sir Robert.

On the Deputy Chairman's salary, the Secretary of State for Energy has already been in correspondence with the Chancellor. The Secretary of State wants to go to £62,529 if this proves to be necessary to encourage Cowan to step down. The Chancellor has so far only said that he is prepared to go to £59,440. However, you have agreed with the Secretary of State for Energy that an increase to £62,500 may be necessary as part of the agreement under which Cowan would retire to be replaced by Sir Kenneth Couzens. I have told the Treasury.

On the salary for a new appointment as Deputy Chairman it looks as though the Chancellor and the Secretary of State for Energy will be able to agree on £59,440.

I am putting this to you now in view of your earlier direct involvement. But the main elements in a package of changes are now more or less settled.

Await the Chancellor's reaction?

Yes

DN

David Norgrove

3 September 1985

SECRET

MJ2BAX

01 211 6402

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

2 September 1985

2 min
COAL BOARD APPOINTMENTS
- attached

Your letter of 5 August commented on my minute of 19 July to the Prime Minister about Coal Board appointments. I am now able to put the appointment of a new Deputy Chairman, which was then under discussion, in a broader context.

Quite apart from the retirement of Mr Cowan and the appointment of Ken Couzens as a Deputy Chairman I have also discussed with the Prime Minister and Norman Tebbit my hope that Bob Haslam should eventually become Chairman of the NCB in succession to Ian MacGregor. The Prime Minister and Norman have agreed with this and Haslam has expressed his willingness. He would hope to disengage from BSC and Tate and Lyle by February of next year. In the meantime, my intention would be to make him a part time Deputy Chairman of NCB, and to indicate that he will become the Chairman in succession to MacGregor. Haslam wishes to take some leave after February so I envisage that he would become a full time Deputy Chairman in, say, April 1986.

But, before I can finalise that arrangement, I need the agreement of colleagues to a remuneration package for Haslam. He has made it clear that he is not prepared to undertake the task for less than his current earnings which are £76,000 from Tate and Lyle and £68,000 from BSC (in each case bonus or performance additions are included in these figures). Assuming a 10% increase by the time his appointment becomes effective, Haslam is seeking a salary of £150,000 from the time that he takes up full time appointment at the NCB.

There is a further complication. Under the Tate and Lyle share option scheme, he has an entitlement of 31,000 Ordinary Shares at 438p, realisable during the period from 31 March 1988 to 31 September 1988. If he joins the NCB on a full time basis he will lose that option entirely and will be looking for compensation. His guess is that the shares could provide him with up to 200p a share so we would need to agree to compensate him up to the level of £62,000.



At first sight, Bob Haslam's pension arrangements do not seem likely to create any problems.

I regard such a remuneration package as fully defensible, especially against the background of the MacGregor arrangements at BSC and NCB, and I am therefore seeking your agreement, in principle, and that of colleagues to further discussion with Haslam on the above basis.

I return now to the questions about salaries for Cowans and Couzens that were raised in your letter of 5 August.

I am satisfied that Jimmy Cowan should not be asked to work the full period of 6 months notice, but I must urge you to reconsider the personal salary increase I have proposed for Cowan. As I made very clear in my minute of 19 July to the Prime Minister, the double increase in salary could be an important element in obtaining Cowan's agreement not to work his full period of notice. In my view the priority must be to encourage Cowan to step down as soon as possible and I would urge you to let me have the authority to increase his salary to £62,529 if this proves to be necessary.

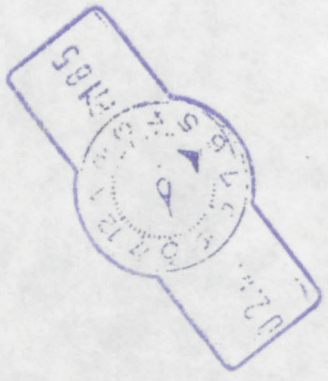
As regards the appointment of Ken Couzens as Deputy Chairman, I have in mind an announcement in September or perhaps October which will be suitably distant from the recent TSRB controversy.

I have been reconsidering the appropriate level of salary for a newly appointed Deputy Chairman. I accept that the personal salary fixed for Jimmy Cowan cannot automatically be adopted as the starting point for the new appointment, but it does seem to me that any serious discrepancy would be difficult to justify. On the assumption therefore that you are able to agree the rate I have proposed for Jimmy Cowan, I could agree that the new appointment should be offered at £59,440, to last until November 1986. This will be broadly in line with the maxima of the ranges for other nationalised energy industries' deputy chairmen allowing for some enhancement over the next 12 months. And, as you say, abatement will apply under the existing rules.

I should be grateful for your agreement to these proposals. I am copying this letter to the Prime Minister, Norman Tebbit and to Sir Robert Armstrong.

PETER WALKER

NAT IND Board Salaries Pt 3



010

C 10



Prime Minister +
Worth planning,
particularly at the debts
non-executive directors.

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

JRS

2/9.

Rt Hon Nicholas Ridley MP
The Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1

See suggested
amendment -
para 4 as checked
is weak. not

30 August 1985

John Wick

NATIONALISED INDUSTRY BOARD MEMBERSHIP : GUIDANCE NOTE

I have thought for some time that it would be useful if nationalised industry board members were given some standard guidance on what is expected of them. With the help of sponsor Departments, my officials have produced the attached note. It is aimed particularly at non-executives but part of the material (for example, on political activities and conflict of interest) is generally applicable to all board members.

There is an outstanding remit from E(NI)(85)2nd meeting to give further guidance to industries' Remuneration Committees and to instruct them not to undertake major reviews of the level or structure of board pay without the approval of the responsible Minister. Paragraphs 5-6 of the note cover this and I think that incorporating the guidance in a note of this sort is likely to be the most effective way of implementing the E(NI) remit.

I would be grateful if you and other sponsor Ministers could let me know by 13 September if you are content with the note. I would then intend to send an advance copy to Sir Robert Haslam to let the NICG know what we are doing. Following that, I suggest that you and other colleagues send individual copies to all existing board members and to new members on appointment. My officials will be in touch with sponsor Departments about the mechanics of all this in due course if the note is generally agreed. Departments will, of course be able to supplement the note with material specific to a particular board where this is appropriate.

I am sending a copy of the letter and enclosure to the Prime Minister, other E(NI) members, and the Secretary of State for Wales and to Sir Robert Armstrong.

Nigel Lawson
NIGEL LAWSON

NATIONALISED INDUSTRY BOARD MEMBERSHIP

This note sets out in general terms the responsibilities of nationalised industry board members. It aims to answer questions often raised by board members, particularly on first appointment, and is intended to be of particular interest to non-executive members. All board members are expected to act in accordance with the terms of their appointments and with the general guidance set out below, and to comply with any obligations imposed on them by individual industry statutes.

2. The normal channel of communication between a board and its sponsor Minister is the board's Chairman. It would be unusual for a board member to deal directly with Ministers on a matter affecting the board without the knowledge of the Chairman. All board appointments are however made by the Secretary of State and, if circumstances require, individual members should communicate directly with their appointing Secretary of State.

I do not like this phrase

Role of non-executive board members

3. Non-executive board members share with executive members the collective responsibility of the board for the control and management of its business, and are expected to exercise their best judgement in the general interests of the industry. In the rare cases where a non-executive member is appointed to represent specific interests as well as sharing collective responsibility, this will be made clear at the time of the appointment.

4. The Chairman of a board may allocate specific responsibilities to individual non-executives. In general, non-executive members are expected to ~~take a particular interest in ensuring~~ ^{ensure} that:

(i) the industry is developing in accordance with the objectives agreed by the Secretary of State and that alternative strategies to achieve this are properly considered. Non-executive members, being detached from the day to day affairs of the industry and without personal executive responsibilities, are expected to

take an independent view of the issues involved. They should draw the board's attention to any divergence from its objectives and to the need for corrective action. If non-executive members consider any of the objectives of the industry are no longer appropriate, they should seek a board discussion with a view to agreeing amended objectives to be put to the Secretary of State. ^L If they are dissatisfied with the outcome of the discussion, non-executive members should, with the knowledge of the Chairman of the industry, approach the Secretary of State.

L by the Chairman

(ii) adequate information about the business is available to the board, *specifically up to date Management Information*

Production statistics Profit & loss figures Capital expenditure etc. broken down by operating divisions AND COMPARED WITH APPROVED BUDGETS.

(iii) proper efforts are made by the industry to improve effectiveness and efficiency. Non-executive members should take a special interest in the internal efficiency of the industry. This ^{should} ~~could often~~ involve membership of an ^{formal} ~~or similar~~ Audit Committee or ~~committee~~ responsible for identifying areas requiring study and for following up the results of such studies. Efficiency scrutiny has particular importance in industries which are not fully exposed to market forces.

monitoring performance and

by some non-exec. chair

(iv) steps are taken to implement the findings of external efficiency enquiries, whether by the MMC, the industry auditors, or any other group from time to time involved.

Board pay

5. The Chairman and non-executive members of the board may be expected from time to time to recommend salaries for full-time board members; and non-executive members' advice may also be sought on the Chairman's salary. In making recommendations, a number of considerations should be taken into account. These include the performance of the individuals concerned and the whole industry; the need to recruit and retain able people whether from inside or outside the industries; the need to retain and reward Board

members of experience and ability; pay settlements within the industry, including possible effects on those settlements from changes in board pay; the general approach of the Government of the day to public sector pay, and nationalised industry board pay in particular; and the general economic climate. Rewarding above-average performance, whether by individuals or by Boards as a whole, through soundly-based performance pay schemes may be appropriate in some cases.

6. Although it is open to boards to seek independent advice from external consultants on pay levels, the considerations set out in paragraph 5 are still expected to apply. From time to time, major reviews of internal relativities and absolute pay levels of individual Boards may be necessary but such reviews should only be initiated after consultation with the responsible sponsor Minister.

Conflicts of Interest

in the Companies Act? Surely, this is all dealt with

7. For some boards, specific instructions or statutory regulations may apply about board members avoiding and disclosing conflicts of interest, and these should be strictly observed. Members generally have a statutory duty to disclose the nature of any direct or indirect interest they may have in any contract made, or proposed to be made, by their board. Members should disclose the nature of any interest at a meeting of the board or by giving general notice that they are a member of a specified company. Any such member shall not take part in any deliberation or decision of the board with respect to the contract.

8. To avoid any potential conflict of interest, board members will wish to take particular care to avoid joining the boards of companies operating in such similar or related activities that the performance of their duties to the nationalised industry would be seriously impaired. Guidance should be sought in case of doubt. Before taking up any additional outside appointments, members should satisfy themselves about the solvency and general bona fides of the companies concerned in order to avoid any potential embarrassment.

9. During their term of office, opportunities may arise for non-executive board members to undertake consultancy or similar assignments on behalf of the industry or for them to take up appointments in associated companies. It is recognised that in certain circumstances they may be able to offer services beneficial to the industry without detriment to their independent position as non-executive members. However, any possible conflict of interest should be avoided, and if after consultation with the board Chairman and/or board's legal adviser there is still some doubt, or if any payment might be involved, the Secretary of State should be consulted before any such appointment is accepted.

Parliamentary Activities

10. Board members should be aware that under the House of Commons Disqualification Act 1975, and the European Assembly Elections Act 1978, they are debarred from holding office as members of either the House of Commons or European Assembly, while they are members of nationalised industry boards. Long-established conventions apply to the Parliamentary activities of members of the House of Lords who are also members of nationalised industry boards and a copy of these conventions is attached (Annex A).

Political activities

11. A copy of the standard guidance on board members' political activities is attached (Annex B).

PE2

30 August 1985

PEERS AND PUBLIC BOARDS : THE "ADDISON RULES"

A Lord who is a member of a public board, whether commercial or non-commercial in character, is not by reason of such membership debarred from exercising his right to speak in the House of Lords, even on matters affecting the board of which he is a member; and it is recognised that, in the last resort, only the Lord concerned can himself decide whether he can properly speak on a particular occasion.

2. The following guidance (based upon that given by the then Leader of the House, Viscount Addison, on the 21st March 1951, after consultation and agreement between the Parties) may be helpful to Lords who are considering whether or not to take part in a particular debate.

"When questions affecting a particular Board or public Boards in general arise in Parliament, the present Minister and the Government of the day generally are alone responsible to Parliament. The duty of reply rests with Ministers only, and cannot devolve upon members of public Boards who may also be members of the House of Lords. There can be no question of Board members replacing, or usurping the functions of, Ministers and dealing with matters of Ministerial responsibility. In the Commons, of course, the possibility could not arise, because a Member of that House must resign his seat on accepting an appointment of this nature.

Further, we agree that it is important that, as contemplated by the Statutes and, in the case of the BBC, by the Charter, the Boards shall be free to conduct their day-to-day administration without the intervention of Parliament or Ministers, except where otherwise provided. If Board members who happen also to be Peers were to give the House information about the day-to-day operations of the Board or to answer criticisms

respecting it, the House would in fact be exercising a measure of Parliamentary supervision over matters of management. It would also be difficult for the responsible Minister not to give similar information to the House of Commons.

We also agree that there is no duty upon the Board member to answer questions put to him in debate, and that no criticism should attach to any member of a Board who refrains from speaking in a debate. Nor should the fact that a member spoke in a particular debate be regarded in any way as a precedent for him or any other member speaking in any other debate.

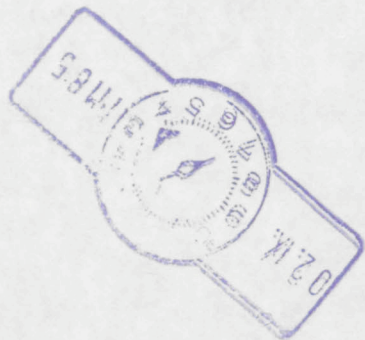
Finally, I should like to make it clear that what I have said applies only to debates relating to public Boards. Experience acquired as a member of a public Board will often be relevant to general debates in which the same considerations do not arise, and the contributions of Board members who are Peers may be all the more valuable because of that experience.

We do not think that this Statement can better be summed-up than by words taking from one of the memoranda exchanged:

"The House of Lords is a sensible body; and the latitude to speak or refrain from speaking, inherent in a Peer, is not likely to cause embarrassment. Indeed, any attempt to lay down a hard and fast rule would be more likely to cause embarrassment." "

Bibliography

1. House of Lords Official Report 21 March 1951 Col 1241-2
2. Second Report from the Select Committee of the House of Lords on Procedure of the House 3 February 1971.





CONFIDENTIAL

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

CONFIDENTIAL

AK2APU

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.

Board Salaries 7

cepw



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

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 Jen Carnes

Dear Andrew,

W

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. Pt 3.



COMMUNICATIONS



cc CST
 FST
 MST
 EST
 Sir P Middleton
 Mr Bailey
 Mr Monck
 Mr Kemp
 Mr Grimstone
 Mr Robson
 Mr Gilhooly
 Mr Bristow
 Mr D Moore
 Mr Marr

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

5 August 1985

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 LONDON SW1

Dear Secretary of State

NATIONAL COAL BOARD DEPUTY CHAIRMAN

Thank you for copying to me your minute of 19 July to the Prime Minister about the National Coal Board Deputy Chairman.

I am content with the proposed appointment of Sir Kenneth Couzens to succeed Mr Cowan. However, I am worried that an early announcement of this appointment might exacerbate current sensitivities over the TSRB recommendations. It could be seen to indicate that senior public servants can move easily and quickly into well paid jobs after retirement. I realise that Ken Couzens will not benefit from the recent TSRB recommendations, and that his NCB salary will be abated, but I still believe it would be better to avoid any publicity about his appointment until shortly before the change is due to take effect. I should be most grateful if you would consider this together with Ian MacGregor.

I have no objection to Jimmy Cowan receiving pay in lieu of the unexpired portion of six months, at the rate to be agreed from 1 January 1985, provided you are satisfied that the full period of notice should not be given. As to salary, I do not think we can justify an increase analogous to both the 1983 and 1984 increases received by other NCB board members. You say Cowan's current personal salary was intended to last until the end of 1984, so I think there should be just one 5.2 per cent increase for Cowan. I should therefore be grateful if you would consider increasing Cowan's pay from 1 January 1985 on a personal basis from £56,500 to £59,440.

You say there have been no discussions so far about Ken Couzen's salary as Deputy Chairman. This should certainly not be more than, and preferably less than, the £59,440 I am prepared to agree for Cowan, since Cowan's salary was specifically agreed as personal to him. It should also last until 1 November 1986. The abatement rules of course mean that Ken Couzen's salary would in practice be abated by the full extent of his initial pension, and that any future increases would be applied to the abated salary. I look forward to your proposal.

CONFIDENTIAL

not ind
B/salaries
A3



Finally, you mention the impending retirement of the two other full time NCB Board members. This provides an ideal opportunity for a thorough review of the structure of this Board, and I should therefore be grateful if you would consider this and make proposals in due course, taking into account the top level organisation of the NCB.

Yours sincerely
Tony Kuczyk

pp NIGEL LAWSON

(approved by the Chancellor
and signed in his absence)

Conf: Mr. ...

CONFIDENTIAL

73

COL



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.

CONFIDENTIAL



F

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, [totalling £875,000]. The Committee has reported to Lazard Freres and to the Government.

Suggest deletion

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.



CONFIDENTIAL

PRIME MINISTER

MR MACGREGOR'S BSC PERFORMANCE REVIEW

You will remember that last year agreement was reached with the Committee reviewing Mr. MacGregor's performance related pay for his service to BSC that the first instalment relating to 1983-84 should be delayed and taken with the review of performance relating to 1984-85. The Committee has now submitted its recommendations for both years, proposing a payment of £875,000 to Lazard Freres, 76 per cent of the maximum provided for.

The legal position is that it is for a Review Committee to determine the amount of the performance award. The Committee is composed of two people nominated by the Secretary of State for Trade and Industry, two nominated by Lazard Frere New York and an independent Chairman acceptable to both parties - Flag A. The Committee takes decisions by majority voting.

It would be better to give only the separate figures. It is misleading to
John
Seicho
Flag E

In calculating the amount of the award the Committee work to agreed criteria. These were published by the Government in 1981 - Flag B.

The report of the Committee has now been submitted to the Secretary of State - Flag C.

There are two issues:

- (i) can anything be done at this stage about the size of the award?
- (ii) if not, what is the best timing for an announcement?

Size of Award

The Policy Unit argue that Mr. MacGregor's performance at BSC was not entirely impressive - Flag D. They suggest that the Committee should be asked to look again at the question. This is not in the expectation of any change as the two LFNY

members and the independent Chairman constitute a majority, but in order to be able to say that the Government has had the figure fully checked. Against this it can be argued that there is no merit in going through a process which is not expected to produce any change - better to honour the agreement without quibbling.

Timing

Under the terms of the agreement the announcement must be made within 28 days of receipt of the report. This takes us up to 28 August. The object is to choose the best time in the next two or three weeks. Mr. Tebbit suggests Thursday or Friday of next week, after BSC's announcement of a Corporate Plan including the Alphasteel Agreement which is expected on Wednesday of next week. No timing is ideal, but the more time that can be put between this and TSRB the better. Mr. Walker is apprehensive about the reception the announcement will get but has not suggested any better time. The Chancellor favours at least another week's delay but Mr. Tebbit warns that if it is to be right at the end of the month it will come close to the TUC Conference. A draft of the announcement is at Page E.

Implication for NCB

People may ask about the implications for Mr. MacGregor's remuneration at NCB. There is no connection as there he receives £59,325 as Chairman and in addition a payment of £1.5 million was made to Lazard Freres at the start of the contract. There is no performance element, the only element of variability being that up to two-thirds of this fee can be returned if the contract is ended prematurely.

Conclusion

- (i) Do you want to ask the Committee to look again?
- (ii) Agree the announcement be pushed into the week after next but no later?

I do not think there is any point in this. I assume the committee has done its work effectively.

Yes.
mf

AT

2 August 1985

THE SCHEDULE

Ascertainment of Final Payments

1. THE amount of the Final Payments shall be determined by a Review Committee (hereinafter called "the Committee").

2(a) THE Committee shall be composed of:

i) TWO persons nominated by SoS; and

ii) TWO persons nominated by LFNY and acceptable to IKM;

iii) AN independent Chairman acceptable to SoS and LFNY and to IKM. In the absence of agreement the Chairman shall be appointed by the President for the time being of the Institute of Chartered Accountants in England and Wales.

(b) IF the Chairman of the Committee shall resign or for any other reason ceases to be available to act as Chairman his successor shall be appointed in the manner set out in and otherwise in accordance with paragraph 2(a) (iii) above. If any other member of the Committee resigns or for any other reason ceases to be a member the person or party by virtue of whose nomination such member became a member shall be entitled to appoint another person to take the place of the outgoing member.

re

(c) SoS and LFNY shall each be entitled to appoint a person to be the alternate to act in place of any person which they shall respectively have nominated as a member of the Committee when such nominated member is unable to be present at any meeting of the Committee.

3(a) IF IKM shall be Chairman of BSC for not less than three years from the Effective Date then the Committee shall without undue delay after the thirty-first day of March one thousand nine hundred and eighty-four certify in writing signed by its Chairman the sum (hereinafter called "the First Performance Payment") within the range of nil to £700,000 which in the opinion of the Committee reasonably reflects the establishment under the Chairmanship of IKM of the health and strength of BSC and improvement (or deterioration) in its performance within the period of three years from the thirty-first day of March one thousand nine hundred and eighty-one.

(b) IN order to arrive at its opinion and ascertain the amount of the First Performance Payment the Committee shall be guided by the Agreed Criteria established and defined as hereinafter prescribed.

(c) IN this Agreement the expression "the Agreed Criteria" shall mean such criteria as may be determined by discussion between SoS LFNY and IKM in consultation with the Committee during the period of ^{eleven} ~~six~~ months commencing on the Preliminary Date. Without prejudice to the generality of the foregoing the following are the matters which as

at the date hereof are considered likely to be appropriate for inclusion within "the Agreed Criteria":

- i) achievement of annual cash targets by BSC;
- ii) achievement of annual profit and loss targets by BSC;
- iii) achievement of a particular level of results before tax and interest by BSC in the year ending on the thirty-first day of March one thousand nine hundred and eighty-four (or any earlier year in which IKM ceases to be Chairman);
- iv) the U.K. market share supplied by BSC steel production;
- v) satisfactory establishment of strong and healthy organisation through for example:
 - an effective corporate structure
 - management strength and stability
 - labour relations stability
 - improved productivity
 - improved export performance

(d) IT is foreseen that all or any of SoS LFN Y IKM and the Committee may from time to time consider that the Agreed Criteria as for the time being determined should be amended in which case amendments shall take effect upon the same being agreed in writing between SoS LFN Y and IKM and a copy thereof being delivered to the Chairman of the Committee.

4(a) IF IKM shall have been Chairman of BSC for three years from the Effective Date then the Committee shall further certify without undue delay after the thirty-first

day of March one thousand nine hundred and eighty-five in writing the sum (hereinafter called the "Final Performance Payment") within the range of nil to £450,000 which in the opinion of the Committee reasonably reflects the establishment under the Chairmanship of IKM within the period of three years from the thirty-first day of March one thousand nine hundred and eighty-one of the health and strength of BSC and in addition the improvement (or deterioration) in its performance which has not by the thirty-first day of March one thousand nine hundred and eighty-four become fully apparent.

(b) IN ascertaining the amount of the Final Performance Payment the Committee shall be guided by the Agreed Criteria.

5(a) IN place of the amounts falling to be certified under paragraph 3 and paragraph 4 of this Schedule in the event that IKM shall for whatever reason cease to be Chairman of BSC before the expiration of three years from the Effective Date but having been Chairman of BSC at least until the expiration of six months from the Effective Date (such a cessation being herein called "Early Cessation") the Committee shall certify the amount which the Committee in its absolute discretion considers equitable having regard not only to the Agreed Criteria but also the circumstances ^{referred to in the second and third paragraphs of the Letter} leading to such Early Cessation and all or any of the matters ^{referred to} recorded ~~in the Letter. These paragraphs.~~

(b) IN the event of an Early Cessation the Committee shall meet without undue delay thereafter and make its certificate with all due despatch after the thirty-first day of March next following the date of such Early Cessation taking into account the establishment of the health and strength of BSC and improvement (or deterioration)

in its performance up to and including the financial period of BSC ending on such thirty-first day of March.

6(a) THE Committee shall (until it has concluded its duties) meet

i) as soon as reasonably convenient after the month of March in each successive calendar year from 1982 inclusive and

ii) in any event as soon as possible after IKM ceases to hold office as Chairman

in order to assess the performance of BSC in its financial years ending on the thirty-first day of March last preceding such meeting and (in the case of (ii) above) in the period up to the date on which IKM ceases to hold office as Chairman.

(b) THE Chairman of the Committee shall determine the place at which meetings shall take place and SoS will give such assistance towards the arrangements for such meetings as the Chairman may reasonably request.

(c) THE quorum for the transaction of business of the Committee shall be the presence throughout the meeting of at least three members of the Committee including at least the Chairman and one of the members nominated by SoS and one of the members nominated by LFNY.

(d) ANY decision of the Committee shall require the approval of not less than three members of the Committee and shall not be valid unless recorded in writing signed by at least such three or more members of the Committee which writing may consist of several documents in the like form each signed by one or more of the members.

(e) THE Committee may with the agreement of SoS and LFNY consult outside consultants and professional advisers as and when the Committee may consider appropriate.

(f) SoS shall bear the reasonable fees of United Kingdom resident members of the Committee by way of remuneration for their services and the fees of such consultants and professional advisers as may be consulted by the Committee as aforesaid and all such reasonable expenses as each of them may incur in attending and returning from meetings of the Committee or otherwise in or about the business of the Committee.

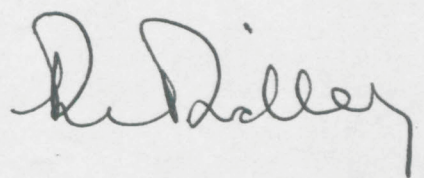
(g) THE Committee shall deliver to SoS and LFNY with all due despatch after completion of its assessment relevant to the issue of its certificate under paragraphs 3 4 or 5 (as the case may be) its certificates as to the amount of the First Performance Payment and the Final Performance Payment and of any payment under paragraph 5.

7. THE Final Payments to be made in pursuance of Clause 2 and this Schedule shall become due and payable on the dates which are respectively twenty-eight days after

the date on which the Committee shall certify the
respective amounts thereof as aforesaid and for the
avoidance of doubt shall not thereafter be refundable
in any circumstances.

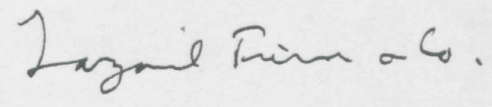
SIGNED by PHILIP RYALLER)
RIDLEY)
on behalf of the Secretary)
of State being duly authorised)
in that behalf in the presence)
of:

J. M. E. E. E.
Department of Industry
Solicitor



SIGNED by)
ALAN ROBERTS MCFARLAND)
on behalf of Lazard Freres &)
Co. being duly authorised in)
that behalf in the presence)
of:

A. R. M. C.
Bankers
St. James Street
London.
Solicitor



(B)

Payments to Lazard Freres, New York

Agreed Criteria for the Review Committee

1 If Mr MacGregor serves a full 3-year term as BSC Chairman, the Committee has to determine a first performance payment of up to £700,000 soon after 31 March 1984, and second payment of up to £450,000 soon after 31 March 1985. This note sets out the Agreed Criteria required to be determined under Paragraph 3(c) of the Schedule to the Agreement of 29 April 1980 for the guidance of the Committee in determining the amount of the payments which in their opinion "reasonably reflects the establishment under the Chairmanship of IKM of the health and strength of BSC and improvement (or deterioration) of its performance within the period of three years from 31 March 1981". No suggestions are made for allocations of the payments to reflect the performance in particular years up to 31 March 1984. But in exercising its discretion, the Committee should recognise that the Government is looking for a progressive improvement in BSC's performance over the years in question, and that the effects of Mr MacGregor's chairmanship should be more apparent in the later years.

2 In assessing performance, the Committee should be guided in particular by the following.

Heading I - Profit and Loss Targets

3 This heading covers the achievement by BSC of the profit and loss targets (before tax and interest) agreed for each relevant financial year between BSC and the Government. Where targets are revised during a year, the revised targets should form the basis of the assessment. The Committee's assessment should take into account the attainment of the targets year by year, the need to achieve a progressive improvement during the period and the overall achievement over the period as a whole.

4 It is left to the discretion of the Committee to decide what shortfall from the profit and loss targets should disqualify LFNY from payments under this heading. In assessing performance under this heading, the Committee, in addition to the level of profit or loss achieved in relation to the targets, should also have regard

to the level of output of the Corporation in terms of total tonnage and in relation to the size of the UK markets it serves and the amount it exports; changes in the capital structure of the Corporation; and any variations in accounting practices adopted.

Heading II - Cost Reduction

5 Targets for cost reduction will include such aspects as reductions in manning levels, better plant utilisation, improved energy utilisation and other improvements in efficiency. A different balance between the different aspects of cost reduction may be appropriate in different years. The Committee should, in its assessment of performance under this heading, have regard to the extent to which cost reduction targets, agreed between the BSC and the Government (whether in a Corporate Plan or otherwise) have been met. To earn payments under this heading there should be improvements across the board in the indicators chosen, although failure to secure a significant level of improvement in one particular indicator should not prevent LFNY from receiving payment if the overall cost-reduction programme had gone well.

Heading III - Privatisation

6 The Government attach particular importance to reducing the size of the public sector involvement in the steel industry, and as a consequence to the transfer, wholly or partly, to the private sector of BSC assets and activities. In making an award under this heading the Committee should not make separate annual assessments but should take into account the extent to which BSC has been privatised over the period of Mr MacGregor's chairmanship.

7 Any transfers to the private sector which affect BSC's performance should not be a ground for a reduction of payments under other headings.

Heading IV - Broader Assessment of BSC's continuing Health and Strength

8 The Committee should take into account the qualitative factors reflecting BSC's longer term health and strength. These factors would include, but are not limited to, management structure, business organisation, financial control, management succession, technical developments, labour relations and general reputation, at all levels of the Corporation.

Assessment of Payments by the Committee

9 The Committee should, in determining payments under the Agreement, pay particular regard to the achievement of the profit and loss targets under Heading I and cost reductions under Heading II; about one-third of the money available under the Agreement should be allocated for consideration of an award under each of these headings.

10 The BSC will be expected to adhere to the External Financing Limit (EFL) as originally set for each relevant Financial Year by the Government after consultations with the BSC. Although cash discipline is an important indicator of financial performance, the Committee should regard adherence to EFLs as a normal and necessary part of the discipline to which all the nationalised industries are subject, and adherence to the EFLs should not be treated as an element meriting performance payments. The Committee should consider, however, whether success by BSC in achieving its objectives, whilst requiring less than the originally agreed EFLs, should be regarded as an element justifying an increased award under Heading I; and conversely whether failure to keep within the original EFLs should be regarded as justifying a reduced award under Heading I.

11 The effects of external economic circumstances will normally be taken into account each year by the BSC and the Government in setting profit and loss, EFL and cost reduction targets. Where unforeseen circumstances arise during the year, which are judged to be beyond the reasonable capacity of the Corporation to accommodate within their original targets, the appropriate response is for the Government and the BSC to reconsider the targets. As a general rule, therefore, the Committee should not take external economic circumstances into account in assessing performance. They should however take into account any directions given by the Government to BSC which may restrict BSC's ability to achieve its targets.

12 The Government will maintain and make available to the Committee a file of documents relevant to the Committee's task.

Copy:

Number 1
H.A. Gardiner
July 30 1985

- 1 -

(C)

PAYMENTS TO LAZARD FRERES & CO., NEW YORK, BASED ON THE PERFORMANCE OF THE BRITISH STEEL CORPORATION UNDER THE CHAIRMANSHIP OF MR IAN MACGREGOR

REPORT BY THE REVIEW COMMITTEE ON THE ASSESSMENT LEADING TO THE TWO PERFORMANCE PAYMENTS, 1985

INTRODUCTION

1 On 14 April 1981 the Government (HMG) released publicly a document entitled:

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

2 The document described the terms of an agreement between HMG and Lazard Freres & Co. of New York (LFNY) under which two payments would be made to LFNY up to a maximum of £1.15 million. These amounts were to be determined by a review committee and the document, which is attached, incorporates Agreed Criteria as guidance for the Committee's task. One amendment subsequently took place in October 1984, when HMG and LFNY agreed that the two performance payments would be awarded at the same time, in 1985.

3 This report describes how the amounts of the performance payments have been assessed and records the Committee's conclusion.

COMMITTEE MEMBERSHIP AND COST

4 Since the Committee was established in 1981, Mr. J.A. Gardiner has acted as independent Chairman. Mr. A.E. Frost and Lord Weir have served throughout as the

nominees of Lazard Freres & Co. of New York and Mr. A.G. Manzie (who replaced Mr. J.R. Steele in October 1981, before the Committee first met) and Mr. J.A. Knox (who replaced Mr. K.J. Sharp in July 1983) have served as the nominees of the Secretary of State for Industry* (SoS).

5 The Agreement between the SoS and LFNy provided that the SoS should bear the reasonable fees and expenses both of the Committee members themselves and of any outside consultants and professional advisers whom the Committee might appoint. Estimated costs over four years total £57,000 and relate almost exclusively to work commissioned from professional advisers to establish and maintain a comprehensive information-base. The Committee members themselves have not claimed any fees or expenses.

METHOD OF WORK

6 The Agreed Criteria as amended require the Committee to determine the amount of the payments to be awarded in 1985 which in its opinion "reasonably reflect the establishment under Mr. MacGregor's Chairmanship of the health and strength of the British Steel Corporation (BSC) and improvement (or deterioration) in its performance within the period of three years from 31 March 1981".

7 The Committee decided that, in order to provide the necessary build-up in information, continuity and experience to support the final assessments originally required in 1984 and 1985, it would undertake annual reviews of BSC's performance in each of the three financial years from 31st March 1981, together with a final review in 1985. Accordingly, the Committee first met on 26 November 1981 and regularly thereafter. Nineteen meetings have been held.

8 From the outset, the Committee regarded it as essential to create a wide-ranging, objective and accurate

* (since June 1983 the Secretary of State for Trade and Industry)

information-base as the foundation for its assessment of the two performance payments:

- (a) For detailed assessment of BSC's performance against annual targets, as required under Headings I and II in the Agreed Criteria, the Committee needed a clear and accurate statement, comparable from year to year, of the results achieved by the Corporation against the targets agreed by the Government (whether in Corporate Plans or otherwise). In addition, a judgement on whether progressive improvement had taken place under Mr. MacGregor's Chairmanship, and on the overall achievement during the period, required comparable information about BSC's results in the years immediately before he was appointed.

- (b) The Committee also needed to be aware of the context in which it was assessing BSC's performance during the review period. Accordingly, at the outset of its work, the Committee considered detailed papers covering the history of BSC, particularly in the mid to late 1970s, as well as trends in the steel industry internationally. Thereafter, the Committee reviewed developments over the review period in the steel market in the UK, Europe and worldwide, taking account of the European Community's steel policy.

HEADINGS I AND II

9 Under these Headings in the Agreed Criteria, the Committee required detailed information about BSC's performance against planned targets, as well as year-on-year results, over a wide range of indicators. For Heading I, these related to profit and loss before interest and tax, taking account also of BSC's liquid steel output, home

sales, UK market share, export sales, cash requirement, capital structure and any changes in accounting practices. In addition, the Committee reviewed the exceptional items in BSC's annual profit and loss accounts. For Heading II, the main indicators related to numbers employed, labour productivity, plant utilisation, energy use, and costs per tonne for employment, energy and materials.

10 In May 1982 the Committee appointed Coopers & Lybrand, BSC's auditors, to assemble the information at the end of each financial year and to vouch for its accuracy. Wherever possible, the information was also taken back to 1978/79, the last year in which BSC's performance was not affected by the three month steel strike in 1980.

HEADING III

11 As regards Heading III in the Agreed Criteria - Privatisation - the Committee quantified progress achieved under Mr. MacGregor's Chairmanship. In particular it reviewed:

- Disposals of UK businesses, including wholly-owned companies.
- Disposals of shares and holdings in UK partly-owned companies.
- Disposals of overseas interests.
- Disposals of surplus land, buildings, plant and machinery.
- Formation of private sector joint companies (the "Phoenix" programme).
- Formation of Companies Act companies.

The Committee also considered the effect on BSC's performance.

ADING IV

12 As regards Heading IV in the Agreed Criteria - BSC's continuing Health and Strength - the Committee was required to assess a range of "qualitative factors" which were not susceptible to the quantified approach adopted under the other Headings. In this case, therefore, the Committee based its judgement on information drawn from a number of sources including:

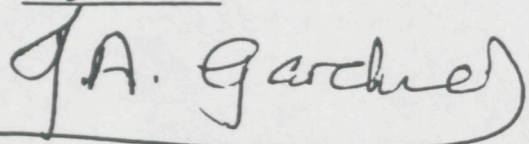
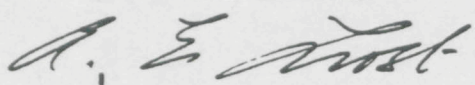
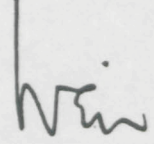
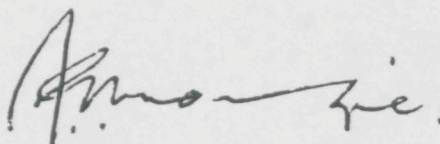
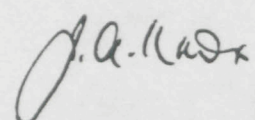
- Enquiries by Committee members amongst major UK steel-users.
- Written submissions to the Committee from the General Secretary of the Iron and Steel Trades Confederation.
- Reports by the House of Commons Select Committee on Trade and Industry and its predecessor (reflecting the results of four enquiries into BSC since 1981).
- Academic and other publications.

CONCLUSION

13 The Committee has unanimously determined that the amount of the first performance payment to be made to Lazard Freres & Co. New York by the Secretary of State for Trade and Industry (the SoS) should be £525,000. A maximum of £700,000 was provided for under the Agreement between the two parties.

14 In respect of the second performance payment, of up to £450,000, the Committee has unanimously determined that the amount should be £350,000.

Signatures

	J A Gardiner	Chairman
	A E Frost	
	Lord Weir	
	A G Manzie	
	J A Knox	

(25 July) 1985

(D)

MR TURNBULL

2 August 1985

IAN MACGREGOR: PERFORMANCE REVIEW AWARD

There are grounds for querying MacGregor's performance in all four of the areas identified.

Trading Profit. If one adds back exceptional items to the trading profit line, then the trading losses reported in the three years from 30 March 1981 are £412m, £760m, £205m (the 1985/85 results are not relevant). The two years prior, 1979/80 and 1980/81, were affected by special features, not least the long strike which Charles Villiers fought.

(MacGregor took over on 1 July 1980). Losses for the years 1977/78 and 1978/79 defined as above were £344m and £163m, whilst 1976/77 was in profit. On this basis MacGregor's performance hardly looks exceptional.

Cost Control and Performance. Steel production was no better during MacGregor's time than in the blighted two years prior to his take-over, and was significantly less than in the 1970s. Manpower was substantially reduced on the back of the steel strike but MacGregor cannot take all the credit. Productivity did improve greatly but heavy capital investment during the late 1970s must have contributed significantly. Other than 1983/84, cash requirements (excluding interest) were similar to late 1970s levels.

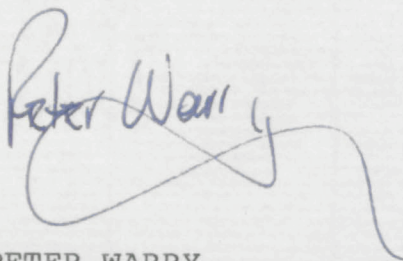
Privatisation. The biggest chunks of 'privatisation' are Phoenix 1 and Phoenix 3. Until these are actually sold they cannot in all honesty be treated as privatisations.

General Well-being of the Corporation. Union attitudes have changed since the steel strike fought through by Charles Villiers, but other improvements are not so obvious.

PRESENTATION

There do appear to be good grounds for asking the Review Committee to reconsider their award. Asking them to do so, even if they adhere to their original proposal, has strong presentational advantages, particularly following the TSRB announcement. It will be important to stress that the award is not a Government decision but nevertheless in view of the size of the award, that the Government had asked the Committee to double-check the amount.

Linkage with the TSRB award is unavoidable, and therefore whilst a gap of a week or two before announcing will be helpful, there is little to be gained by a long deferral as the TSRB row will merely be reawakened. We disagree with Robert Haslam that it is best to keep this separate from the Alphasteel announcement - surely it is better to get all the bad news over in one go.



PETER WARRY

ce PW



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

CONFIDENTIAL

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

2 . August 1985

Dear Andrew

IAN MACGREGOR: PERFORMANCE REVIEW AWARD

You asked for further information and background papers on this.

In April 1980, the Secretary of State for Industry entered into an agreement with Lazard Freres and Co, New York, (LFNY) in order to obtain the services of Mr MacGregor as Chairman of BSC for 3 years. The terms of the agreement provided for the compensation of LFNY for the release of Mr MacGregor, the amount to be determined by a Review Committee. I attach a copy of the agreement at Flag A.

The agreement provided that the Review Committee should be guided in determining the performance payments to LFNY by criteria agreed by the Secretary of State, LFNY, Mr MacGregor and the Review Committee. I attach a copy of the agreed criteria at Flag B. There was one amendment in October 1984, when it was agreed that the two performance payments would be awarded at the same time, in 1985.

The Review Committee have now delivered a unanimous report awarding £875,000 to LFNY in compensation for the release of Mr MacGregor. I attach a copy of this at Flag C.

In April 1981 the Government published a document describing the terms of the agreement for the compensation of LFNY which incorporated the agreed criteria: this published document is attached to the Review Committee's report. The Secretary of State now intends to publish the report itself, and to lay it in the Library of both Houses, on the day it is announced. I attach the text of the proposed formal announcement and press release at Flag D.

J05ACN



The Government is bound by the terms of its agreement with LFNY to act on the Review Committee's decision. The decision could only be altered by substituting a new agreement. The agreement stipulates that the payments to LFNY are due 28 days after completion of the Review Committee's report, which is dated 25 July, but not that the report itself must be published by a particular date, or indeed at all.

I am copying this to Geoff Dart at the Department of Energy and to Rachel Lomax at the Treasury.

Yours sincerely
Edmund Hosker

EDMUND HOSKER
Private Secretary

D IN
- 2 AUG 1985
OF THE
MINISTER OF STATE

THIS AGREEMENT is entered into the
_____ twenty-ninth day of April
one thousand nine hundred and eighty BETWEEN THE SECRETARY
OF STATE FOR INDUSTRY (hereinafter referred to as "SoS") of
the first part and LAZARD FRERES & CO. of 1 Rockefeller
Plaza New York N.Y. 10020 United States of America
(hereinafter referred to as "LFNY") of the second part.

WHEREAS

(A) (i) SoS desires to appoint IAN KINLOCH MACGREGOR
of 2 Broad Road Greenwich Connecticut 06830 United States
of America (hereinafter referred to as "IKM") as the Chairman
of the British Steel Corporation (hereinafter referred to as
"BSC") pursuant to Section 1(4) of the Iron and Steel Act
1975 with effect from the first day of July one thousand
nine hundred and eighty (hereinafter referred to as "the
Effective Date").

(ii) SoS desires that IKM shall agree to serve as
Deputy Chairman of BSC as from the second day of May one
thousand nine hundred and eighty (hereinafter referred to as
"the Preliminary Date") until the Effective Date.

(iii) SoS and IKM both contemplate that BSC will appoint
IKM as Chief Executive upon his assuming the office of
Chairman.

(B) LFNY is a partnership carrying on business in New York
aforesaid and IKM is and has since August 1978 been actively
engaged as a valued and senior General Partner of LFNY.

CONFIDENTIAL

(C) SoS has requested LFNY to release IKM as from the Effective Date from such of his responsibilities to LFNY (and in particular to release him from his obligations as a General Partner) as may be necessary to make him available to serve as full-time Chairman of BSC from the Effective Date and as Deputy Chairman of BSC from the Preliminary Date to the Effective Date.

(D) LFNY has indicated its willingness to agree to this proposal on the basis (inter alia) that it will receive a substantial and sufficient sum to compensate LFNY for the resultant disruption in its business affairs and in the contractual relations as between the partners which will result from the release referred to in Recital (C) above.

(E) Whilst SoS and LFNY accept that the full amount of the sums more particularly described in Clause 2 hereof represent the amount which is required sufficiently to compensate LFNY for the aforementioned disruption for the envisaged three years of IKM's Chairmanship nonetheless LFNY recognises that it would be appropriate that that amount should be reduced if BSC fails to meet certain performance criteria or (in certain circumstances) if IKM should not remain Chairman of BSC for the full three-year period currently envisaged.

(F) (i) IKM has provided SoS with a list (a copy of which is appended hereto and marked "A") of directorships and other appointments currently held by him which he wishes to continue and SoS has agreed that IKM is at liberty to continue with those shown in such list.

(ii) SoS will write to IKM in the terms of the letter (hereinafter referred to as "the Letter") a draft of which is appended hereto and marked "B".

(iii) IKM will be at liberty to resign (inter alia) upon giving not less than fourteen days' notice at any time during the seventh month after the Preliminary Date as he may decide in the event that "the Agreed Criteria" (as defined in the Schedule hereto) shall not have been agreed and defined in terms satisfactory to LFNY and himself within the first six months after the Preliminary Date.

(G) Reference herein to "this Agreement" is deemed to include reference to the Schedule hereto and to other documents appended hereto.

(H) The partners of LFNY (including IKM) have made it known that they were not prepared to enter into this Agreement unless certain assurances as regards the United Kingdom taxation effects of these proposals were forthcoming.

(I) Following discussions the Board of Inland Revenue has written a letter to the partners of LFNY in terms set out in Appendix "C" hereto (a copy of which letter has been initialled by the parties hereto) and in reliance on the content of and representations made in that letter the partners of LFNY (including IKM) have agreed to enter into this Agreement and IKM has agreed to take up the appointments referred to in Recital (A) hereof.

N O W IT IS HEREBY AGREED as follows:-

1. IN consideration of compensation for the disruption referred to in Recital (D) hereto to be paid in accordance

with Clause 2 hereof and upon the other terms and conditions hereinafter contained LFNY hereby agrees with SoS to release IKM from such of his obligations and duties to LFNY as may be necessary during the period between the Preliminary Date and the Effective Date and to release IKM from his obligations and duties as a General Partner in LFNY with effect from the Effective Date so that IKM may (as between LFNY and IKM) become available to accept appointment initially as Deputy Chairman and subsequently as Chairman of BSC upon the terms of the draft Minute of Appointment appended hereto and marked "D" and on the basis of the points recorded in the Letter.

2(a) SoS shall subject as hereinafter otherwise prescribed make payments in Sterling by way of compensation as referred to in Clause 1 above as follows:-

- i) TO LFNY on the Effective Date the sum of £225,000 (hereinafter called "the First Initial Payment");
- ii) TO the persons (hereinafter referred to as "the Trustees") nominated as Trustees in substantially the form of the draft Indenture of Trust which is appended hereto and marked "E" (hereinafter referred to as "the Indenture") the sum of £450,000 to be held upon the terms of the Indenture.
- iii) SUBJECT to IKM having held the office of Chairman at least until the expiration of six months from the Effective Date to LFNY on the dates prescribed by the Schedule hereto the sums (if any) ascertained

in accordance with such Schedule (hereinafter called "the Final Payments").

(b) FOR the purpose of giving effect to the provisions of sub-clause (a) of this Clause the parties hereto agree to execute and exchange before the Effective Date an indenture in the form of the Indenture and a Guarantee substantially in the form of the draft appended hereto and marked "F" (hereinafter called "the Guarantee").

3. IF at the time when a sum is due to be paid by LFNY or by the Trustees under the Indenture or the Guarantee any sum is due to LFNY under any other provision of this Agreement then such sums shall be set-off one against the other and the balance only shall be payable by whichever party owes the balance.

4. SoS confirms that he is satisfied that BSC is not necessarily precluded from using the services of LFNY and Lazard Freres et Cie Paris and of Lazard Brothers & Company Limited or any of them on the grounds that IKM may for the time being be a member of BSC.

5. NOTICE may be given by any party to any of the other parties hereto by letter or by cable or by telex message addressed to that other party at (in the case of SoS) Ashdown House 123 Victoria Street London S.W.1 and (in the case of LFNY) at its address hereinbefore stated or other its principal office for the time being in New York and any such notice given by letter cable or telex shall be deemed to have been given at the time at which the letter cable or telex message would be

delivered in the ordinary course of first-class airmail post or transmission (as the case may be).

6(a) SoS and LFNY shall on the second day of May one thousand nine hundred and eighty make announcement(s) in the terms annexed hereto and marked "G" or any such other terms as may be agreed between them with regard to the proposed appointment and the terms and conditions relating thereto.

(b) SoS and LFNY mutually agree that each is at liberty to make public the whole or any part of this Agreement and of any of the documents appended hereto.

7. THIS Agreement shall be interpreted and enforced in accordance with the laws of England.

A S W I T N E S S the hands of the authorised representative of the Secretary of State and of ALAN ROBERTS MCFARLAND on behalf of LFNY hereunto set in London the day and year first before written.

THE SCHEDULE

Ascertainment of Final Payments

1. THE amount of the Final Payments shall be determined by a Review Committee (hereinafter called "the Committee").

2(a) THE Committee shall be composed of:

i) TWO persons nominated by SoS; and

ii) TWO persons nominated by LFNY and acceptable to IKM;

iii) AN independent Chairman acceptable to SoS and LFNY and to IKM. In the absence of agreement the Chairman shall be appointed by the President for the time being of the Institute of Chartered Accountants in England and Wales.

(b) IF the Chairman of the Committee shall resign or for any other reason ceases to be available to act as Chairman his successor shall be appointed in the manner set out in and otherwise in accordance with paragraph 2(a)(iii) above. If any other member of the Committee resigns or for any other reason ceases to be a member the person or party by virtue of whose nomination such member became a member shall be entitled to appoint another person to take the place of the outgoing member.

at the date hereof are considered likely to be appropriate for inclusion within "the Agreed Criteria":

- i) achievement of annual cash targets by BSC;
- ii) achievement of annual profit and loss targets by BSC;
- iii) achievement of a particular level of results before tax and interest by BSC in the year ending on the thirty-first day of March one thousand nine hundred and eighty-four (or any earlier year in which IKM ceases to be Chairman);
- iv) the U.K. market share supplied by BSC steel production;
- v) satisfactory establishment of strong and healthy organisation through for example:
 - an effective corporate structure
 - management strength and stability
 - labour relations stability
 - improved productivity
 - improved export performance

(d) IT is foreseen that all or any of SoS LFNY IKM and the Committee may from time to time consider that the Agreed Criteria as for the time being determined should be amended in which case amendments shall take effect upon the same being agreed in writing between SoS LFNY and IKM and a copy thereof being delivered to the Chairman of the Committee.

4(a) IF IKM shall have been Chairman of BSC for three years from the Effective Date then the Committee shall further certify without undue delay after the thirty-first

(b) IN the event of an Early Cessation the Committee shall meet without undue delay thereafter and make its certificate with all due despatch after the thirty-first day of March next following the date of such Early Cessation taking into account the establishment of the health and strength of BSC and improvement (or deterioration)

in its performance up to and including the financial period of BSC ending on such thirty-first day of March.

6(a) THE Committee shall (until it has concluded its duties) meet

i) as soon as reasonably convenient after the month of March in each successive calendar year from 1982 inclusive and

ii) in any event as soon as possible after IKM ceases to hold office as Chairman

in order to assess the performance of BSC in its financial years ending on the thirty-first day of March last preceding such meeting and (in the case of (ii) above) in the period up to the date on which IKM ceases to hold office as Chairman.

(b) THE Chairman of the Committee shall determine the place at which meetings shall take place and SoS will give such assistance towards the arrangements for such meetings as the Chairman may reasonably request.

(c) THE quorum for the transaction of business of the Committee shall be the presence throughout the meeting of at least three members of the Committee including at least the Chairman and one of the members nominated by SoS and one of the members nominated by LFNy.

the date on which the Committee shall certify the
respective amounts thereof as aforesaid and for the
avoidance of doubt shall not thereafter be refundable
in any circumstances.

SIGNED by PHILIP WALLER)
RIDLEY)
on behalf of the Secretary)
of State being duly authorised)
in that behalf in the presence)
of:

J. M. E. E. E.
Department of Industry
Solicitor

SIGNED by)
ALAN ROBERTS MCFARLAND)
on behalf of Lazard Freres &)
Co. being duly authorised in)
that behalf in the presence)
of:

Alan Roberts
Bankers
55 Abchurch Lane
London
Solicitor

THIS IS APPENDIX " A " TO THE AGREEMENT DATED 29th APRIL 1980
BETWEEN THE SECRETARY OF STATE FOR INDUSTRY AND LAZARD FRERES
& CO.

CURRENT APPOINTMENTS

DIRECTORSHIPS: Amax Inc. (also Honorary Chairman)
Alumax Inc. (also Chairman)
Atlantic Assets Trust Ltd.
Brunswick Corporation
General Partner of Lazard Freres & Co. until
the Effective Date - Limited Partner
thereafter

OTHER:

Member of the U.S. Council of the
International Chamber of Commerce
International Chamber of Commerce;
Member of Finance Committee
Member of the American Mining Congress
Chairman of the German - American
Chamber of Commerce
Board Member of Resources for the
Future Inc.
Board Member of the International
Institute for Environment and Development
Senior Member of the Conference Board Inc.
Member of A.I.M.E.
Member of the Mining and Metallurgical
Society of America
Member of the Society of Automotive
Engineers
Honorary Life Member of the Aluminum
Association
Associate of the Institute of Mechanical
Engineers, London
Member of the Council of the Trade Policy
Research Centre, London
North American Co-Chairman of the
British - North American Committee; and
Member of the Executive Committee
Committee for Economic Development -
Honorary Trustee for Life
Consultant to the Japan - U.S. Friendship
Committee

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Letter from Secretary of State to Mr MacGregor

We both contemplate that BSC will
appoint you as Chief Executive upon your assuming the
I have today formally appointed you part-time non-executive Deputy
Chairmanship.
Chairman of the British Steel Corporation ("BSC") with effect from
2nd May next and as full-time ~~executive~~ Chairman for the period of
three years beginning on 1st July next. A related agreement has
today been entered into between myself and Lazard Freres & Company
("LFNY") who have agreed to release you from your present commitments
to them. A number of points arise from these arrangements which we
have agreed should be recorded in ~~an exchange of letters between us.~~
separate

You and I are agreed on the objective that under your chairmanship
BSC shall achieve enduring profitability. I assure you of my fullest
support. It is my intention that BSC shall have as free a hand as
practicable in the attainment of this objective. Various powers and
duties are conferred and imposed on me by the Iron and Steel Act 1975
as amended. In exercising them I will try to give effect to all
reasonable proposals which you may make, particularly with regard to
the membership of the Board *and the appointment of the Auditors.*

I should be surprised - and disappointed - if any serious and lasting
disagreement were to arise between us *on these matters* ~~in this area~~. If, nevertheless,
this were to occur I recognise that you might wish to exercise your
right of immediate resignation. In this event, I would think it
reasonable for BSC's performance up to the date of your resignation
to be assessed by the Performance Review Committee set up under my
agreement with LFNY and the appropriate payment, if any, made under
that agreement. The Committee should, in making its determination
under the criteria provided for in the agreement, consider in addition
whether it would be appropriate to make any *adjustment* ~~modification~~ in either
direction on account of the circumstances leading to your resignation.

/ I appreciate that it was fundamental to your acceptance of the Chairmanship that the tax position should be and remain as you are at present advised. If there should be some unexpected and substantial change in this respect, we would consider together how the new position might be handled. If it proved impossible to deal with this aspect satisfactorily, I recognise that you might wish to resign on less than six months notice. In any event the provisions relating to the final payment under the agreement between myself and LFNY would apply.

I further appreciate that if agreement cannot be reached under that agreement on the criteria to be used by the Performance Review Committee under that agreement, you will, of course, be at liberty to resign but will in that case give at least 14 days notice. If you should resign for any other reason, it is envisaged that you should give at least six months notice of your intention.

The salary attaching to your appointment as Chairman is contained in the minute of appointment. This will, of course, be subject to review along with the salary attaching to other similar appointments.

I confirm that I do not consider your remaining a limited partner in LFNY to be incompatible with your holding office as Chairman of BSC but if you should wish to enter into any other contractual relationship with LFNY I would expect you to seek my prior agreement as would, under the Iron and Steel Act 1975, be necessary in respect of the acquisition of any other potentially conflicting interest.

I have agreed that you should retain the appointments set out in the list attached to this letter and also keep any fees ^{or other emoluments} to which these appointments may entitle you. I recognise that it may take some little

time for you to relinquish other appointments which you presently hold
and I have no doubt that you will take the necessary steps within a
reasonable time.

I am glad we have reached the agreements and understandings which
have enabled me to appoint you as Chairman of BSC. I have every hope
of its success under your leadership and I envisage that we may be able
to reach new agreement on the terms on which you might continue as
Chairman after your present appointment comes to an end.

[KEITH JOSEPH]

THIS IS APPENDIX " C " TO THE AGREEMENT DATED 29th APRIL 1980
BETWEEN THE SECRETARY OF STATE FOR INDUSTRY AND LAZARD FRERES
& CO.

FROM: THE BOARD OF THE INLAND REVENUE

TO : THE PARTNERS OF LAZARD FRERES & CO.
1 Rockefeller Plaza
New York
N.Y. 10020
United States of America

Dear Sirs

The Commissioners of Inland Revenue are aware that discussions have been taking place between Lazard Freres & Co. (LFNY) and The Secretary of State for Industry (SoS) concerning a proposed contract, a draft of which in its final form is attached, to be entered into between SoS (1) and LFNY (2). We are aware that it is of importance to all the partners of LFNY including Ian Kinloch MacGregor (IKM) that no part of the sums which will or may be paid by the Department of Industry pursuant to Clause 2 of the said contract should be the subject of any form of United Kingdom taxation either on income or chargeable gains of LFNY or of IKM or otherwise howsoever. We are aware that unless LFNY has appropriate reassurance on this aspect and other matters concerning United Kingdom taxation described more fully below then LFNY is not prepared to enter into a binding contract on the basis proposed.

We have not seen a copy of the Partnership Agreement currently in force for LFNY but we do understand that IKM has been a General Partner in LFNY since about August 1978 and that during the currency of the present proposals he will not continue as such but will become a Limited Partner in LFNY. We understand that as a Limited Partner IKM will receive approximately one percent of the profits of LFNY plus a payment of approximately \$75,000 per annum and in this respect will be in a similar position to some four or five other former General Partners in LFNY who have retired and become Limited Partners. We understand that there is no arrangement between LFNY and IKM whereby the sums to be paid to LFNY under Clause 2 of the proposed contract will be paid over or otherwise passed on to IKM except that IKM will participate in such fees by reason of his being a Limited Partner and receiving a share of the profits and payments as stated above.

We have been supplied with a completed domicile questionnaire for IKM and the Board of Inland Revenue has determined that IKM is not domiciled in any part of the United Kingdom. This determination was made in the knowledge that IKM might be taking up the Chairmanship of the British Steel Corporation (BSC) and implementation of the proposals the subject of the attached draft Contract or referred to therein will accordingly not of itself affect the Board's decision. We have also

been asked to confirm that IKM will not be regarded as acquiring or reacquiring a domicile in any part of the United Kingdom if, at some time during the currency of the appointment, he moves his permanent home from Connecticut to some other State in the United States of America. We are able to give this confirmation but only on the understanding:

1. that the change will occur when IKM is in the United States of America and actually moves to his new permanent home State (even though shortly thereafter he would return to the United Kingdom for the temporary purpose of completing his duties under the appointment); and
2. that until such time as he actually moves (as stated in (1) above) to such new permanent home State he retains his intention to return to Connecticut as his permanent home.

To avoid misunderstanding we would add that the mere sale of IKM's house in Connecticut would not affect the position. We are also satisfied that nothing contained in Section 45 Finance Act 1975 will have the effect of deeming him to be domiciled in any part of the United Kingdom for the particular purposes of Capital Transfer Tax at any time during the continuance of the proposed appointment.

We understand that LFNY is a limited partnership established in accordance with the law of the State of New York and that its partnership meetings are not held in the United Kingdom.

We consider that on the basis of present United Kingdom law so long as LFNY does not have a permanent establishment relevant to this transaction as mentioned in Article 5 of Part 1 of the Schedule to The Double Taxation Relief (Taxes on Income) (The United States of America) Order 1980 then no part of the sums to be paid by SoS pursuant to Clause 2 of the proposed Contract will be the subject of any form of United Kingdom taxation as taxable income or chargeable gains of LFNY.

After consultation with the Department of Industry we have considered the facts appertaining to the present negotiations including the information that Lazard Brothers & Company Limited (a company resident for tax purposes in the United Kingdom) is a Limited Partner in LFNY, that IKM is at present a General Partner in LFNY and is to become a Limited Partner and that IKM will take up the appointment with BSC in the manner proposed. We are satisfied that the facts are such that none of the said sums can be said to be attributable to a transaction effected through a permanent establishment of LFNY in the United Kingdom. We are accordingly able to confirm that no part of the said sums will be liable to United Kingdom taxation as being profits attributable to a permanent establishment of LFNY in the United Kingdom. The unqualified assurance which we are able to give you in relation to this transaction and the sums referred to above

is of course without prejudice to any other transactions which LFNY may have in the past effected, or may in the future effect, through a permanent establishment in the United Kingdom.

We confirm also that subject as mentioned below no part of the above-mentioned sums will be treated as any form of taxable income or chargeable gains of any of the partners of LFNY. In particular we confirm that IKM will not be liable to United Kingdom tax on any part of the said sums which pass through to him by reason of his being entitled to a share of the profits of LFNY and also that IKM will not be liable to United Kingdom tax on any part of the sums to which he is entitled from LFNY save only to the extent that he remits the same to the United Kingdom.

Lazard Brothers & Company Limited will naturally continue to be liable to United Kingdom tax on its share of the profits of LFNY in the normal way. Leaving aside IKM (whose position we have dealt with separately above) if any of the other partners in LFNY are resident for tax purposes in the United Kingdom then they too will continue, in the usual way, to be liable to United Kingdom tax on their share of the profits of LFNY.

For completeness we note that certain of the payments under the proposed Contract will be paid to Trustees of the Trust, a draft of which is annexed to the draft Contract, and would add that the views expressed above as applicable to LFNY are likewise applicable to those Trustees so long as such Trustees are not resident in the United Kingdom.

Finally, we confirm that based on present United Kingdom law there is no basis (other than as expressly referred to above) on which the Inland Revenue would be entitled to tax the said sums either as the income or chargeable gains of LFNY or any of its partners including IKM.

Yours faithfully

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IRON AND STEEL ACT 1975
MINUTE OF APPOINTMENT

The Secretary of State in exercise of his powers under section 1 of, and paragraphs 1 and 2 of Schedule 1 to, the Iron and Steel Act 1975 hereby appoints IAN KINLOCH MacGREGOR to be -

- (a) a member and a deputy chairman of the British Steel Corporation for the period beginning on 2nd May 1980 and ending on 30th June 1980 at a salary at an annual rate of £15,000; and
- (b) chairman of the British Steel Corporation for a period of three years beginning on 1st July 1980 at a salary at an annual rate of £48,500,

and subject in each case to the provisions of that Act and of this minute.

Mr MacGregor shall devote himself -

- (a) part-time to the duties of a member and a deputy chairman; and
- (b) full-time to the duties of chairman,

and may hold such other appointments as the Secretary of State may from time to time agree.

Mr MacGregor shall vacate the office of -

- (a) a member and a deputy chairman or of chairman if the Secretary of State is satisfied that he -
 - (i) is incapacitated by physical or mental illness, or
 - (ii) is otherwise unable to discharge the functions of a deputy chairman or of chairman, as the case may be; and
- (b) chairman if the Secretary of State gives him not less than six months notice to do so.

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INDENTURE OF TRUST, dated this 1st day of July,
1980, by and between ~~Her Majesty's~~ ^{The} Secretary of State for
Industry, London, England, as Grantor, and THOMAS F. X.
MULLARKEY, ALAN ROBERTS MCFARLAND and MICHAEL DAVID-WEIL,
as Trustees *being General Partners in LFNY as defined
below*

W I T N E S S E T H:

WHEREAS, on 29th April, 1980, ^{an Agreement} ~~a Deed~~ was
entered into by and between ~~Her Majesty's~~ ^{The} Secretary of
State for Industry ("~~S85~~") of the first part and LAZARD
FRERES & CO. of One Rockefeller Plaza, New York, New York
("LFNY") of the second part (said ~~Deed~~ ^{Agreement} together with all
schedules ^{and annexures} ~~annexed~~ thereto, being hereinafter referred to
as "the Agreement"); and

WHEREAS, in and by the terms of the Agreement,
LFNY agreed to release its general partner IAN KINE^LEOCH
MACGREGOR, of Greenwich, Connecticut ("IKM") from his ob-
ligations and duties as such general partner, so as to
enable him to accept an appointment, initially as deputy-
Chairman and subsequently as ~~full-time~~ Chairman, of the
British Steel Corporation ("BSC"), in accordance with the
express desire of ~~S85~~; and

WHEREAS, in consideration of LFNY's agreeing to
release IKM as its general partner as aforesaid, ~~S85~~

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undertook and agreed to make certain payments ~~to LFNY~~ as more fully set forth in the Agreement.

NOW, THEREFORE, the Grantor and the Trustees hereby agree as follows:

FIRST

I. The Grantor hereby transfers, assigns and delivers to the Trustees, and the Trustees hereby acknowledge receipt of, the sum of Four Hundred Fifty Thousand Pounds Sterling (£450,000), TO HAVE AND TO HOLD the same, IN TRUST, to invest and reinvest the same, to collect the rents, income and profits thereof, and to pay ^{and dispose of said principal} the ~~net~~ income therefrom ^{not less frequently than annually to LFNY} ~~therefrom not less frequently than annually to LFNY~~ (hereinafter in this Indenture of Trust referred to as "the Beneficiary") except as otherwise provided herein, until the termination of the trust as hereinafter provided.

period

II. If IKM ~~shall for any reason cease to be Chairman of BSC prior to July 1, 1981, then the Trust hereby~~
II. If IKM shall for any reason cease to be Chairman of BSC prior to July 1, 1981, the Trust hereby created shall terminate upon the date when he shall cease to be Chairman, as aforesaid, and thereupon the Trustees shall pay over and distribute to the Grantor four hundred and fifty thousand pounds sterling (£450,000).

III. If the then value of the principal and income of said Trust shall exceed the sum of four hundred fifty thousand pounds sterling (£450,000), any balance of principal and income shall be paid over and distributed to LFNY (hereinafter in this Indenture of Trust referred to as "the Beneficiary") absolutely.

IV (1) If IKM shall be Chairman of BSC on July 1, 1981, then the Trust hereby created shall terminate on June 30, 1983, or upon IKM's prior ceasing to be Chairman of BSC. ^{shall terminate}

(2) Upon the termination of the Trust pursuant to this Paragraph IV the principal and income thereof shall be disposed of as follows:—

(a) If the Trust shall terminate on June 30, 1983, the entire ~~[[then remaining]]~~ principal and income of the Trust shall be paid over and distributed to the Beneficiary, absolutely.

(b) If the Trust shall terminate by reason of IKM's ceasing to be Chairman of BSC on any date ^{in the} ~~between~~ ^{period beginning} June 30, 1981 and ~~June 30,~~ ^{ending on June 30} 1983 (such date of termination being hereinafter referred to as "said date"),

(i) the Trustees shall pay to the Grantor a sum which bears to four hundred and fifty thousand pounds sterling (£450,000), the same proportion as the period between said date and ^{June 30 1983} ~~the expiration of~~ ~~three years from July 1, 1980 (the effective date of the Agreement and of this Indenture of Trust)~~ bears to ^{two} ~~three~~ years and

(ii) the Trustees shall pay over and distribute the balance, if any, of the assets then remaining in the trust, whether income or principal, to the Beneficiary absolutely.

V During the term of the Trust the Trustees shall pay to the Beneficiary on December 31 of each year an amount equal to the excess of the value of the assets of the Trust on such December 31 over the amount which would be distributable to the Grantor if the Trust terminated on such December 31. Such payment shall be made first out of income and then out of principal.

SECOND

I. (1) If one or more of the Trustees herein named shall resign or shall for any other reason cease to act hereunder, the others or other of them may act alone; subject, however, to Subparagraph (2) hereof.

(2) In the event of the occurrence of a vacancy in the office of Trustee hereunder, the remaining Trustees or Trustee, as the case may be, shall be authorized and empowered to appoint a successor co-Trustee, or successor co-Trustees, as the case may be, PROVIDED, HOWEVER, that no more than three Trustees shall act hereunder at any one time. Any such appointment shall be made by instrument in writing, duly signed

and acknowledged and delivered to the person or persons therein designated; and a copy ^{ies} of such instrument of appointment ^{shall be} ~~shall~~ ^{to the Grantor} and be annexed to this Indenture of Trust. ^{delivered}

(3) If at any time during the term of the Trust none of the Trustees named herein or appointed pursuant to Sub-paragraph (2) hereof shall remain to act or be available to qualify hereunder, the Beneficiary shall, forthwith upon the occurrence of such vacancy, appoint one or more successor Trustees (but in no event more than three) by instrument in writing, duly signed and acknowledged and delivered to the person or persons therein designated; and a copy of such instrument of appointment shall be annexed to this Indenture of Trust. Any Trustee or Trustees so appointed shall, after qualifying hereunder, have the power to appoint a co-Trustee or co-Trustees in the manner hereinbefore set forth in Sub-paragraph (2) hereof.

II. No Trustee acting hereunder, whether named herein or appointed pursuant hereto, shall be required to post any bond or other security for the faithful performance of his duties hereunder.

III. The term "Trustees", wherever used herein, shall be taken to mean the Trustees for the time being in office and shall also apply, where appropriate, to one Trustee acting alone hereunder. Each Trustee acting hereunder shall have the same rights, powers and authority, whether or not discretionary, as if originally appointed hereunder.

THIRD

I. The Trustees named herein hereby assume the Trust created by this Indenture of Trust and undertake to carry out each and every provision thereof.

II. Any successor Trustee hereunder shall, in order to qualify, execute an instrument in writing, duly signed and acknowledged, expressly agreeing to assume the Trust created by this Indenture of Trust and to carry out each and every provision thereof; and such instrument shall be annexed to this Indenture of Trust.

III. No Trustee acting hereunder shall incur any liability for any act done or omitted in the exercise of his duties as Trustee in good faith.

FOURTH

Any Trustee acting hereunder may at any time resign his office as Trustee by written declaration, duly signed by him and delivered to one of his then-acting Co-Trustees or if there be none, to any successor Trustee designated to succeed him and in default thereof to the Beneficiary; and a copy of such declaration of resignation shall be annexed to this Indenture of Trust.

FIFTH

I. The Trustees shall have, with respect to any and all property at any time held by them hereunder, the following powers, in addition to those conferred by law:

(1) To retain any such property as an investment without regard to the proportion which such property, or property of a similar character, so held, may bear to the entire amount of the trust estate, whether or not such property is of the class in which Trustees are authorized by law or any rule of court to invest trust funds.

(2) To sell any such property at either public or private sale, for cash or on credit; to exchange such property; and to grant options for the purchase thereof.

(3) To invest and reinvest in property of any character, real or personal, foreign or domestic, including, but without limiting the generality of the foregoing, bonds, notes, debentures, mortgages, common and preferred stock, shares or interest in investment trusts, and/or money market funds, without being limited to the class of securities in which Trustees are authorized by law or any rule of court to invest trust funds and without regard to the proportion which any such property or property of a similar character held by the Trustees may bear to the entire amount of the Trust estate.

(4) To borrow money for any purpose in connection with the administration of the Trust created hereunder (whether from themselves or from other sources) and to continue or renew any loan made to the Trustees, and in connection therewith, to mortgage, pledge or otherwise encumber any property forming part of the Trust upon any terms and conditions, in any amount, and for any period of time, even if for longer than the probable duration of the Trust.

(5) To lend any part of the Trust, with or without security, in any amount, upon any terms and conditions, with or without interest, for any period or periods of time, even if for longer than the probable duration of said Trust, and to any person, firm or corporation.

(6) To manage any real property held by the Trustees hereunder in the same manner as if the Trustees were the absolute owner thereof, including but not by way of limitation, the power from time to time to lease or grant options to lease, any such real property for any term or terms, although in excess of ten years (and although any such term may extend beyond the period of administration of the Trust hereunder), without application to any court; and to enter into any covenants or agreements relating to the property so leased, or any improvements which may then or thereafter be erected thereon; to make ordinary and extraordinary repairs and alterations to any building, to raze old buildings and to erect new buildings and make other improvements; to insure against loss by fire or other casualty; to make, partition or enter into any agreements of partition of any real property which, or an interest in which, shall at any time constitute part of the Trust hereunder, and to give or receive money or other property for equality of partition. To whatever extent the same shall not be prohibited by law, the Trustees may, with respect to any building transferred to them, and shall, with respect to any improvement which in the

Trustees' judgment is not a permanent improvement but has a usable life in excess of one year, depreciate or amortize the inventory value of cost to the Trustees, as the case may be, by appropriate annual deductions from income and corresponding credits to principal; PROVIDED, HOWEVER, that in all cases such annual deductions from income shall not in any year exceed the amount properly deducted for depreciation or amortization for that year under federal income tax law as then in effect, and regulations issued thereunder.

(7) To vote on any securities forming part of any trust by discretionary proxy or otherwise; to join in or oppose any reorganization, recapitalization, sale, lease, merger, exchange or consolidation; to exercise conversion, subscription or other rights, or to sell or abandon such rights; to receive and hold any securities issued as a result of any of the foregoing transactions; and generally to take all action in respect of any such securities as the Trustees might or could do as absolute owner thereof.

(8) To deposit any securities with voting trustees or protective or similar committees, to delegate to them discretionary powers, to pay a share of their expense and compensation, and to charge the same to principal or income as the Trustees may see fit.

(9) To cause any stocks, bonds, securities, cash or other property at any time held by the Trustees to be in bearer form or to be registered or held in the names of the

Trustees individually, to the extent permitted by law, without indicating their fiduciary capacity, or in the name of a nominee or nominees.

(10) To compromise, settle or arbitrate any claim in favor of or against the Trust hereunder.

(11) To determine whether, and, if so, to what extent, premiums on investments shall be amortized.

(12) To make any distribution hereunder, in whole or in part, in securities or other property comprising the principal of the Trust at the time of such distribution, and in making such distribution the Trustees shall not be required to prorate any item of property so distributed among the persons entitled to such distribution, but shall be authorized and empowered to distribute different items of property to the distributees.

(13) To maintain on behalf of the Trust hereunder one or more custody accounts with any bank or trust company or any brokerage firm, wherever located, and to retain investment counsel, investment advisers, accountants and attorneys (including any firm of investment counsel, investment advisers, accountants or attorneys with which any Trustee hereunder shall be associated or otherwise connected) and to charge the cost of any such custody account or any commission, fees or other compensation payable to any such investment counsel, investment advisers, accountants or attorneys to the principal or income of the Trust as they may deem appropriate.

(14) To exercise any other or further authority or discretion not hereinabove specifically granted as may from time to time be permitted by applicable statutes or rules of law, it being the intention hereof that the foregoing powers shall be in addition to and shall not be deemed a limitation upon such authority and discretion as the Trustees would have but for such provisions.

(15) Persons dealing with the Trustee shall not be bound to see to the application of any moneys paid to the Trustee pursuant to their exercise of any of the foregoing powers.

II. In addition to the power and authority hereinbefore conferred upon the Trustees in Paragraph I hereof, the Trustees shall be specifically authorized to acquire shares or other participating interests of or in any company, corporation, partnership or other business venture with which they may be respectively connected or associated, or otherwise to invest therein additional funds of the Trust, and to pay for the same out of other assets of the Trust; to enter into any arrangements from time to time with any other stockholders or stockholder, partner or partners, or other person or persons interested or proposing to be interested therein; and generally to hold and administer any such investment in the same manner and to the same extent as any individual could do in his own right. The Trustees shall further be authorized to participate in the management of any such

business enterprise, to serve as members of the Board of Directors thereof, or otherwise to perform such services therefor, and in any of said capacities to receive compensation for their services so rendered.

SIXTH

The Trust hereby created shall be irrevocable and the Grantor shall have no right to change, alter or amend any of the provisions thereof.

SEVENTH

The Trust hereby created shall be deemed to be a New York Trust and shall be governed and construed in all respects by and in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the Grantor and the Trustees have hereunto set their respective hands and seals as of the day and year first above written.

Grantor (L.S.)

Trustee (L.S.)

Trustee (L.S.)

Trustee (L.A.)

Guarantee

TO THE SECRETARY OF STATE FOR INDUSTRY

In consideration of your having at our request agreed to transfer, assign and deliver to Thomas F X Mullarkey, Alan Roberts McFarland and Michael David-Weill ("the Trustees") being General Partners in Lazard Frères & Co of 1 Rockefeller Plaza, New York, New York ("LFNY") the sum of four hundred and fifty thousand pounds under and subject to the provisions of an indenture ("the Indenture") intended to bear even date herewith and made between the Secretary of State for Industry and the Trustees, WE, LFNY, hereby guarantee to you the payment by the Trustees of ~~the~~ such sum as may become payable to you under the Indenture subject as hereinafter mentioned:-

1. Notice in writing of any default on the part of the Trustees is to be given by you to us and within one month from its receipt payment shall be made by us of all sums then due from us under this guarantee.
2. This guarantee shall be interpreted and enforced in accordance with the laws of England.

AS WITNESS the hands of ~~the authorised representatives~~ ^{=, on behalf} of LFNY,
at London the day and year first before written.

[The signature will read
"Lazard Freres & Co"]

THIS IS APPENDIX " G " TO THE AGREEMENT DATED 29th APRIL 1980
BETWEEN THE SECRETARY OF STATE FOR INDUSTRY AND LAZARD FRERES
& CO.

Draft Press Notice

British Steel Corporation

Appointment of Chairman

Sir Keith Joseph, Secretary of State for Industry, has appointed Mr. Ian MacGregor as full-time Chairman of the British Steel Corporation for a period of three years *from 1st July 1980. Mr. MacGregor is appointed a part-time Deputy Chairman of BSC from 1st July.*

Mr. MacGregor was born in Scotland where he obtained degrees in metallurgy from the University of Glasgow and the University of Strathclyde. Since then he has spent many years in industry in the United States. From 1966 to 1977, he was Chief Executive Officer of Amax, Inc., a major American metals and natural resources company. He is currently a partner of Lazard Freres and Co., a United States investment bank, the Deputy Chairman of BL Ltd., Chairman of Alumax, and a director of a number of major international industrial companies, including Amax, the Singer Company, American Cyanamid and the Brunswick Corporation. He is also a director of the LTV Corporation, the third largest producer of steel in the U.S.A., and a governor of the newly formed New York Insurance Exchange. ✓

Mr. MacGregor ^{will} succeed ~~Sir Charles Villiers~~ ~~(sentence to reflect position of Sir Charles Villiers)~~.

Mr. MacGregor's personal salary will be £48,500 a year, the rate currently determined by the Government on the recommendation of the review body on top salaries.

The Department of Industry have separately agreed to make payments to Lazard Freres for releasing Mr. MacGregor to serve as full-time Chairman. These payments will reflect in part the length of time Mr. MacGregor serves (up to £675,000 for the full three years) and in part the success of BSC in attaining certain goals under his Chairmanship (up to an additional £1,150,000). Mr. MacGregor will not be pensionable.

Mr. MacGregor, an active senior general partner of Lazard Freres in New York, will become a Limited Partner with a reduced interest in the Firm. ✓

whose term of office was due to expire on 9 September 1980. Sir Charles Villiers has agreed to relinquish the post of Chairman to enable Mr. MacGregor to take office with the minimum of delay.

DATED 29th APRIL 1980

THE SECRETARY OF STATE
FOR INDUSTRY

and

LAZARD FRERES & CO.

A G R E E M E N T

Payments to Lazard Freres, New York

Agreed Criteria for the Review Committee

1 If Mr MacGregor serves a full 3-year term as BSC Chairman, the Committee has to determine a first performance payment of up to £700,000 soon after 31 March 1984, and second payment of up to £450,000 soon after 31 March 1985. This note sets out the Agreed Criteria required to be determined under Paragraph 3(c) of the Schedule to the Agreement of 29 April 1980 for the guidance of the Committee in determining the amount of the payments which in their opinion "reasonably reflects the establishment under the Chairmanship of IKM of the health and strength of BSC and improvement (or deterioration) of its performance within the period of three years from 31 March 1981". No suggestions are made for allocations of the payments to reflect the performance in particular years up to 31 March 1984. But in exercising its discretion, the Committee should recognise that the Government is looking for a progressive improvement in BSC's performance over the years in question, and that the effects of Mr MacGregor's chairmanship should be more apparent in the later years.

2 In assessing performance, the Committee should be guided in particular by the following.

Heading I - Profit and Loss Targets

3 This heading covers the achievement by BSC of the profit and loss targets (before tax and interest) agreed for each relevant financial year between BSC and the Government. Where targets are revised during a year, the revised targets should form the basis of the assessment. The Committee's assessment should take into account the attainment of the targets year by year, the need to achieve a progressive improvement during the period and the overall achievement over the period as a whole.

4 It is left to the discretion of the Committee to decide what shortfall from the profit and loss targets should disqualify LFNY from payments under this heading. In assessing performance under this heading, the Committee, in addition to the level of profit or loss achieved in relation to the targets, should also have regard

to the level of output of the Corporation in terms of total tonnage and in relation to the size of the UK markets it serves and the amount it exports; changes in the capital structure of the Corporation; and any variations in accounting practices adopted.

Heading II - Cost Reduction

5 Targets for cost reduction will include such aspects as reductions in manning levels, better plant utilisation, improved energy utilisation and other improvements in efficiency. A different balance between the different aspects of cost reduction may be appropriate in different years. The Committee should, in its assessment of performance under this heading, have regard to the extent to which cost reduction targets, agreed between the BSC and the Government (whether in a Corporate Plan or otherwise) have been met. To earn payments under this heading there should be improvements across the board in the indicators chosen, although failure to secure a significant level of improvement in one particular indicator should not prevent LFNY from receiving payment if the overall cost-reduction programme had gone well.

Heading III - Privatisation

6 The Government attach particular importance to reducing the size of the public sector involvement in the steel industry, and as a consequence to the transfer, wholly or partly, to the private sector of BSC assets and activities. In making an award under this heading the Committee should not make separate annual assessments but should take into account the extent to which BSC has been privatised over the period of Mr MacGregor's chairmanship.

7 Any transfers to the private sector which affect BSC's performance should not be a ground for a reduction of payments under other headings.

Heading IV - Broader Assessment of BSC's continuing Health and Strength

8 The Committee should take into account the qualitative factors reflecting BSC's longer term health and strength. These factors would include, but are not limited to, management structure, business organisation, financial control, management succession, technical developments, labour relations and general reputation, at all levels of the Corporation.

Assessment of Payments by the Committee

9 The Committee should, in determining payments under the Agreement, pay particular regard to the achievement of the profit and loss targets under Heading I and cost reductions under Heading II; about one-third of the money available under the Agreement should be allocated for consideration of an award under each of these headings.

10 The BSC will be expected to adhere to the External Financing Limit (EFL) as originally set for each relevant Financial Year by the Government after consultations with the BSC. Although cash discipline is an important indicator of financial performance, the Committee should regard adherence to EFLs as a normal and necessary part of the discipline to which all the nationalised industries are subject, and adherence to the EFLs should not be treated as an element meriting performance payments. The Committee should consider, however, whether success by BSC in achieving its objectives, whilst requiring less than the originally agreed EFLs, should be regarded as an element justifying an increased award under Heading I; and conversely whether failure to keep within the original EFLs should be regarded as justifying a reduced award under Heading I.

11 The effects of external economic circumstances will normally be taken into account each year by the BSC and the Government in setting profit and loss, EFL and cost reduction targets. Where unforeseen circumstances arise during the year, which are judged to be beyond the reasonable capacity of the Corporation to accommodate within their original targets, the appropriate response is for the Government and the BSC to reconsider the targets. As a general rule, therefore, the Committee should not take external economic circumstances into account in assessing performance. They should however take into account any directions given by the Government to BSC which may restrict BSC's ability to achieve its targets.

12 The Government will maintain and make available to the Committee a file of documents relevant to the Committee's task.

Payments to Lazard Freres and Co, New York, based on the
Performance of the British Steel Corporation under the
Chairmanship of Mr Ian MacGregor

On 29 April 1980 the Secretary of State for Industry entered into an Agreement with Lazard Freres & Co, New York (LFNY) for the release of Mr Ian MacGregor from his duties and obligations as a General Partner of LFNY in order that he should serve as Chairman of BSC for 3 years from 1 July 1980.

2. The terms of the Agreement provided that the Secretary of State would compensate LFNY for the release of Mr MacGregor, who has become a Limited Partner in LFNY in which he retains a greatly reduced interest. This compensation to LFNY was to take 2 separate forms:

- (a) an initial payment of £675,000, part of which is returnable if Mr MacGregor does not serve the full 3 year term as Chairman;
- (b) final payments of up to £1,150,000 to be determined by a Review Committee which is to base its decision on its opinion of the establishment under the Chairmanship of Mr MacGregor of a strong and healthy Corporation and the improvement (or deterioration) in the performance of BSC in the 3 years from 31 March 1981.

3. The final payments are to be made in two stages: a first performance payment of up to £700,000 to be determined when the results for the year ending March 1984 are known, and a final performance payment of up to £450,000 to be determined after the results for the year ending March 1985 are known.

4. The members of the Review Committee have already been announced. They are:

Chairman	Mr John Gardiner
Nominated by LFNY	Mr Albert Frost Lord Weir
Nominated by the Secretary of State	Mr K J Sharp Mr J R Steele

The Agreement provides that the Review Committee should be guided, in determining the performance payments to LFNY, by Agreed Criteria. These Criteria were to be determined by discussion between the Secretary of State, LFNY, Mr MacGregor and the Review Committee. These discussions have now been completed, and the attached document sets out the Agreed Criteria.



Copy: Number 1

J.A. Gardiner
July 30 1985

- 1 -

(C)

PAYMENTS TO LAZARD FRERES & CO., NEW YORK, BASED ON THE PERFORMANCE OF THE BRITISH STEEL CORPORATION UNDER THE CHAIRMANSHIP OF MR IAN MACGREGOR

REPORT BY THE REVIEW COMMITTEE ON THE ASSESSMENT LEADING TO THE TWO PERFORMANCE PAYMENTS, 1985

INTRODUCTION

1 On 14 April 1981 the Government (HMG) released publicly a document entitled:

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

2 The document described the terms of an agreement between HMG and Lazard Freres & Co. of New York (LFNY) under which two payments would be made to LFNY up to a maximum of £1.15 million. These amounts were to be determined by a review committee and the document, which is attached, incorporates Agreed Criteria as guidance for the Committee's task. One amendment subsequently took place in October 1984, when HMG and LFNY agreed that the two performance payments would be awarded at the same time, in 1985.

3 This report describes how the amounts of the performance payments have been assessed and records the Committee's conclusion.

COMMITTEE MEMBERSHIP AND COST

4 Since the Committee was established in 1981, Mr. J.A. Gardiner has acted as independent Chairman. Mr. A.E. Frost and Lord Weir have served throughout as the

nominees of Lazard Freres & Co. of New York and Mr. A.G. Manzie (who replaced Mr. J.R. Steele in October 1981, before the Committee first met) and Mr. J.A. Knox (who replaced Mr. K.J. Sharp in July 1983) have served as the nominees of the Secretary of State for Industry* (SoS).

5 The Agreement between the SoS and LFNY provided that the SoS should bear the reasonable fees and expenses both of the Committee members themselves and of any outside consultants and professional advisers whom the Committee might appoint. Estimated costs over four years total £57,000 and relate almost exclusively to work commissioned from professional advisers to establish and maintain a comprehensive information-base. The Committee members themselves have not claimed any fees or expenses.

METHOD OF WORK

6 The Agreed Criteria as amended require the Committee to determine the amount of the payments to be awarded in 1985 which in its opinion "reasonably reflect the establishment under Mr. MacGregor's Chairmanship of the health and strength of the British Steel Corporation (BSC) and improvement (or deterioration) in its performance within the period of three years from 31 March 1981".

7 The Committee decided that, in order to provide the necessary build-up in information, continuity and experience to support the final assessments originally required in 1984 and 1985, it would undertake annual reviews of BSC's performance in each of the three financial years from 31st March 1981, together with a final review in 1985. Accordingly, the Committee first met on 26 November 1981 and regularly thereafter. Nineteen meetings have been held.

8 From the outset, the Committee regarded it as essential to create a wide-ranging, objective and accurate

* (since June 1983 the Secretary of State for Trade and Industry)

information-base as the foundation for its assessment of the two performance payments:

- (a) For detailed assessment of BSC's performance against annual targets, as required under Headings I and II in the Agreed Criteria, the Committee needed a clear and accurate statement, comparable from year to year, of the results achieved by the Corporation against the targets agreed by the Government (whether in Corporate Plans or otherwise). In addition, a judgement on whether progressive improvement had taken place under Mr. MacGregor's Chairmanship, and on the overall achievement during the period, required comparable information about BSC's results in the years immediately before he was appointed.

- (b) The Committee also needed to be aware of the context in which it was assessing BSC's performance during the review period. Accordingly, at the outset of its work, the Committee considered detailed papers covering the history of BSC, particularly in the mid to late 1970s, as well as trends in the steel industry internationally. Thereafter, the Committee reviewed developments over the review period in the steel market in the UK, Europe and worldwide, taking account of the European Community's steel policy.

HEADINGS I AND II

9 Under these Headings in the Agreed Criteria, the Committee required detailed information about BSC's performance against planned targets, as well as year-on-year results, over a wide range of indicators. For Heading I, these related to profit and loss before interest and tax, taking account also of BSC's liquid steel output, home

sales, UK market share, export sales, cash requirement, capital structure and any changes in accounting practices. In addition, the Committee reviewed the exceptional items in BSC's annual profit and loss accounts. For Heading II, the main indicators related to numbers employed, labour productivity, plant utilisation, energy use, and costs per tonne for employment, energy and materials.

10 In May 1982 the Committee appointed Coopers & Lybrand, BSC's auditors, to assemble the information at the end of each financial year and to vouch for its accuracy. Wherever possible, the information was also taken back to 1978/79, the last year in which BSC's performance was not affected by the three month steel strike in 1980.

HEADING III

11 As regards Heading III in the Agreed Criteria - Privatisation - the Committee quantified progress achieved under Mr. MacGregor's Chairmanship. In particular it reviewed:

- Disposals of UK businesses, including wholly-owned companies.
- Disposals of shares and holdings in UK partly-owned companies.
- Disposals of overseas interests.
- Disposals of surplus land, buildings, plant and machinery.
- Formation of private sector joint companies (the "Phoenix" programme).
- Formation of Companies Act companies.

The Committee also considered the effect on BSC's performance.

Heading IV

12 As regards Heading IV in the Agreed Criteria - BSC's continuing Health and Strength - the Committee was required to assess a range of "qualitative factors" which were not susceptible to the quantified approach adopted under the other Headings. In this case, therefore, the Committee based its judgement on information drawn from a number of sources including:

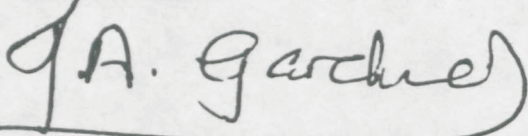

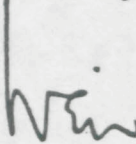
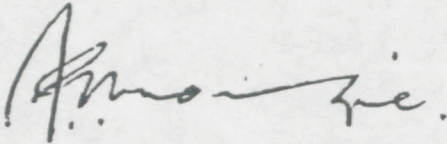
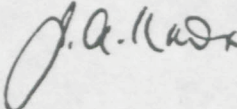
- Enquiries by Committee members amongst major UK steel-users.
- Written submissions to the Committee from the General Secretary of the Iron and Steel Trades Confederation.
- Reports by the House of Commons Select Committee on Trade and Industry and its predecessor (reflecting the results of four enquiries into BSC since 1981).
- Academic and other publications.

CONCLUSION

13 The Committee has unanimously determined that the amount of the first performance payment to be made to Lazard Freres & Co. New York by the Secretary of State for Trade and Industry (the SoS) should be £525,000. A maximum of £700,000 was provided for under the Agreement between the two parties.

14 In respect of the second performance payment, of up to £450,000, the Committee has unanimously determined that the amount should be £350,000.

Signatures

	J A Gardiner	Chairman
	A E Frost	
	Lord Weir	
	A G Manzie	
	J A Knox	

(25 July) 1985



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

1 August 1985

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

Dear Andrew

IAN MACGREGOR: PERFORMANCE REVIEW AWARD

The Chancellor has seen John Mogg's letter to you of 31 July. As I told you on the 'phone today, the Chancellor feels that the timing of this announcement - so soon after TSRB - is unfortunate. He suggests holding the announcement up for a further week (that is, round about 15 August) so as to leave more clear water between the two announcements, while still having the reports of Mr MacGregor's performance review award made public in the middle of the holiday season.

I am copying this letter to Geoff Dart at the Department of Energy and to John Mogg at the Department of Trade and Industry.

Yours sincerely
Tony Kuczys

A W KUCZYS
Private Secretary

P.S. We spoke again later. Officials here think there would be some advantage in postponing the announcement even further — the latest possible date would be 31 August.



James Earl Ray
1000 North Main Street
Jackson, Mississippi

JAMES EARL RAY: PERFORMANCE REVIEW AWARD

The Commission on the Assassination of President John F. Kennedy has the honor to inform you that you have been selected to receive the Kennedy Award for your exceptional performance in the investigation of the assassination of President John F. Kennedy. This award is presented to individuals who have made significant contributions to the understanding of the assassination and the events surrounding it. Your work has been instrumental in providing valuable insights into the complex circumstances of this historic event.

The award is presented to you in recognition of your outstanding contributions to the investigation of the assassination of President John F. Kennedy. Your work has been instrumental in providing valuable insights into the complex circumstances of this historic event.

James Earl Ray



NBM
AT 5/8

CCND

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

1 August 1985

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Norman Tebbit

POST OFFICE: BOARD MEMBERS' PAY 1985

You wrote to me on 11 July with revised proposals for 1985 pay increases for members of the Post Office Board.

I am most grateful to you for having looked again at your earlier proposals. I am happy to accept your revised proposals for salaries from 1 April 1985 on the understanding that the 18.0 per cent increase for Mr Cockburn is fully justified by the need to retain him as Member for Mails Operations.

I am copying this letter to the Prime Minister.

NIGEL LAWSON

Nigel Lawson

WAS IND PT3

Board Salaries



£59,325

cc PW

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CONFIDENTIAL



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

PS/

Secretary of State for Trade and Industry

31 July 1985

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

Dear Andrew,

IAN MACGREGOR : PERFORMANCE REVIEW AWARD

The independently-chaired review committee under Mr John Gardiner of the Laird Group has today reported on their award of £875,000 to Lazard Freres in compensation for releasing Mr MacGregor to serve as chairman of the British Steel Corporation (BSC) between 1980 and 1983.

2 Today, the committee submitted its report to Lazard Freres and to the Government. My Secretary of State would normally have preferred to make the report public and to lay it before Parliament immediately thus emphasizing that the award had been determined by an independent committee. However, in view of the current interest in the Top Salary Review my Secretary of State now proposes to make the announcement late next week. It would follow BSC's announcement of their future strategy which is, at present, scheduled for next Wednesday (7 August). We understand that Sir Robert Haslam is anxious to keep the two announcements quite distinct.

3 As you may recall, the committee was set up in 1981 to determine payments totalling up to £1.15 million on the basis of BSC's performance during the three years from 31 March 1981. It was to take account of BSC's profit and loss results, cost reduction, progress in privatisation and continuing overall health and strength. There were to have been two payments, the first in 1984 and the second around now, after BSC's 1984/85 results were available; but it was agreed in 1984 that (because of the NUM strike) both payments should be determined and made together in 1985.

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4 The committee, whose four members under Mr Gardiner are nominees of Lazards and of the Government has unanimously agreed on a total award of £875,000, (76 per cent of the maximum) consisting of a first award of £525,000 and a second of £350,000. This result reflects the good progress which BSC has made in all the areas covered by the criteria. In profitability, BSC has turned major losses into modest profits; in cost reduction, labour productivity has doubled; in privatisation, up to the end of 1983 BSC achieved as much as could be expected in difficult circumstances; in health and strength, BSC's continuing work despite the pressures created by the NUM strike testifies to the strength of morale throughout the Corporation.

5 Mr Gardiner's position will be that BSC's performance fully justifies the Committee's determination as a proportion of the maximum. The line taken by Ministers here will be that the determination was arrived at fairly and in accordance with the criteria agreed with Lazards. I also enclose a copy of the briefing which is being provided to our Press Office.

6 I am sending a copy of this letter and attachment to Geoff Dart at the Department of Energy and to Rachel Lomax at the Treasury.

Yours sincerely,

John Mogg

J F MOGG
Private Secretary

JF3AAN

Subject -
a master.

JEK

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10 DOWNING STREET

24 July 1985

From the Private Secretary

Dear Greville

PERSONNEL AT NCB

Your Secretary of State discussed with the Prime Minister forthcoming changes in Board members and management at NCB. The Prime Minister expressed reservations about increasing Mr. Cowan's salary to £62,500, but recognised that an increase might be necessary as part of the agreement under which he would retire and be replaced by Sir Kenneth Couzens.

Your Secretary of State said he would like to be able to put together a package of changes for announcement in September. these would encompass:

- (i) The appointment of Sir Kenneth Couzens as Deputy Chairman responsible for financial, administrative, legal and secretarial functions.
- (ii) A second Deputy Chairman who would be the Chairman designate.
- (iii) Three or so new outside Directors.
- (iv) Three or four changes in senior management.

The main difficulty was in identifying the Deputy Chairman who might eventually succeed as Chairman. He had considered Sir Robert Haslam but doubted whether he could take on the chairmanship of the NCB which would be much more onerous than the chairmanship of BSC. The unions in the coal industry were much tougher to deal with and with NCB a difficult task lay ahead; at BSC he had come in when much of the reorganisation had been completed. It was doubtful whether he could cope with the chairmanship of Tate & Lyle as well.

Your Secretary of State said he would like to find someone young and personable, possibly younger even than Mr. Scargill. The coal industry was becoming one for young men as most of the older men took early retirement. One possibility was Mr. David Davies who worked under Sir Robert Haslam at Tate & Lyle. He had carried through successfully the rationalisation of Tate & Lyle's interests in the United Kingdom and Canada. He came from a Welsh working class

JB

25/7

family, which might prove a suitable background for the coal industry.

He had also seen Mr. Dennis Morgan from Dowty, Mr. Roy Roberts from GKN and Sir Peter Baxendell, but did not consider any of these suitable.

The Prime Minister suggested Sir Kenneth Durham had many of the qualities necessary; he was a scientist and a northerner. It was doubtful, however, whether he could be attracted away from Unilever. Mr. David Plastow was also mentioned but not thought suitable.

It was agreed that your Secretary of State would talk to Sir Robert Haslam about Mr. Davies and would perhaps see him subsequently before reporting back to the Prime Minister.

*Your sincerely
Andrew Turnbull*

ANDREW TURNBULL

Geoff Dart, Esq.,
Department of Energy.

APPOINTMENTS IN CONFIDENCE

APPTS

CF Please put on Coal file
Appts has their own copies

They've been
word
me

Agree terms for easing out Mr Cowan
and for appointing Sir Kenneth Couzens?

AT 19/7

PRIME MINISTER

As you know I have been discussing with Ian MacGregor recently the composition of the National Coal Board. The two existing full-time members Mr Harrison and Mr Spanton are retiring, the former with effect from the end of July and the latter with effect from the end of September. The Deputy Chairman, Mr Cowan, was re-appointed on 1 January 1984 on the basis of a rolling six months notice of termination from either party. The Secretary, Mr Brandrick, who is not a member of the Board, is due to take early retirement in the autumn.

The most important next step is to resolve the future of Mr Cowan. Ian MacGregor is now reconciled to the idea that he should go in the autumn, probably in September, with salary in lieu of the unexpired portion of his notice. In this context however it is necessary to settle the level of Mr Cowan's salary. He was given a personal salary of £56,500 from the beginning of 1984 which was to last to the end of that year. Since then the other Board members, both full-time and part-time, have received increases in line with those for the NCB's employees, of 5.2 per cent with effect from 1 November 1983 and a further increase of 5.2 per cent with effect from 1 November 1984. Ian MacGregor wishes to give Mr Cowan an analogous increase to take effect from 1 January 1985, bringing his final salary, which would no doubt affect his pension, to £62,529.

I believe he should only receive the increase from 1 Jan 1985. His salary has been dealt with to the end of 1984.

I should be grateful for your agreement, and that of the Chancellor, to this proposed salary increase for Mr Cowan. In Ian MacGregor's view it would help to smooth the path for Mr Cowan's departure.

As to a new full-time Deputy Chairman, Ian MacGregor would like to have Sir Kenneth Couzens, who was Permanent Under-Secretary of State at the Department of Energy until the end of May. His responsibility would be to oversee the financial, administrative, legal and secretarial functions. I understand that this idea has been discussed with the part-time members of the Board and has their warm support. I see great merit in this proposal. It is of particular importance over the next year or two to strengthen the financial and administrative side of the

CONFIDENTIAL
APPOINTMENTS IN CONFIDENCE

NCB's activities and Sir Kenneth has valuable skills and experience to bring to this task. More generally I see advantage in having wisdom available to the Chairman and Board at this time. I should therefore be grateful for your agreement and that of the Chancellor to my making this appointment.

Agreed

It is intended that Sir Kenneth would take up his duties some time in the autumn, possibly in September, but the precise date would depend on Mr Cowan's departure. The period of appointment would be for three years. There has been no discussion so far about salary but the natural assumption would be that Sir Kenneth would be appointed with an initial salary at or around the recently increased salary for the outgoing Deputy Chairman (£62,529). In practice however Sir Kenneth would receive very much less than this because in accordance with the normal rules his salary as a member of a public board would be abated by the amount of his Civil Service pension.

I should be grateful to know as soon as possible whether these proposals are approved. I have been considering other possibilities for strengthening the membership of the National Coal Board and hope to make some further proposals to you in due course. I am however keen to make rapid progress now on the Deputy Chairmanship.

I am sending copies of this minute to the Chancellor of the Exchequer, Secretary of State for Employment and to Sir Robert Armstrong.

Cowan

Secretary of State for Energy

19 July 1985



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Secretary of State for Trade and Industry

NB 12/7
C. 1/10.

DEPARTMENT OF TRADE AND INDUSTRY
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TELEPHONE DIRECT LINE 01-215 5422
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11 July 1985

CONFIDENTIAL

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

R. Nigel,

POST OFFICE BOARD MEMBERS' PAY 1985

Thank you for your letter of 24 June asking me to look again at my proposals for pay increases for members of the Post Office Board.

... I have done this and the attached table suggests adjustments to my original proposals which amount to an increase of no more than 7.5 per cent on average. I have to say, however, that I am putting forward these modified figures with reluctance. As I reminded you in my letter of 29 May last year when increases for nationalised industries boards generally averaged out at 8 per cent, the average for the Post Office Board was under 6 per cent. The increases sought for this year were designed to go some way to redress the imbalance between salaries of the Post Office Board and private sector market rates, and I remain of the view that the bid for this profitable nationalised industry was justified. I note what you say about the introduction of a performance-related bonus scheme in 1985, but I am not clear what relevance this has to the present discussion on salaries. It has surely always been accepted that the introduction of such a scheme should not act as a substitute for realistic salary rates. Having said that, I recognise that we have set ourselves other objectives too in respect of salaries of nationalised industries boards and therefore, not without some misgivings, I am prepared to suggest this compromise which I hope you will also find acceptable.



I considered very carefully your reservations about a 20 per cent increase for Bill Cockburn and I appreciate that this is not the first time he will have received an above average increase. However, as you know, he is currently receiving more lucrative offers and if we are not prepared to pay him the market rate, then I am afraid we are in very real danger of losing him. At E(NI) we agreed that the arrangements for determining Board salaries should be operated in a robust and flexible way giving particular emphasis to the performance of individuals. I believe that there are compelling arguments for according special treatment to Mr Cockburn and I urge you to agree to the slightly lower increase of £59,000 which I now propose.

Bearing in mind our objective of settling nationalised industries board pay increases within three months. I should be grateful to receive your early agreement to my modified proposals. I do not believe that a settlement for Board salaries now would affect the outstanding pay negotiations for Post Office employees. The main negotiations are out of the way, and the remaining group of any significance - the NCU - are still in negotiations which may well be protracted; but their sight is focused on BT pay levels and I doubt that they will be influenced by a Post Office Board settlement. I therefore see no justification for further delaying a decision on Board pay.

I am copying this letter to the Prime Minister.

J. M.
Norman

NORMAN TEBBIT

	Present Salary	Original Proposal		Revised Proposal	
	£	£	%	£	%
Sir R Dearing	63,000	70,000	11.1	69,000	9.5
Mr Clinton	46,800	50,000	6.8	49,500	5.8
Mr Cockburn	50,000	60,000	20.0	59,000	18.0
Mr Garrett	48,000	52,500	9.4	52,000	8.3
[Mr Sellers	52,500	52,500	-	52,500	-]
Mr Young	48,000	52,500	9.4	52,000	8.3
Miss Cole	5,700	6,200	8.8	6,000	5.2
Sir C Cornford	11,700	12,200	4.8	12,100	3.4
Mr Gladwin	5,700	6,200	8.8	6,000	5.2
Mr Hodson	5,700	6,200	8.8	6,000	5.2
Mr Moody	6,800	7,300	7.4	7,200	5.9
[Mr Wainwright	12,000	12,000	-	12,000	-]
Average % increase			9.5		7.5 (7.48)

Board Salaries: NHT. ind. #3.

Telegrams:
Marspenza London. Telex.
Telephone: 01-935 4422

Prime Minister (4)
For information,
Michael House, M&A 8/7
Baker Street,
London, W.1.

from R. Greenbury

2nd July, 1985

Dear Prime Minister

cc DEB 877

Thank you for your letter regarding the salary structure of the British Gas Corporation and for taking up so much of your very valuable time to review the issue personally - this is greatly appreciated.

Although the Remuneration Committee is disappointed on behalf of the Full-Time Members that it has not been possible to implement our recommendations, we have noted your further suggestions which clearly raise new issues for consideration in view of the Corporation's impending "Privatisation".

Again, thank you for your personal interest.

Yours sincerely
Richard Greenbury

The Rt. Hon Margaret Thatcher MP.,
Prime Minister and First Lord of the Treasury,
10 Downing Street,
LONDON SW1.

DA

FILE cc

CONFIDENTIAL



H0	D/M
BES	JOT
D/N	CST
DEE	CO
DHS	CAZ
DTI	

10 DOWNING STREET

From the Private Secretary

1 July 1985

Dear Margaret.

ABATEMENT OF PENSIONS OR SALARY ON RE-EMPLOYMENT
ON PUBLIC SECTOR BOARDS

The Prime Minister has seen the Chancellor's minute of 19 June reporting the discussion in E(PSP). She is content that the general question of abatement over the whole public sector should be looked at by officials and that, pending the outcome, no change should be made in respect of people appointed to public sector boards.

I am copying this letter to Private Secretaries to other members of E(PSP) and to Richard Hatfield (Cabinet Office).

*Your sincerely
Andrew*

(Andrew Turnbull)

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

dg



10 DOWNING STREET

Prime Minister (2)

I understand Mr Jenkins does not wish to pursue the question of abolition of pensions for nationalised industry board members in isolation from the treatment in the rest of the public sector.

He is content to allow officials to study the issue generally

Agree therefore, Chancellor's approval?

BT 27/6

Yes no



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

Rt Hon Norman Tebbit MP
Secretary of State
for Trade and Industry

24 June 1985

A handwritten signature in cursive script, appearing to read 'Norman Tebbit'.

POST OFFICE : BOARD MEMBERS' PAY 1985

You wrote to me on 29 May proposing 1985 pay increases for the members of the Post Office Board.

I was disappointed to discover you support the proposals made by the Post Office Remuneration Committee. The salaries affected would increase by 9.5 per cent on average - greater than the average increase for nationalised industry Board members in 1984, over half as much again as the 1984 increases for Post Office Board members and more generous than the increases we recently agreed at E(NI) to aim for this year. Given that we have agreed that the Post Office should have a performance-related bonus scheme in 1985, an increase of this size is clearly too much.

Turning to specific salaries, I accept that others are showing a close interest in Mr Cockburn. However, he received above average increases for 1983 and 1984, and I believe it would be difficult to justify a further increase of 20 per cent for him this year. I am also not convinced that Messrs Garrett and Young now merit the same salary as that set for Mr Sellers last year. You will recall we agreed that on the basis it would last until 1986 and would not become a marker for the rest of the Board.

Finally, you will be well aware of the danger that increases in Board salaries could repercuss on the pay negotiations for Post Office employees. In the circumstances, I wonder whether it is worth pointing out to Ron Dearing that we could find it difficult to reach final decisions on Board pay before the remaining pay negotiations for Post Office employees are settled.

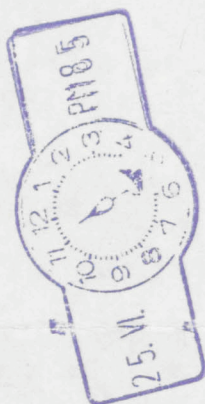


May I therefore ask you to take another look at the proposals contained in your letter, in the light of our discussion in E(NI)?

I am copying this letter to the Prime Minister.

*Yours
Nigel*
NIGEL LAWSON

NAT (NO: Bowd Salaries) P43



CONFIDENTIAL

NBP
AT
24/6

ELW

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

20 June 1985

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

A handwritten signature in dark ink, appearing to read 'Peter Walker'.

NATIONAL COAL BOARD: SALARIES OF NON-EXECUTIVE MEMBERS

I am content with the proposal in your letter to me of 11 June for pay increases for the non-executive members of the National Coal Board of 5.2 per cent from 1 November 1983 and a further 5.2 per cent from 1 November 1984, in line with the increases already agreed for the executive members.

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

A large, stylized handwritten signature in dark ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

Nat. Ind. Board Salaries

Nat Ind. PC-3





B/R
 with DoG comment
 AT spoke to
 DOE
 17/1/6

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

PRIME MINISTER

**ABATEMENT OF PENSIONS OR SALARY ON RE-EMPLOYMENT
 ON PUBLIC SECTOR BOARDS**

att.
 E(PSP) discussed pensions/salary abatement in the case of members of public boards on 13 June.

2. You may remember that the general issue arose out of the particular case of Mr Roy Watts, the Chairman of Thames Water Authority, who, although he accepted his appointment in full knowledge of the abatement rules, has subsequently objected in principle to the application of abatement. The argument of principle is quite straightforward: pension is a form of deferred pay which has already been earned in the first employment, and it seems inequitable to reduce either a pension after it has become due for payment or salary in a subsequent employment. People with pensions from private sector employment do not suffer abatement when taking up appointments on public boards, nor do retired public servants suffer abatement when taking employment in the private sector. It is argued that it is therefore unfair to impose abatement on people accepting employment as members of public boards after retirement from public sector employment of whatever kind.

3. However, there are many other cases to which this argument could also be applied, where it is generally regarded as right to impose abatement. These cases include the re-employment of civil servants in a lower grade after retirement and the employment in the Ministry of Defence of retired armed forces personnel. It would generally be perceived as unfair if people continuing effectively in the same employment were to be enabled to secure substantial increases in their pay by means of notional retirement. Complete relaxation of abatement where it at present applies would cost £35 million a year.

CONFIDENTIAL



4. Moreover, officials are currently reviewing the question of extending the principle of abatement in certain other cases where it does not at present apply, but where there is a good case in principle for its application. Examples are people taking early retirement from Health Authorities and then taking up employment in the DHSS.
5. E(PSP) were agreed that there was no case for retrospectively improving Mr Watts' terms of employment, but were evenly divided on the issue of principle. Representatives of nationalised industry sponsor Departments tended to favour a limited relaxation of abatement in the case of people appointed to public sector boards from outside, whereas other members of the Sub-Committee were concerned that any relaxation in these cases would subsequently result in a much wider extension of relaxation, at considerable public expenditure cost. Given that the operation of abatement has not in practice caused serious difficulties in the case of appointments to public boards (even Mr Watts accepted his present appointment in full knowledge of the abatement rule), and that the general question of abatement is under consideration by an inter-departmental group of officials, I recommend that we should make no change now in respect of people appointed to public sector boards.
6. I am copying this minute to the other members of E(PSP) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

N.L.

19 June 1985

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH

MILLBANK LONDON SW1P 4QJ

01 211 6402

CCND.

NBR 7

HT

4/6

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

11 June 1985

NATIONAL COAL BOARD: SALARIES OF PART-TIME MEMBERS

Your letter of 10 December 1984 agreed that there should be a 5.2% increase in the salaries of the full-time Board Members, with the exception of Messrs MacGregor and Cowan, from 1 November 1983; and your letter of 28 December agreed to a further increase of 5.2% from 1 November 1984 in the salaries of Messrs Spanton and Harrison.

Mr MacGregor has written to me seeking consequential increases for the part-time Board Members.

As you will know, the normal salary paid to part-time Board Members is one-eighth of the mid-point of the full-time Members' range. Although increases have been given to Messrs Spanton and Harrison as full-time Members, the salary currently paid to the part-time Members, except Sir Melvyn Rosser, is £4,540, which is the rate derived from the November 1982 ranges. Mr MacGregor proposes that this should be increased by 5.2% from 1 November 1983 (to £4,776) and a further 5.2% from 1 November 1984 (to £5,024).

Sir Melvyn Rosser's salary is presently £10,000 pa, based on a commitment of 60 days per year on Board business and the salary ranges paid to other Members of the Board prior to the November 1983 and November 1984 increases to full-time Members. The level of commitment has been maintained, and Mr MacGregor therefore also proposes an increase in Sir Melvyn Rosser's salary by 5.2% from 1 November 1983 (to £10,520) and 5.2% from 1 November 1984 (to £11,067).

I endorse these proposals and would welcome your agreement to them. I am copying this letter to the Prime Minister, members of E(NI) and Sir Robert Armstrong.

PETER WALKER

CONFIDENTIAL

NAT IND: Board Salaries: Pt 3.



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

NBPM
AT 30/5
CC10

Secretary of State for Trade and Industry

29 May 1985

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

D Nigel,

POST OFFICE BOARD PAY 1985/86

Attached
As you know, Post Office Board pay is fixed from 1 April each year. This year, we received proposals from Sir Ronald Dearing in the course of March, and I hope we can now make an early decision in accordance with the general aim we have set ourselves to settle salaries within 3 months.

2 I have read with interest the record of E(NI)'s discussion of 16 May on Nationalised Industries Board pay which Norman Lamont attended in my absence, and I am writing to you against the background of the agreed general objective to avoid an average increase in 1985 which exceeds that of last year while giving particular emphasis to the performance of individuals.

3 At Annex A, is a tabulation showing Sir Ronald's proposals for his Board which have been agreed by the Board Remuneration Committee of the Post Office, and also their proposals in respect of Sir Ronald himself. In his representations to us, Sir Ronald makes the point that the Post Office continues to fall further behind market rates, and in the light of this, recommends a range of £50,000 to £60,000 as a move towards redressing the balance. You will see that overall the proposed increases average just under 9 per cent. This I think is reasonable given that last year, with increases for Nationalised Industries Boards generally averaging out at 8 per cent, the Post Office Board averaged under 6 per cent. We must also not overlook the good performance of the Post Office over recent years, and in particular the robust line that Sir Ronald and his Board have been prepared to take in the face of the threat of serious disruption of Post Office operations.

JH2ARA



CONFIDENTIAL
APPOINTMENTS IN CONFIDENCE

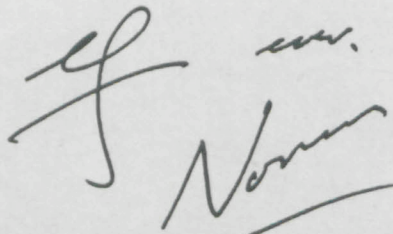
4 Turning to individual proposals, I would not dissent from the proposal to increase Bill Cockburn's salary to £60,000. I understand that BT is showing continuous and persistent interest in him, and would be prepared to offer a salary of well above £70,000. Against this background, the Post Office really cannot run the risk of losing him simply by refusing to acknowledge his value in the marketplace.

5 I can confirm that Tony Garrett's contribution to the Board as a professional marketing man has been most valuable over the past few years, and the Remuneration Committee feels that unless his services are properly recognised, there is a real danger that he too could be wooed away. Ken Young, the most senior Board member is also worthy of special treatment this time round given the vital part he has played in changing the attitude of the Unions in order to negotiate the new efficiency and productivity arrangements.

6 For the rest, it seems reasonable to give Alan Clinton the more modest increase proposed to bring him to the bottom of the suggested range, and the £500 extra a year for the part-time members is a proposal which I feel sure you can accept. As you know, it has been agreed that no increase will be payable to Philip Sellers until 1 April 1986.

7 As far as Sir Ronald himself is concerned, the Remuneration Committee makes a very strong case for increasing his salary to £70,000. The demands on him in this large and labour-intensive business are very considerable. The problems of organisation, growth and industrial relations are at least as great as those confronting any large business in the private sector, and yet the reward for his services bears very little comparison. The salary suggested would represent some movement towards comparability with a profitable industry in the private sector.

8 I am sending a copy of this letter to the Prime Minister.


NORMAN TEBBIT

JH2ARA



	1984 increase %	Present Salary £	Chairman's proposals for 1985 £	1985 increase %
Sir R Dearing	5.0	63000	70000	11.1
Mr Clinton	5.1	46800	50000	6.8
Mr Cockburn	8.7	50000	60000	20.0
Mr Garrett	5.5	48000	52500	9.4
Mr Sellers	-	52500	(52500)	(-)
Mr Young	5.5	48000	52500	9.4
Total Salaries (executives)		308300	337500	
Total increase (executives)	5.9*			9.5
Miss Cole	5.6	5700	6200	8.8
Sir C Cornford	5.4	11700	12200	4.3
Mr Gladwin	5.6	5700	6200	8.8
Mr Hodson	5.6	5700	6200	8.8
Mr Moody	5.4	6800	7300	7.4
Mr Wainwright**	-	12000	12000	-
Total Salaries (non-executives)		47600	50100	
Total increase (non-executives)				5.2
Total Salaries (whole board)		355900	387600	
Total increase (whole board)				8.9

* Includes increase for Mr Wainwright as Deputy Chairman

** Part time member from 1 April 1985



P.01540

CONFIDENTIAL

PRIME MINISTER

Nationalised Industry Board Members' Pay
Paper by the Chancellor of the Exchequer

E(NI)(85)2

BACKGROUND

You announced on 7 July 1980 that the salaries of the Chairmen and Members of Nationalised Industry Boards would in future be determined by the Minister concerned rather than by the Top Salaries Review Board, and on 7 April 1981 you announced the principles by which Ministers would be guided. Salaries would be based on managerial and market considerations rather than on traditional comparisons and ranking, and would take into account the need to recruit and retain people of experience and ability, internal differentials within the board and with senior management, the performance of the industry, and the general economic climate. Chairmen and non-executive directors would make recommendations on the pay of full-time directors to the appropriate Minister.

2. The Sub-Committee reviewed pay arrangements in January 1984 (E(NI)(84)1st meeting.) It rejected proposals that full time board members should receive a salary in respect of their executive functions together with a fee in respect of Board Membership, with Ministers fixing only the latter element, preferring that the existing system should be retained but operated in a more robust and flexible way.

3. The Secretary of State for Energy suggested in a letter of 10 December 1984 (annexed to E(NI)(85)2) that the



system is not working well, and asked for a discussion. Other Ministers welcomed this suggestion. The Chancellor of the Exchequer has circulated his paper as a basis for that discussion.

MAIN ISSUE

4. The main issue is whether any improvements can be made in the system by which Ministers determine the pay of members of Nationalised Industry Boards.

5. The defects which have been identified are:

(i) Remuneration Committees (comprising the Chairman and non-executive directors) have tended to recommend large increases by reference to outside comparisons, paying insufficient attention to individual merit;

(ii) not much account has been taken of the success of industries in achieving Financial Targets or External Financing Limits (EFLs). 'Norm'-like increases have been usual;

(iii) there have been inordinate delays.

6. In practice nationalised industry board members received an average increase of 8 per cent in 1984, with most receiving between 5 and 10 per cent but with extremes of 0 and 25 per cent. Average earnings in the economy have been rising by 7½-8 per cent a year, but the pay of private sector board members has probably risen faster than this so that the gap between them and their public sector colleagues has widened.

Proposals for Reform

7. None of the objections summarised above call into question the fundamental basis of the existing arrangements. It is accepted that pay determination is a matter for Ministers and should be based on the criteria outlined in paragraph 1, and that remuneration committees should play a key part: changes therefore relate to the method of operation and the



and the guidelines which should be given to the remuneration committees.

8. The essential difficulty in dealing with Nationalised Industry Board Members' (NIBMs) pay is in reconciling conflicting objectives of Government. Ministers want the nationalised industries to show a determined commercial approach to the management and development of their businesses; in principle they want more of the commercial decisions to be left to the industries; they want private sector disciplines and practices in fixing remuneration of NIBMs to be applied through remuneration committees made up of the Chairman and some of the part time Board members; and they want the Boards to set good examples of restraint to their staffs and to a wider public.

9. At a time when - notwithstanding big reductions in marginal tax rates on high incomes - top management pay in the private sector (including industries recently privatised) has been rising substantially faster than earnings in the economy as a whole, and substantially faster than top management pay in the public sector, and when Ministers have accepted payment of 'market' salaries to attract desired new talent into nationalised industry Boards, it is perhaps not surprising that tensions have developed over NIBMs' pay. In weighing the balance between 'market' factors and the need for exemplary restraint, Ministers have generally attached more weight to the latter point, at least so far as existing NIBMs are concerned. The question now is whether there should be any change in that balance, in order to reduce the tensions.

10. The Chancellor and the Energy Secretary are agreed that explicit guidance should be given to remuneration committees to reduce their ambitions and that decisions on their proposals should be reached more expeditiously; they are further agreed on the need to give further emphasis



to merit and performance, to keep the general level of increases below 10 per cent, and to avoid major reviews of Board salary structures without the approval of the responsible Secretary of State. The Energy Secretary, however, proposes paying more attention to vertical relativities (so that staff will have an incentive to aim for promotion to the Boards), and allowing some element of 'catching up' over a period, while the Chancellor rejects both these considerations and proposes that overall NIBM pay increases should be lower on average than last year's 8 per cent.

11. The tensions are probably incapable of precise resolution: the political pressures affecting different industries are themselves different, and change over time; for reasons outside their control, some of the industries will find less difficulty than others in achieving any given financial target; and there is always likely to be difficulty, if a relatively larger increase is proposed for one individual, in making the invidious choice of one of his colleagues to receive only a minimal increase. It may be possible to reduce the scale of the problem in some industries by promoting existing staff members, or people from elsewhere in the public sector, rather than bringing in much more highly paid recruits from private industry. Nevertheless there would seem to be advantage in arranging for sponsor Ministers to give discreet instructions to their remuneration committees to proceed cautiously, and to avoid proposals for average NIBM pay increases in excess of about 8 per cent unless there is the strongest practical case for such increases which has previously been agreed with the responsible Minister.

HANDLING

12. You will wish to ask the Chancellor of the Exchequer to introduce his paper. All Ministers sponsoring nationalised industries but particularly the Secretary of State for Energy are likely to have views. The Secretary of State for Employment may have a view on the degree to which board pay settlements influence expectations generally.



CONCLUSIONS

13. You will wish to reach decision on whether the Government should

- ✓ (i) confirm the general approach to the determination to board pay set out in 1981;
- ✓ (ii) endorse the development of closer links between pay and performance and the introduction of performance related pay schemes;
- (iii) give new guidance to remuneration committees;
- (iv) aim to react to the committees' proposals within three months;
- (v) require the agreement of Ministers before major reviews of pay structures are undertaken;
- ? (vi) reject placing particular emphasis on vertical relativities;
- (vii) reject any element of general catching up with private sector board pay, or with TSRB increases;
- (viii) aim for an overall increase no higher than achieved last year.

PLG
P L GREGSON
Cabinet Office
15 May 1985

CONFIDENTIAL

E(NI) foldw

MR TURNBULL

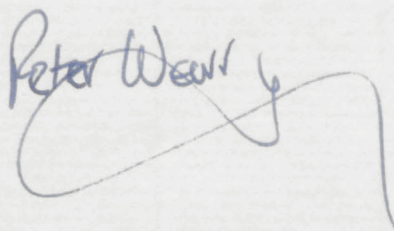
13 May 1985

NATIONALISED INDUSTRY BOARD MEMBERS PAY

Last year, Board pay increases averaged 8%. Nigel Lawson is certainly right to oppose general catching-up increases to TSRB levels, or that maintenance of vertical relativies within individual industries should be a significiant factor.

Performance-related pay schemes have now been introduced in British Steel, the Post Office and British Airports Authorities. Provided the criteria for such schemes include privatisation milestones as well as financial objectives, then this is the right way to go. It provides motivation to the individuals and justification for large salary increases where they occur. And of course if an industry fails to achieve its targets then salaries can actually decrease.

We support Nigel Lawson's proposals, in particular the emphasis on performance-related pay schemes.



PETER WARRY

CONFIDENTIAL



File
cc D'Neary

ECL

10 DOWNING STREET

THE PRIME MINISTER

10 May 1985

Dear Mr. Greenbury.

Thank you for the letter of 4 April from you and your co-signatories about the salaries of the full-time Members of the Corporation.

First, let me say that, although your recommendations as Members of the Remuneration Committee have not been fully accepted, the Government is appreciative of the work which you have put in, and I hope you will not, as your letter implies, see your efforts as wasted.

Your letter clearly recognises that, whilst your duty is to the Corporation, the Government has far wider responsibilities and would face considerable difficulties if it were to implement your recommendations in full. As you know, the Government believes that moderate pay settlements generally are essential to promote employment and competitiveness. Nonetheless, we have made real efforts, particularly during the last salary round, to deal fairly with the Corporation Members. Their current salary levels are towards the upper end of those for the Board Members of the nationalised industries as a whole, and whilst our policy is to look to the needs of individual Boards, a very substantive increase for one Board is bound to have implications for others.

I note that your letter refers to a need for a salary structure commensurate with performance. This points to the

SRW

Government's difficulty in agreeing large salary increases for Boards as a whole, as distinct from rewards to individuals for particular merit.

A performance related bonus scheme has been approved for several nationalised industry Boards and you may wish to consider whether an approach along these lines would provide one way of increasing the range of remuneration received by the Board Members, and in so doing relieve some of the pressure to which you refer in respect of senior executives.

Yours sincerely

Margaret Thatcher

Richard Greenbury, Esq.



GR-type

10 DOWNING STREET

Content. Privatisation
will solve the problem
anyway.

Robin Butler

FERS

You wanted to see the 8.5.

draft reply submitted by DEU
to the letter from the external
part times at the BFC.

It has now been cleared with

Treasury, who proposed the
amendments I have pointed
out.

MEVA 8/5



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

not P
012
checked PE. His still
clearly not being.
1/5
8/5

Mark Addison Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

24 April 1985

Dear Mark

Thank you for your letter of 10 April with which you enclosed a letter to the Prime Minister from the part-time Members of the British Gas Corporation. I enclose a draft reply as requested.

By way of background the Prime Minister may find the following useful:

1. BGC salaries are £66,500 for the Chairman, with other full-time Members receiving between £39,785 and £47,005. These are on ten step scales rising to £55,100 for the Chief Executive and to £44,355 for other Members. The Secretary of State has proposed to the Chancellor a personal salary of £46,855 for the Finance Director. The next review of salaries will take effect from 1 April 1985.
2. The Chairman's salary is close to that for the Chairmen of the Electricity Council, the CEGB, the Post Office and British Rail. Only the Chairman of British Shipbuilding is better paid.
3. The HAY-MSL consultancy report, upgraded for recent private sector salary movements, would have looked to a salary in the region of over £100,000 for the Chairman, around £75,000 for the Chief Executive and around £55,000 for other Board Members.
4. As at September 1984 the top 100 UK Directors were receiving salaries in excess of £82,000 a year.
5. Over the last three years Members have received increases of 9%, 7% and 9%. In addition, Members have been moving up their scales which has added, for most of them, about 5% extra a year.
6. When my Secretary of State saw the Remuneration Committee in December 1984 he pointed to the wider policy implications of Board pay which were outside his jurisdiction. In the light of the strong feelings among the Committee, he suggested that, if they wished, the only recourse open to them was to press the case at a higher level.



7. As you know, BSC has a performance related bonus scheme and the Chancellor has recently recommended that the NCB may wish to adopt a similar approach. My Secretary of State agrees with that.

Yours sincerely,
Philip Evans

P R EVANS
Private Secretary

CONQUEROR



ELBATHP.

DRAFT LETTER FOR THE PRIME MINISTER'S SIGNATURE, IN REPLY TO THE
FOUR EXTERNAL PART-TIME MEMBERS OF THE BRITISH GAS CORPORATION

Thank you for your letter of 4 April about the salaries of the full-time Members of the Corporation.

First, let me say that, although your recommendations as Members of the Remuneration Committee have not been fully accepted, the Government is appreciative of the work which you have put in, and I hope you will not, as your letter implies, see your efforts as wasted.

Your letter clearly recognises that, whilst your duty is to the Corporation, the Government has far wider responsibilities and would face considerable difficulties if it were to implement your recommendations in full. As you know, the Government ^{believes that} ~~is committed~~ ^{moderate pay} ~~to a policy of low pay settlements generally, which we believe to be~~ ^{are} essential ~~in our drive~~ to promote employment and competitiveness. Nonetheless, we have made real efforts, particularly during the last salary round, to deal fairly with the Corporation Members. Their current salary levels are towards the upper end of those for the Board Members of the nationalised industries as a whole, and whilst our policy is to look to the needs of individual Boards, a very substantive increase for one Board is bound to have implications for others.

I note that your letter refers to a need for a salary structure commensurate with performance. This points to the Government's difficulty in agreeing large salary increases for Boards as a whole, as distinct from rewards to individuals for particular merit. ~~One major~~



A performance related bonus scheme has been approved for several restructured industry Boards nationalised industry is already operating a performance related bonus scheme and you may wish to consider whether an approach along these lines would provide one way of increasing the range of remuneration received by the Board Members, and in so doing relieve some of the pressure to which you refer in respect of senior executives.

CONQUEROR

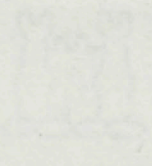




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24 APR 1985

COMPUTER





file MARKS + Spencer EA

24/4 (Ack 10/4)

(Sent to
R. Greenbury
M+S)

10 DOWNING STREET

From the Private Secretary

10 April 1985

I attach a copy of a letter the Prime Minister has received from the four external part-time members of the British Gas Corporation.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach me by Wednesday 24 April.

(Mark Addison)

Philip Evans, Esq.,
Department of Energy.

Pps below.

with compliments

CR - what did I suggest?

Here is copy of

letter re B.G.C.

Mark

← CR - NB

Thanks. Pl.

may I see the
draft when it
comes back. Make

SWR D/Energy clear
it with the Treasury.

Robin Baxter.

PERB

As you can see,
sent off for a draft
for PM to send.

Mark 11/4

Mark Addison

How is the
attached letter
being handled
please?

Roger Boissier

Easton House

The Pastures

Repton, Derby DE6 6GG

Tel: (0283) 702274

PERB

Telegrams:
Marshenka London, Telex.
Telephone: 01-935 4422

Michael House,
Baker Street,
London, W.1.

4th April, 1985

Dear Prime Minister

On advice from the Secretary of State for Energy, we the external Part-Time Members of the British Gas Corporation are writing to you regarding the remuneration of the Full-Time Members of the Corporation - the level and structure of which we unanimously believe should be significantly improved. Between us, we bring to the subject a comprehensive knowledge and experience of the working of the private sector - which, presumably, is why we were requested to join the B.G.C. Board.

Since 1981, and as proposed by the Government, we have constituted the Remuneration Committee formed for the specific purpose of advising on the appropriate structure for Board level pay in the Nationalised Industries. Although successive Secretaries of State have acknowledged the strength of the case we have presented, objectively researched and supported by the highly reputable HAY-MSL management consultants, they have always cited the political difficulties of implementing such recommendations. Consequently, none have been accepted and there has been no progress towards a salary structure which is either commensurate with the responsibilities borne by Executive Members or responds to their performance.

Quite apart from the injustice of the situation we believe that continued compression of the salary structure is not in the long term interests of the Corporation's Senior Management performance. Technical, middle and senior management salaries must surely reflect fair market place rewards if good morale and pride of performance are to be maintained and the greater efficiency which the Corporation seeks is to be achieved.

...Cont'd/....

We of course fully appreciate why it is never a good time to give substantial salary increases in the public sector but the longer this situation is perpetuated the more difficult it becomes to solve the problem. The case has been comprehensively researched and presented with the clearest of recommendations to successive Secretaries of State who have acknowledged the strength of the argument.

The Government has courageously tackled this problem in several similar situations over recent years and we would greatly appreciate your support for a similar approach in the case of the Gas Corporation.

Yours Sincerely

Richard Greening

Marks & Spencer, plc

Lesmondin

The BOC Group, plc

Roger Boissier

Pressac Holdings, plc

Martin Jacques

Kleinwort Benson Limited

The Rt Hon Margaret Thatcher MP.,
Prime Minister and First Lord of the Treasury,
10 Downing Street,
LONDON SW1.

CONFIDENTIAL



SCM
 Prime Minister ②

This was settled without
 argument this year. The increases
 are 9%.

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

AT
 6/3

1 March 1985

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 LONDON SW1

Peter Walker

MT

**BOARD PAY 1984: ELECTRICITY COUNCIL: CEGB
 AND BRITISH GAS CORPORATION CHAIRMEN**

You wrote to me on 21 February about the 1984 salaries for the Chairmen of the Electricity Council, Central Electricity Generating Board and the British Gas Corporation.

I am content with the salary of £66,500 you propose from 1 April 1984 for Philip Jones, Walter Marshall and Denis Rooke.

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

Nigel Lawson

NIGEL LAWSON

NAT IND: Board Salaries: Pt 3.

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MAR 11 1985

- 6 MAR 1985

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AT
22/2
CCND

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

The Rt Hon Patrick Jenkin MP
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

21 February 1985

A handwritten signature in cursive script, appearing to read 'Patrick Jenkin'.

NATIONALISED INDUSTRY BOARD MEMBERS PAY: BRITISH WATERWAYS BOARD

You wrote to me on 6 February about nationalised industry Board members' pay. We can certainly take the particular circumstances of the water authorities into account when we discuss Board pay at E(NI).

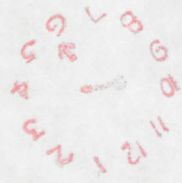
As far as the British Waterways Board is concerned, you have suggested we should take account of the fact that the Board received no pay increase in 1984 when their 1985 pay is considered. I generally prefer Board members' pay to be reviewed regularly in order to avoid large increases which can be presentationally difficult. However, I recognise that there are advantages in not pressing for a review of British Waterways Board members' pay at this time, and I acknowledge that lack of a 1984 award is one factor which may need to be taken into account when considering proposals for 1985. That said, pay levels for the British Waterways Board in 1985 will, of course, need to be justified on merit in the same way as those for members of other Boards.

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

NIGEL LAWSON

A handwritten signature in cursive script, appearing to read 'Nigel Lawson'.

Nat Ind: Board Salaries #3.



22 FEB 1985

CONFIDENTIAL

NBPA
HT

21/2

CEAD



SECRETARY OF STATE FOR ENERGY
TRADE HOUSE, 10/11
PARLIAMENT STREET, LONDON SW1P 3AG

01 211 6402

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

21 February 1985

ELECTRICITY COUNCIL, CEGB AND BGC CHAIRMEN'S SALARIES

I am grateful to you for your acceptance, in your letter of 15 February, of my proposals for the 1984 pay increases for Board Members in the electricity and gas industries.

As regards the three Chairmen, I accept your view that their increases should be no greater than 9%. I have therefore decided that the correct course would be to offer the Chairmen the same percentage increase as agreed for Board Members, which slightly rounded up amounts to a salary of £66,500 per annum in each case.

Your other caveat concerned the reflection of individual performance. Most of the Board Members in these two industries are on salary ranges. Progression through the ranges depends upon performance. The Chairmen make recommendations to my Department (after consultation when appropriate with part-time Board Members) and I am sure that that is the best way of ensuring, in normal circumstances, that individual performance is suitably recognised.

I will be giving further consideration to your comments on Gil Blackman and Bill Jewers and will, if necessary, write to you again shortly.

Finally, I share your concern about the 1985/86 pay negotiations in these industries; I shall reflect that concern in arranging for the industries to be informed, in a low key way, of the 1984/85 increases for Board Members we have now agreed.

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

PETER WALKER

CONFIDENTIAL

NAT. IND: Board Salaries: Pt 3.

21 FEB 1985





RM

GND

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

15 February 1985

The Rt. Hon. Peter Walker MBE MP
 Secretary of State for Energy

Peter Walker

**ELECTRICITY SUPPLY INDUSTRY AND BRITISH GAS CORPORATION:
 BOARD PAY 1984**

You wrote to me on 29 January about 1984 pay increases for the Board members in the electricity supply industry (ESI) and at the British Gas Corporation (BGC). You had earlier written to me on 14 January asking me to reconsider my opposition to the pay increase you had proposed for Gil Blackman at the CEGB.

Although you say that salaries of Board members have fallen in real terms since 1972 by over 30 per cent, I am sure you are not suggesting that pay increases should necessarily maintain salary levels in real terms. You also mention that there are virtually no pay differentials between Board members and senior staff but the example you quote, of course, compares the maximum of the lower salary range with the minimum of the higher range. While I accept that problems can arise from inadequate differentials, I believe we have to be careful that Board members do not, in effect, bid up their own pay levels in determining the pay of their senior staff.

I am grateful to you for proposing pay increases for these Boards which are considerably lower than those sought by the Boards themselves. From discussion between our officials, I understand that the 9 per cent increase applies to the pay ranges and flat rates for full-time and part-time members of these Boards but that the Chairmen of the CEGB, Electricity Council and British Gas Corporation are not covered.

You will not be surprised to learn that I would have preferred significantly lower increases. However, if you are convinced that your proposals are the minimum likely to be acceptable, I am reluctantly prepared to accept them but would enter two caveats. First, I should be grateful if Philip Jones, Walter Marshall and Denis Rooke would propose increases that are no greater than 9 per cent. Second, I would ask you to try to ensure that individual performance is taken into account when salaries are determined on the revised ranges. Our officials could then settle the precise ranges and flat rates.

I must say that I remain unconvinced that an increase in basic salary is the correct way to reward Gil Blackman for the outstanding work he has been doing. However, in view of your strong preference for a monetary reward, and your assurances that an increase awarded on a personal basis will not be repercussive, I am prepared to agree to a non-pensionable bonus payment. Bearing in mind our proposals for performance-related bonus schemes in the public sector, I should be grateful if you would consider a bonus of £6,000, equivalent to some 14 per cent of salary.



You will recall that we agreed the salary of £44,690 to be paid to Bill Jewers at BGC from December 1984 should not be increased as part of this 1984 Board pay settlement.

Finally, you are well aware that these industries are embarking on the 1985-86 pay negotiations for the staff. I am sure you will bear this in mind before notifying the Boards of their increases.

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

NIGEL LAWSON

A handwritten signature in dark ink, appearing to read "Nigel Lawson". The signature is written in a cursive style with a large initial "N".

Not incl: Board Salaries Pt 3



18 FEB 1985



NRPM

BT

2/2

CCAO

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

6 February 1985

Dear Nigel,

I have seen a copy of Peter Walker's letter of 10 December to you commenting on the arrangements for the determination of nationalised industry board members' pay and your reply of 16 January suggesting a meeting of E(NI) when the 1984 pay round is complete.

British Waterways Board pay is not strictly outstanding for 1984. We decided that it was premature to consider an increase. With your agreement I would like to take account of this in discussion of the 1985 pay when we hope to assess the merit and performance of recent and prospective appointments.

As far as the water authorities are concerned, we have had some difficulties in applying the 1981 procedures. These were exacerbated partly by the change in structure under the Water Act 1983 which brought the authorities fully into the national industry fold and partly by the structure of the industry. The latter does not lend itself easily to the pay review procedures envisaged in 1981. We are about to commission a study jointly with the water authorities that will, I hope, clear away some of the uncertainties which the 1983 changes inevitably created and lay the foundation for a new approach, particularly in such areas as inter-authority comparisons.

I therefore welcome Peter Walker's proposal with the caveat that whatever improvements we agree must be sufficiently flexible to take account of the peculiar structure of the water industry.

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

Yours
Patrick

PATRICK JENKIN

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-7 FEB 1985

cc/so
To await Cabinet Office
and Treasury responses

01 211 6402

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Whitehall
LONDON
SW1

29 January 1985

Nigel Lawson

BOARD PAY IN THE ELECTRICITY AND GAS INDUSTRIES

When I wrote to you on 10 December about my concern that the arrangements for determining nationalised industry board pay were not working satisfactorily I said that I would need to put proposals to you for my industries for 1984/5 in advance of any discussion on my proposals for improving the system. The 1984 pay increases for the ESI and BGC Boards were due from 1 April 1984 and I think it is essential to reach an early conclusion on them. You have made exactly that point in your reply of 16 January which has just reached me.

A report of the ESI's Advisory Panel on board salaries has been submitted to me, and I have also received recommendations from BGC's Remuneration Committee. The ESI Panel recommends increases of between 46% and 61% for full time members of the Boards other than Philip Jones and Walter Marshall. These figures update salary levels proposed by Hay MSL in 1981. In each of the past two years the BGC's Remuneration Committee has made broadly similar recommendations based on similar consultancy advice.

The Remuneration Committees of both the electricity and gas industry have separately called on me recently to urge much better treatment on board pay. They represented to me that board pay has fallen intolerably below comparable pay in the private sector. They underlined heavily the need to restore differentials between board members and senior managerial grades to a reasonable level. They considered that it would be timely and just, and in line with what the Government had said about rewarding performance, to recognise management successes in recent years - for example, the achievement of challenging



EFLs and the current successes of the electricity industry in coping with the effects of the coal strike.

Since 1972 the salaries of board members have fallen in real terms by between 30% and 47%. Following the 1983 pay settlement, differentials between the pay of board members and some top managers have been reduced to absurd levels. For example, there is only £10 between the maximum of a Chief Officer in the electricity industry and the minimum of an Area Board Deputy Chairman, while in London there is an inverse differential because of London weighting. And this is not because of extravagant increases at senior management levels. The senior management settlement for 1984 is making the position still worse. Similar considerations apply to BGC.

It is quite clear that on managerial grounds referred to in our 1981 Statement an increase which would do something to restore differentials is essential. To make sense of these differentials and recognise even in part what has happened at these levels in the private sector, increases are needed greater than those received by the generality of staff and manual workers in these industries.

It was represented to me that increases at comparable levels in large private sector firms during 1984 averaged around 17%, apart from bonus payments and special incentives. The BGC Remuneration Committee recognised that it would not be acceptable to the Government to make increases which would bring board pay up to outside levels and asked for an across the board increase of 15% simply to limit the deterioration compared with what had happened in the private sector. The Electricity Council made no specific claim, but limited themselves to urging on me the facts of the situation.

I recognise that we may not be able to tackle these problems comprehensively on the 1984 increase, especially if we are to discuss the whole operation of the 1981 policy in the near future. I have therefore considered very carefully what might be the minimum move I can make in the circumstances. I conclude that the right course would be to offer board members in these two industries an increase averaging 9%. This would certainly not be regarded by the Remuneration Committees as an adequate response. However, it would provide some modest scope for restoring differentials and would allow the recovery of part of the ground lost compared with groups remaining within the TSRB.

I trust you will agree that I should settle the 1984 increases with the boards in these two industries on this basis.

I was glad to see from your letter of 16 January that you agree, as do other colleagues, that we should meet to discuss board pay arrangements as proposed in my letter of 10 December. I hope we can

CONFIDENTIAL



do this within a month or so, so that we can apply our conclusions in an orderly way to the 1985 increases, as you suggest.

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

A handwritten signature in dark ink, appearing to read 'Peter Walker', with a large, stylized initial 'P' and 'W'.

PETER WALKER

CONFIDENTIAL

NAT. IND; Board Salaries : Pt 3.

3 IN 1985

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4 5 6 7 8 9 0

CONFIDENTIAL



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

16 January 1985

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

Dear Secretary of State,

NATIONALISED INDUSTRY BOARD PAY

In your letter of 10 December, you express your concern that arrangements for determining nationalised industry board pay are not working satisfactorily and suggest that an E(NI) discussion would be helpful. George Younger and Nicholas Ridley have written subsequently to say that they too would welcome a discussion.

E(NI) last discussed board pay arrangements about a year ago (E(NI)(84)1st Meeting). We agreed then that the existing system should be retained but operated in a more robust and flexible way. We have tried to do this in 1984 but I would not object to a further E(NI) discussion. May I therefore suggest that as soon as the 1984 nationalised industry board pay round is completed (BGC, ESI, BWB and BSC are the four industries still outstanding), I should circulate a note reviewing the outcome and responding to the general comments that you and other colleagues have made? We could then discuss the ground rules for the 1985 round. To enable me to do this, it would be helpful if any outstanding proposals for 1984 could be brought forward as quickly as possible.

Copies of this letter go to the Prime Minister, to other members of E(NI) and to Sir Robert Armstrong.

*Yours sincerely,
Margaret O'Hara*

NIGEL LAWSON

*(Approved by the
Chancellor and signed in
his absence)*

Not Ind : Board Salaries A3.

RECEIVED
MAY 12 1985

MAY 17 1985

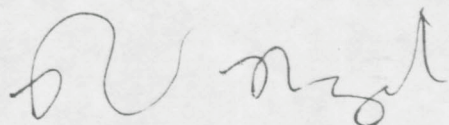
cc NO. 10

NBPM
To avoid Treasury response
AT 15/11

01 211 6402

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

14 January 1985



MR GIL BLACKMAN

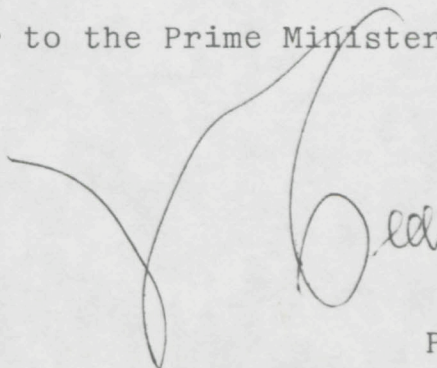
I was disappointed to receive your letter of 17 December about my proposal that we should increase Gil Blackman's salary by £10,000.

The Prime Minister has already written to Blackman thanking him, and his colleagues, for all that they are doing during the current dispute and I am grateful to her for that. But I do think we should additionally agree to the more tangible reward of a significant increase in salary. As I said in my letter of 10 December, you yourself have argued in the past that we should reward exceptional performance. You have agreed that Blackman is doing wonders and I can envisage no stronger case for an increase in salary than his performance at the present time.

I have talked to Walter Marshall about this and he strongly supports my recommendation. It is not only what Blackman is doing now but also the lessons we are learning, under his leadership, about the flexible operation of the system which might serve the nation well in any future emergency.

I do not believe that an increase awarded to Blackman on a personal basis need be repurcussive and I hope, therefore, that you will be ready to reconsider your opposition to my proposal.

I am copying this letter to the Prime Minister.



PETER WALKER

Not Ind : Board Salaries 173.

15 JAN 1985



CONFIDENTIAL

Off with Treasury response - 8/11



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

- 8 JAN 1985

Dear Nigel

NATIONALISED INDUSTRY BOARD PAY

I am grateful for the agreement you have given me to salary changes for my boards for 1984, which complete the 1984 round as far as I am concerned. I recognise that between us we have been able to move some way in adjusting the salaries of individuals, with a greater emphasis on merit and performance. But I fear that overall what we have been able to do has been very substantially eroded by the larger movements in the private sector. I am also very concerned that we continue to get recommendations from Remuneration Committees which are far beyond anything we can contemplate, and which in fact fail to pay sufficient consideration to the questions we are trying to deal with of individual merit and performance.

I would therefore welcome the discussion in E(NI) suggested by Peter Walker in his letter to you of 10 December, with a view to new and more explicit guidance for remuneration committees. I particularly endorse his suggestion that there should be major reviews only after consulting the sponsor Minister, that there should be very firm and clear guidance on the need normally for a spread of increases taking account of merit, and that we should take much fuller account of the need for vertical relativities which will reflect the need to recruit, retain and reward both board members and senior management in relation to salaries in the private sector.

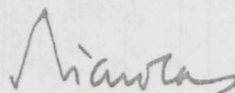
My suggestion is that we start by looking at the salaries of the Chairmen with the aim of getting those levels which we shall all regard as reasonable reward for what they do (we can always add or subtract a bit from a given

CONFIDENTIAL

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Chairman's salary to allow for merit or lack of it). We would make a large step towards a more rational structure if we could do that. I suspect that if we looked at the cases we might find this less difficult in the event than might at first appear.

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



NICHOLAS RIDLEY

CONFIDENTIAL

NAT INA: Board Salaries

PAJ

19 JAN 1983

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Q500.



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215)
GTN 215) 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

ND/M

AT
4/1

GEOFFREY PATTIE MP

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

4 January 1985

Dear Nigel

POST OFFICE BOARD MEMBERS' PAY AND BONUS SCHEME 1984

Thank you for your letter of 27 November. I am grateful for your agreement to my proposals for Post Office Board pay for the current financial year and I have now told Sir Ronald Dearing of the outcome. In the light of my discussions with the Chairman, however, I would like to come back to you on two points.

First, Sir Ronald has returned to the charge on the pay of Sam Wainwright and I believe that he has put a convincing case for having another look at this. Mr Wainwright has given a very good account of himself as Managing Director of Girobank over the last 7 years. Under his guidance, Girobank has become an established and growing bank. The attached table (at Annex A) shows clearly just how much has in my view been achieved. I see a good deal of force in Sir Ronald's argument that Mr Wainwright's outstanding performance merits a larger increase in his salary in this, his final year. Moreover, I think we all agree that in order to attract a suitable successor a salary considerably in excess of £59,000 will need to be offered. In recognition of our own difficulties Sir Ronald has suggested, as a compromise, an additional £2,000 which would bring Mr Wainwright's salary to £58,000. This seems eminently reasonable and I would recommend that we meet this request.

The second point, about which Sir Ronald feels very strongly, is the proposal to defer implementation of the performance-related bonus scheme until 1985/86. He makes the point that he included a performance-related bonus scheme in his pay proposals for 1983/84, submitted to Cecil Parkinson on 11 July 1983. It was only after protracted discussions between our Departments that Sir Ronald was told by Kenneth Baker that the particular scheme in question was not demanding enough, but consideration would be given to a tougher performance-related scheme for 1984/85. As a

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result, a scheme which seemed broadly acceptable to our Departments at official level was thrashed out with Sir Ronald personally last summer. Sir Ronald argues that since the basis of the scheme had been accepted in July subject only to Ministerial agreement, and his Board had been motivated to the achievement of its targets from that time, it is most unreasonable at this stage to defer implementation simply because - as it will be perceived by the Board - Ministerial consideration has taken an unreasonably long time.

I must say that I agree with you that it makes sense to link the attainment of performance targets to a future date. On the other hand, I do take Sir Ronald's point that the delay in formally accepting the scheme was through no fault of the Post Office and to defer implementation is likely to cause the Board to call in question our intention to encourage performance-related bonus schemes.

I believe that it is not unreasonable to implement such a scheme for the last six months of this financial year, ie from 1 October 1984. There is no practicable way of measuring performance against the RUC target for this particular six month period and I would therefore propose that bonuses should be paid on the basis of half the amount that would have been payable had the scheme operated for the whole of 1984/85. Sir Ronald has, however, made it quite clear that if bonuses are to be paid on this basis both he and Sam Wainwright would forego the payments to which they would otherwise be entitled (and it has already been agreed that the Finance Member, Mr Sellers, should not be eligible for bonuses before 1985/86).

Turning to the details of the scheme, I quite agree that Girobank profits are affected by interest rate fluctuations but to nothing like the extent of the joint stock banks. Because Girobank's book divides roughly at 2% corporate lending, 7% personal lending, 66% fixed interest, including gilts, and only 25% in short-term funds, much of its lending is fixed term, fixed rate. It therefore has an interest rate risk exposure quite different from other clearers. But in any case, the interest rate argument can work both ways. When setting its profit targets, we have (with the help of the Treasury) to make an assumption about future levels of interest rates, which I accept is by no means easy. If our assumption proves to be wrong, Girobank finds it somewhat easier (or more difficult) to achieve the target set. But having once set a profit target for management, it seems to me reasonable that we should use it as a yardstick for performance bonus purposes. Nevertheless, if you have any alternative suggestion, I shall be glad to consider it for future implementation.

I note that you consider my proposals for reaching present targets on real unit costs too generous. I agree that bonuses should be earned, in the main, for better than average

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performance, though if the targets are stretching enough it may take rather better than average performance to achieve them. But I suggest that your point might be met by the modifications to the Scheme as set out in Annex B attached.

I note your reservation about quality of service targets being set by the Post Office itself but, as you say, the present targets are tough. Indeed they have not been achieved, in recent years, so there is no doubt that they remain a positive challenge. I naturally agree that if the Post Office proposed to relax them we should need to think again about that element of the performance related scheme.

Finally, I am concerned that we should not find ourselves in the same difficulty next year. Profit targets have yet to be agreed for both the postal business and Girobank together with the performance aim for Posts. This could well take a few weeks yet and a performance-related scheme based on these new targets could take a further few weeks to agree. That could take us beyond the beginning of the financial year and I should be grateful for your assurance that a scheme based on the new targets will be allowed to operate for the whole of 1985/86. I believe that this would be right, because I am satisfied that prior announcement of the principles to the Board members would provide the incentive that we are agreed is a necessary condition of a bonus scheme.

A handwritten signature in cursive script, appearing to read 'G. Pattie', written in dark ink.

A second handwritten signature in cursive script, appearing to read 'G. Pattie', written in dark ink.

A single horizontal line drawn in dark ink, likely serving as a separator or underline.

GEOFFREY PATTIE

	Manpower at end of year	Personal Current Accounts ('000)	Turnover £m	Historic cost profit £m	Profit on mean net assets %
1976/7	3377 ¹	559 ²	42.4	2.0	N/A
1977/8	3131	588 ²	52.5	2.8	N/A
1978/9	4000	640	81.2	4.6	N/A
1979/80	4940	821	112.5	11.2	40.6
1980/1	5116	941	144.8	7.2	47.5
1981/2	5294	1080	177.0	12.2	29.4
1982/3	4134	1300	207.3	17.6	33.1
1983/4	5337	1542	227.1	15.5	25.3
1984/5 (est)	6019	1834	263.7	15.7	22.6

1 includes remittance services

2 all accounts

B.C.J.S SCHEME FOR POST OFFICE BOARD

Performance related bonuses should amount to a maximum of 14% of basic pay. Up to 7% should be related to individual performance and up to 7% to represent a corporate element. The individual performance element should be made up as follows:-

BM Giro: 1% for every 2% over profit target, up to a maximum of 7%

BM Counters: 2½% for achieving RUC target (5% reduction in 1984/85 compared with 1981/82);

5% for 5.5% reduction:

7% for achieving 6% reduction

BM Mails Ops) 2½% for achieving RUC target (5% reduction in 1984/85

BM Mails) compared with 1981/82);

Marketing) 3½% for 5.5% reduction;

4½% for 6% reduction;

2½% for achieving quality of service targets. (divided 1¼% each between first and second class mail).

BM Pay and IR: 1/3 of what BM Counters, Mails Ops and Mails Marketing
BM Finance receive

The Corporate element would give each Board member (except the Chairman) an average of the six executive Board members' performance-related bonus pay to a maximum of 7%.

The bonus payable to the Chairman would be one sixth of what is paid to all his colleagues.

Board Salaries . NAT IND. Pt 3.

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-4 JAN 1985



NB PM AD 11 *ans*
NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

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

31 December 1984

Dear Nigel,

NATIONALISED INDUSTRY PAY

I have seen a copy of Peter Walker's letter of 10 December to you commenting on the arrangements for the determination of nationalised industry Board members' pay.

It is clear that the present system does not work as smoothly as it might and we have come in for a good deal of criticism for the delays which have resulted in settling Board members pay recently. It is also somewhat unsatisfactory to find, each year, such substantial disparities between the recommendations which Boards make to us and the figures which we are constrained to award at the end of the day. I therefore agree with Peter Walker that it would be helpful for there to be a general discussion of the matter in E(NI).

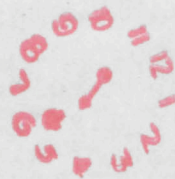
I am copying this letter to the Prime Minister, to Peter Walker and other members of E(NI), and to Sir Robert Armstrong.

Yours wls,

George

NAT MS: Board Salaries

A3



5861 NAT - 8 JUN 1985



WSPH
AF
4/1

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

28 December 1984

The Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 LONDON SW1

John Peter

NATIONAL COAL BOARD : 1984 PAY OF FULL-TIME MEMBERS

You wrote to me on 14 December about 1984 pay increases for Messrs Spanton and Harrison as full-time members of the National Coal Board.

I am content with your proposal to pay them salaries of £44,800 with effect from 1 November 1984. I leave you to judge how best to announce these increases.

You also mentioned that Ian MacGregor wishes to pursue with you the case for broader scales for full-time NCB members. I have asked my officials to study for the future the extent to which pay ranges remain appropriate for some members of nationalised industry Boards, so I should be grateful if your officials would keep the Treasury in close touch with Ian's intentions.

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

John
Nigel

NIGEL LAWSON

NAT IND: Board Salaries
P. 3

CC 100



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

17 December 1984

The Rt. Hon. Peter Walker MBE MP
Secretary of State for Energy

Handwritten signature and scribbles

NSPM

MR GIL BLACKMAN

You wrote to me on 10 December, suggesting that we should recognise in some tangible way the sterling work that Gil Blackman is doing to ensure the endurance of the electricity supply system during the dispute in the coal industry.

I agree that Mr Blackman is doing wonders but I do not think that an uplift in his basic salary is the way to reward him. It would repercuss elsewhere and would single him out in an obvious way, while failing to recognise the significant contribution others have also made. I think a much better way of showing Gil Blackman how much his services are appreciated would be for the Prime Minister to meet him and thank him in person. I am sure that if she were prepared to do so, he would regard this as reward enough.

Incidentally, I hope that you will be able to let me have shortly your proposals for the 1984 salaries for the Electricity Supply Industry Board. We shall be reviewing Gil Blackman's salary in the normal way as part of this exercise. If you wanted to put forward a performance-related general pay scheme as an element of your 1984 proposals, I should, of course, be prepared to consider it.

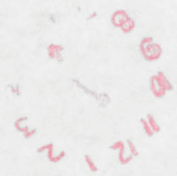
I am sending a copy of this letter to the Prime Minister.

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NIGEL LAWSON

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attached



8 DEC 1984



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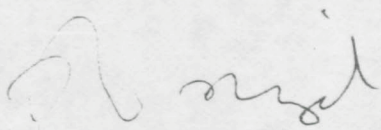
AT 17/12

01 211 6402

APPOINTMENTS IN CONFIDENCE

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

14 December 1984



NCB - SALARIES OF FULL-TIME BOARD MEMBERS

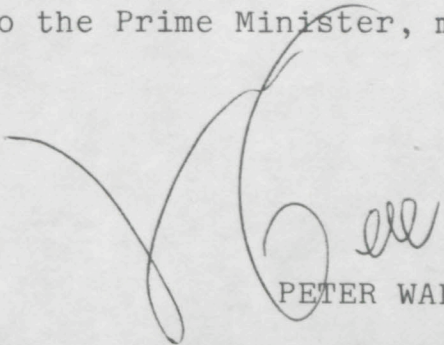
Your letter of 10 December agreed that there should be a 5.2% increase in salaries to NCB Board members as from 1 November 1983. At the same time, as it happens, I received a further proposal from the Chairman of the Board relating to salaries from 1 November 1984. He and his non-executive Directors have recommended that the salaries of full-time Board members Mr Spanton and Mr Harrison should be increased by a further 5.2% from that date, in line with the settlement already reached with BACM, bringing their salaries to £44,800.

Bearing in mind that the basis now agreed for the 1983/84 salary increase was well below the level recommended to me, I suggest Mr MacGregor's proposal for this year's further increase is acceptable. I therefore endorse his recommendation.

Although the Chairman will be coming forward later with consequential recommendations in relation to the salaries of part-time Board members and wishes to pursue with me the case for broader scales for full-time members, I believe it would be right to agree rapidly the 1984/85 salary levels for Mr Harrison and Mr Spanton now proposed. There was good reason for the considerable delay in settling the 1983/84 salary increase but the circumstances are now different.

I should welcome your early agreement.

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



PETER WALKER

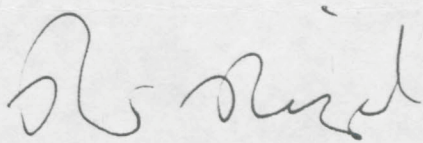
Nat Ind: Board Salaries Pt 3.

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01 211 6402

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

10 December 1984



NATIONALISED INDUSTRY BOARD PAY

will obtain if required
I am writing about my concern that the arrangements for determining nationalised industry board pay which the Prime Minister announced on 7 April 1981 are not now working satisfactorily.

In the statement on 7 April 1981 we said we would give more weight to managerial and market considerations. These included recruitment and retention. They also included rewarding experience and ability; achieving the right timing and differentials in relation to management staff; and taking account of the performance of the industry. We also said that chairmen and non-executive directors (ie Remuneration Committees) should have an important role in making recommendations on full time board pay to Ministers.

In fact, this system does not at present work well. Remuneration Committees have tended to recommend large increases by reference to outside comparisons which we have then largely rejected. Differences between nationalised board and private sector salaries have if anything widened rather than narrowed. Board salaries in the private sector have tended to increase faster than average pay recently while nationalised board pay increases have actually been less than those recommended by the TSRB for the public services.

We have not in fact taken much account of the success of industries in achieving Financial Targets or EFLs. We have usually applied "norm"-like increases. And we have done so without inordinate delays so that, for example, in 1983/4 we were settling salaries up to 12 months or more after the operative dates.

Inevitably this combination of delay and rejection of Remuneration Committee recommendations has caused irritation and produced an impression of Government inefficiency. Our readiness to give very large increases when privatisation was imminent, though understandable, has not made it easier to justify what we were doing in the remaining nationalised industries.



One factor in all our minds has been the fear that substantial salary increases for nationalised industry board members could have an adverse impact on pay negotiations in the industry concerned. I do not know of any evidence to support this fear. There are no indications that in industries like gas or electricity pay changes for board members are a material factor in the negotiating positions of the Trade Unions. We defended higher TSRB awards in 1982 and 1983 without any indication of an impact on staff or manual pay in the relevant services. In the special case of British Telecom we have accepted the risk of raising board salaries, but it is not so far obvious that this has attracted militant Trade Union attention or had an adverse effect on wage settlements generally. I think it would be very easy to exaggerate the degree of risk we run in fixing board salaries, or the extent to which pay increases in the remaining nationalised industry boards nowadays affect opinion on pay generally.

One possibility would be to change our practice radically in the direction of what happens in the private sector and give more responsibility to chairmen and non-executive board members to determine board salaries. But I assume for the purposes of the rest of this letter that we should continue to operate within the Prime Minister's statement of 1981, while making more robust and flexible use of the system, as you argued at E(NI) in January. If that is so, I think we ought to look for some real improvements in our present procedures. Some of these could be built without too much difficulty on the statement of new arrangements sent to the Nationalised Industries Chairmen's Group (NICG) in 1981.

My suggestions are as follows:-

- (i) There should be new and more explicit guidance for Remuneration Committees.
- (ii) That new guidance should refer to the distinction between ordinary periodic adjustment and major reviews of pay structures made in the note to the NICG of 1981; and should ask Remuneration Committees to undertake a "Major Review" only after consultation with the relevant Secretary of State.
- (iii) In a period of inflation at 4 or 5 per cent, "ordinary periodic adjustments" for a board as a whole certainly ought not to reach double figure percentages and ought normally to be very substantially less than that. I think it would be going too far to repeat the 1981 statement that ordinary period adjustments ought in general to lead to increases not greater in percentage terms than those granted to a board's own management staff. We would be restricting major reviews compared with the 1981 statement. It would balance that to be a little more flexible on ordinary adjustment, especially at a time when board pay has fallen behind TSRB increases.



- (iv) We would normally be looking for a spread of increases taking more account of merit and less of seniority.
- (v) Increases should take account of the need fully to maintain or in some cases improve vertical relativities with management staff, so as to offer an incentive to such staff, as well as of other internal management requirements. The need to recruit, to retain and to reward would of course be covered as in the Prime Minister's statement.
- (vi) In considering proposals from industries we would recognise the desirability of at least "catching up" with TSRB increases over a reasonable period. But that "catching up" would in no sense be an entitlement for individuals. It would relate to pay increases for a board as a whole and would be consistent with greater or lesser increases for individuals. Moreover, there would be no intention of re-establishing any formal relationship with the TSRB.
- (vii) We should make it a rule within Government to settle these increases much more quickly and to get the industries to make their proposals in good time to make this possible. It should be our aim to settle these increases without fail within 3 months of the operative date, except where the delay was the fault of the industry rather than of ourselves in Government.

I do not suggest that this list of proposals is incapable of improvement but I do believe that their application would make a considerable change for the better in the handling of these pay questions and in our dealings with the industries on them. I hope that we can reach speedy agreement on them and would be happy to discuss them in E(NI) on the basis of this letter if that were a general wish. In the meantime however I have proposals from my industries for 1984/5 which must be processed without delay. I will be putting my recommendations to you shortly in the spirit of the above comments.

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

PETER WALKER

Board Minutes

1-1-19



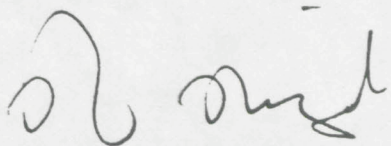
cc PS/PUS (MR GOODLAD)
 PS/PUS
 Mr Brown
 Mr Marley

01 211 6402

APPOINTMENTS IN CONFIDENCE

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

10 December 1984



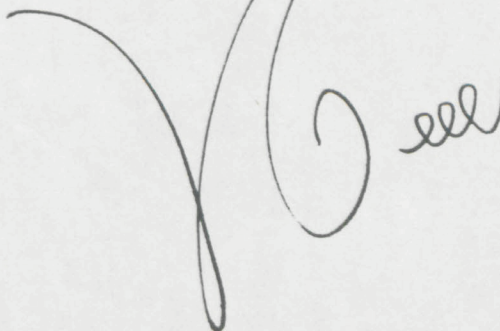
MR GIL BLACKMAN

I think we should recognise in some tangible way the sterling work Gil Blackman is doing to ensure the endurance of the electricity supply system during the dispute in the coal industry.

The obvious way of doing this (he already has the CBE) is by a significant increase in salary. He is already at the maximum of his range (£40,875) so we cannot act within the discretion on incremental progression already available. What is required therefore is an increase in salary personal to him.

You suggested at E(NI) in January that we should operate the existing system for determining Board pay in a robust and flexible way and you mentioned the need to reward exceptional performance.

Gil Blackman's is just such a case and I propose therefore that we should increase his personal salary from 1 January 1985 to £51,000. I should be grateful for your early agreement.



PETER WALKER

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NI
Board Salaries

APPOINTMENTS IN CONFIDENCE



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

10 December 1984

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House
South
Millbank
LONDON SW1

Peter Walker

NATIONAL COAL BOARD: 1983 PAY OF FULL-TIME MEMBERS

You wrote to me on 27 November about 1983 pay increases for the full-time members of the National Coal Board.

I agree with your proposal for a 5.2 per cent increase from 1 November 1983 in the salaries of the full-time NCB Board members on that date, with the exception of Messrs MacGregor and Cowan.

I leave you to judge how best to announce these increases.

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

Nigel Lawson

NIGEL LAWSON

NAT IND PT 3

BOARD salaries

CONFIDENTIAL



CCPO

MBPM

AT 28/4

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

27 November 1984

Geoffrey Pattie Esq MP
Minister of State for Industry
and Information Technology
Department of Trade & Industry
1 Victoria Street
LONDON SW1

A handwritten signature in dark ink, appearing to read 'Geoffrey Pattie'.

POST OFFICE BOARD MEMBERS' PAY 1984 AND BONUS SCHEME

You wrote to me on 18 October about the 1984 pay increases for members of the Post Office Board, together with a proposal for the introduction of a performance-related bonus scheme. You subsequently wrote on 2 November about the salary level for Mr Wainwright's successor. *will request if required*

I am content with your proposals for 1984 Post Office Board salaries, as set out in column (e) of the table enclosed with your letter.

I am also content in principle that a performance-related bonus scheme should be introduced for this Board, provided that the bonuses would be non-pensionable and that the scheme would not be retrospective (ie the qualifying period should not start until after the scheme has been approved). But while I have no objections to the overall shape of the proposed scheme, I have reservations about three specific aspects.

I am concerned at the proposal that bonus payments to the Board member for Giro should be based on exceeding Giro profits. Bonuses should reflect managerial performance, but Giro profits will be strongly affected by interest rate fluctuations. I should be grateful if you would consider how interest rates could be prevented from influencing this part of the bonus.

Meeting present targets for reducing real unit costs would enable the Board members for Counters, Mails Operations and Mails Marketing to secure half the individual element of their bonuses. I think this is too generous and that bonuses should mainly be earned for above standard performance. Could you consider how these bonuses could be restructured so that rather less

CONFIDENTIAL



weight is given to achieving the targeted cost reductions and more to exceeding them?

Finally, you point out that the Board itself sets the quality of service targets included in the bonus formula for both the Board members for Mails. I should prefer these bonuses to depend upon a measure of quality set from outside the Post Office. However, because I understand that the present quality of service targets are considered to be tough, I am reluctantly prepared to accept their use to trigger bonus payments, but we should need to review this element of the scheme if the quality of service targets were changed. If the targets became less demanding, for example, I would want to reduce the bonuses.

As far as Mr Wainwright's successor is concerned, I am not at present convinced that a salary of £70-80,000 is appropriate. But in any case, I do not think we are in a position to take a view on this appointment. As you say, we have not yet reached a judgement about the timing of privatisation. Nor have we decided the form in which Girobank should be privatised and its future role as a private sector bank. In these circumstances, I do not believe we can take decisions on the role of the new Managing Director and so we cannot yet determine the appropriate salary level for the post. At the very least, we need to agree outline plans before we can give headhunters instructions. Given the time constraints imposed by Mr Wainwright's retirement, I hope that it will be possible for you to bring forward your proposals very soon.

I am copying this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

NAT IND PT 3

BOARD Salaries

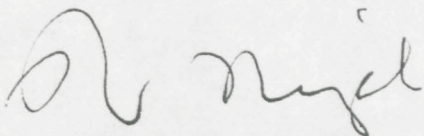
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01 211 6402

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

27 November 1984



NCB - SALARIES OF FULL-TIME BOARD MEMBERS

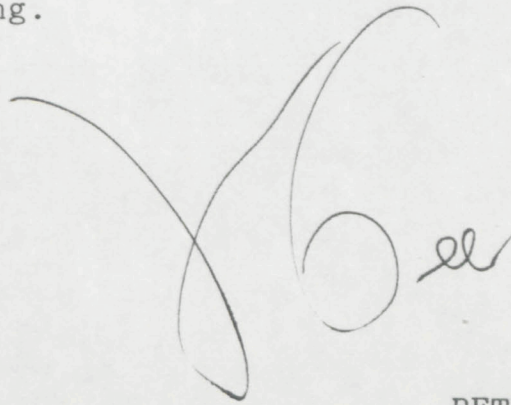
Though there have been some exchanges between officials, I have not hitherto approached you about the salaries of full-time members of the NCB. The review date in question is November 1983. Mr MacGregor and the part-time members of his Board made recommendations to me earlier this year, but it seemed inappropriate to pursue matters at the time.

I propose that we should grant the full-time NCB Board Members a simple increase of 5.2% on their November 1983 salaries. This figure has the short term merit of reflecting the offer made to manual workers and that accepted by management staff - though there is, of course, no underlying reason for parity. Indeed, a settlement on this basis falls well short of the recommendations made to me for this review.

I propose no change to the salary you settled with Mr MacGregor with effect from 1 September 1983; nor to the Deputy Chairman's salary, which was fixed on a personal basis on his reappointment from 1 January 1984.

I should be glad to have your agreement.

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



PETER WALKER

27 NOV 1984



a Press office

Norman
14/11

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) **5186**
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

CONFIDENTIAL

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

16 November 1984

Dear Andrew

You already know that Lazard Freres of New York have told a journalist on the 'Observer' that a decision on the first performance payment payable to them in relation to Mr MacGregor's performance at BSC is to be deferred; and that we have therefore had to accelerate the announcement of this deferral.

A written question was therefore tabled yesterday evening for answer this morning, after clearance with you and John Nielsen (Department of Energy). I attach a copy of the question and of the answer which has been put down this morning in reply. As I told you on the phone, the answer has been slightly altered from the draft circulated under cover of my Minister's letter of 14 November: the alteration, which deletes any reference to the current dispute in the coal industry, has been made at the request of the Secretary of State for Energy.

I am copying this letter to David Peretz (HM Treasury), Michael Reidy (Department of Energy) and Richard Hatfield (Cabinet Office).

Yours sincerely
Edmund Hosker

EDMUND HOSKER
Private Secretary

1FRADM



Q. To ask the Secretary of State for Trade and Industry, whether the review committee responsible for assessing the performance payments due to Lazard Freres of New York in respect of Mr Ian MacGregor's chairmanship of the British Steel Corporation has reached a decision on the first performance payment.

A. The Government and Lazard Freres of New York have agreed to defer any decision on the first performance payment. The Review Committee has therefore been asked to defer its decision on the first payment until the same time as its decision on the second payment which is due to be made next year, after BSC's results to end-March 1985 are known.



2

10 DOWNING STREET

From the Private Secretary

15 November, 1984

Ian MacGregor's Chairmanship of BSC:
Performance Payments to
Lazard Freres

The Prime Minister has seen and noted Mr. Lamont's letter to the Secretary of State for Energy of 14 November.

I am copying this letter to David Peretz (H.M. Treasury), Michael Reidy (Department of Energy) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Edmund Hosker, Esq.,
Department of Trade and Industry

SECRET

EST

cc. NAT. IND.
Coal Part 14

2

PRIME MINISTER

Mr Ian MacGregor: Performance Payments

You should know that it will be announced tomorrow that the first performance payment for Mr MacGregor is being deferred. It is being announced by means of a Written PQ because Lazard-Freres in New York have already told a journalist on 'The Observer'.

There is a wrangle between the Department of Energy and the Department of Trade and Industry on the terms in which the announcement should be made. The Department of Industry want to say 'the Government and Lazard-Freres have agreed to defer the first payment to Mr MacGregor until next year'.

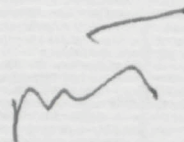
Mr Walker wants to say 'at the suggestion of Lazard-Freres the first performance payment to Mr MacGregor is being deferred' . . .

The Department of Trade and Industry will not agree to Mr Walker's formula because it is not true, and, even if Lazard-Freres were persuaded to agree to this formula they could not be relied upon to stick to it.

Mr Lamont and Mr Walker are to have a further conversation in the morning to reach an agreed formula.

F.R.B.

15 November 1984



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DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186

GTN 215)

(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

Prime Minister (2)

To note

AT 14/11

The Rt Hon Peter Walker CBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

14 November 1984

IAN MACGREGOR'S CHAIRMANSHIP OF BSC: PERFORMANCE PAYMENTS TO LAZARD FRERES

Following the meeting on 17 September with Ian MacGregor to discuss the timing of payments to Lazard Freres in respect of his chairmanship of BSC, I met Ian Fraser, acting for Lazard Freres, on 4 October and agreed with him that the first performance payment should be deferred for a year.

We are now in a position to make the formal changes necessary to the Agreement between the Secretary of State for Trade and Industry and Lazard Freres of New York to give effect to the deferral of the performance payment. Once we have done so, we will need to make an announcement since as Norman Tebbit pointed out in his letter to you of 28 August the terms of the Agreement have been published and we receive regular enquiries, from the Press and in Parliament, about when the first payment will be made. I attach a draft of the kind of statement I have in mind, together with supplementaries (which could be used either for press briefing or for an oral statement if that were thought necessary).

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

NORMAN LAMONT

SECRET

1MOAHL



Question

To ask the Secretary of State whether the Review Committee responsible for assessing the performance payments due to Lazard Freres of New York in respect of Mr Ian MacGregor's chairmanship of the British Steel Corporation has reached a decision on the first performance payment; and if he will make a statement.

Answer

The Government and Lazard Freres of New York have agreed that, although the assessment of the performance of the British Steel Corporation under Mr MacGregor's chairmanship has nothing to do with the current dispute in the coal industry, the making of a payment would be inappropriate while the dispute is continuing. They have therefore asked the Review Committee ^{to} defer its decision on the first payment until the same time as its decision on the second payment which is due to be made next year, after BSC's results to end-March 1985 are known.



OUTLINE DEFENSIVE BRIEFING

Q1 Why "inappropriate"? Reflects Government disillusion with Mr MacGregor's performance at the NCB?

A The Government and Lazard Freres have simply taken the realistic view that the making of a performance payment, albeit one totally unrelated to Mr MacGregor's current position, could be widely regarded as inappropriate during an industrial dispute in which he is involved.

Q2 Simply an attempt to avoid political embarrassment?

A Not at all. Critics cannot have it both ways. If the payment had been made, the Government would no doubt have been accused of gross insensitivity and failure to appreciate its presentational impact during a difficult industrial dispute.

Q3 Was Mr MacGregor consulted about the decision to defer?

A The Agreement governing the performance payment system is between the Government and Lazard Freres. Mr MacGregor is not a party to it. But he is content with the decision.

Q4 Does deferment until next year show that the Government believe the coal dispute will last till then?

A Not at all. It was simply regarded as sensible and convenient to defer the first payment until the time when, under the performance review system, the second one is due.



Q5 Do the Government know what decision the Review Committee were coming to on the amount of the first payment?

A The Review Committee had not reached their final decision before the Government and Lazard Freres asked them to defer it until next year.

Q6 But the Government have two nominees on the Committee and must know what decision was in prospect?

A To repeat, the Committee had reached no final decision.

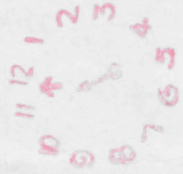
Q7 Has the system of performance assessment run successfully?

A I understand from the Committee's independent chairman, Mr John Gardiner, that the system has been running very well.

Q8 Are the Committee content with the decision to defer?

A They fully understand the reasons for the decision and have told me that they are content to continue with their work on the revised basis.

14 NOV 1984





DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215)
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(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

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

NLP

AG
22/10

18 October 1984

Dear Nigel

POST OFFICE BOARD MEMBERS' PAY AND BONUS SCHEME

I have been giving some thought to proposals received from Sir Ronald Dearing for the 1984/85 round of pay increases and also a performance-related bonus scheme for the Post Office Board. It seems sensible to consider these together and I am therefore putting forward proposals for both which I hope you will agree amount to a reasonable package.

Board Salaries

Sir Ronald is again basing his salary proposals for the full-time members on advice he has received from Hay/MSL to reflect what they see as market rates. These seem rather high in some cases and in particular with reference to Sam Wainwright, Managing Director of Girobank and Deputy Chairman of the Post Office. It is understood from the Chairman that Hay/MSL and the Bank of England advise that this sort of job, without taking the Deputy Chairmanship into consideration, should command a salary in the region of £70,000-£80,000 although for this round the Chairman suggests £59,000. I am not persuaded that Mr Wainwright personally should receive much beyond the increases of about 5.5% which I am recommending for the Board in general. However, he is retiring next March, and if the arguments for such a high salary for this position are supportable, they will need to be taken into account when considering a successor.

So far as the rest of the Board is concerned, Philip Sellers, the newly appointed Member for Finance will receive the fixed amount of £52,500 until March 1986 and it was agreed last time round that Bill Cockburn as a special case should receive £50,000 for 1984/85. This was to reflect his youth and dynamism and to discourage him from being wooed away from the Post Office by head-hunters. Sir Ronald now asks for the same amount for Tony

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Garrett and Ken Young. I cannot accept that they should be brought up to the level of Bill Cockburn since there are no particular reasons why they too should be considered special cases. I therefore propose an increase of the 5.5% norm for them too. The Chairman also proposes that Alan Clinton should be given an increase of 8.2% to bring him up to £48,000 (the lowest point in the range recommended by Hay/MSL). However, I recognise that if 5.5% is about right for most other members, it would be difficult to justify a much larger increase for Mr Clinton this time given that his change in responsibility was so recently recognised in 1983 by a 12.5% increase.

Sir Ronald himself suggests an increase of around 5% for the non-executive members and I propose that the Chairman is accorded similar treatment.

A tabulation which sets out the present position, the Chairman's current bids and my proposals is attached.

Bonus Scheme

Sir Ronald's proposals for such a scheme which have been discussed at official level are on the following basis:-

Performance-related bonuses should amount to a total of 14% of basic pay. 7% should be related to individual performance and 7% to represent a corporate element. The individual performance element should be made up as follows:-

BM Giro:	1% for every 2% over profit target, up to a maximum of 7%.
BM Counters:	3½% for achieving RUC target (5% reduction in 1984/85 compared with 1981/82); 5% for 5.5% reduction; 7% for achieving 6% reduction.
BM Mails Ops:) BM Mails Marketing:)	3½% for achieving RUC target (5% reduction in 1984/85 compared with 1981/82); 4% for 5.5% reduction; 4½% for 6% reduction; 2½% for achieving quality of service targets. (Divided 1¼% each between first and second class mail).



BM Pay and IR:)
BM Finance

1/3 of what BM Counters, Mails Ops
and Mails Marketing receive.

The corporate element would give each Board member (except the Chairman) an average of the six executive Board members' performance-related bonus pay to a maximum of 7%.

The bonus payable to the Chairman would be one-sixth of what is paid to all his colleagues.

It could be questioned whether Board members should receive a bonus for achieving (in the case of quality of service targets) targets which they themselves set. As Patrick Jenkin pointed out in a Written Answer to Robert Atkins on 25 February 1982, however, these targets although set by the Post Office are endorsed by the Secretary of State himself. They are as demanding as can reasonably be expected and it seems right therefore to reward their attainment.

All in all this seems to me to be a reasonable scheme which is in line with our present thinking and I hope you feel able to accept it together with my proposals on salary increases.

I am sending a copy of this letter to the Prime Minister.

GEOFFREY PATTIE



	1983 increase (a) %	Present salary (b) £	Chairman's proposals (c) £	Increase (c) over (b) (d) %	Revised Proposals (e) £	Increase (e) over (b) (f) %
Sir R Dearing	5.0	60000	-	-	63000	5.0
Mr Wainwright	10.7	53000	59000	11.2	56000	5.7
Mr Cockburn *	16.7	46000	50000	8.7	50000	8.7
Mr Clinton	12.5	44350	48000	8.2	46800	5.5
Mr Garrett	6.8	45500	50000	10.0	48000	5.5
Mr Sellers **	-	52500	(52500)	(-)	(52500)	(-)
Mr Young	6.8	45500	50000	10.0	48000	5.5
Total increase	9.4			9.7		5.9
Miss Cole	5.7	5400	5700	5.6	5700	5.6
Sir C Cornford	5.7	11100	11700	5.4	11700	5.4
Mr Gladwin	5.7	5400	5700	5.6	5700	5.6
Mr Hodson ***	-	5400	5700	5.6	5700	5.6
Mr Moody	5.6	6450	6800	5.4	6800	5.4

* Mr Cockburn's salary for 1984 already agreed.

** Mr Sellers appointed 11 June 1984, salary not to be reviewed until 1 April 1986.

*** Mr Hodson appointed 23 July 1984.

APPOINTMENTS IN CONFIDENCE



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NBM
AT 2/19

Treasury Chambers, Parliament Street, SW1P 3AG

Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1

20 September 1984

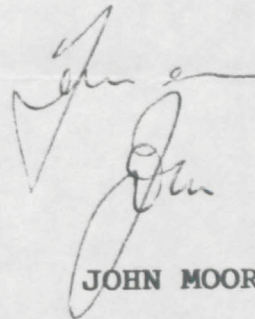
Dear Roman.

BRITISH TELECOM: EXECUTIVE BOARD SALARIES

In the Chancellor's absence I am replying to your further letter of 18 September, about the salaries of the Chairman and executive members of the British Telecom Board.

We are content with the revised proposals set out in your most recent letter to the effect that the Board should be given an average increase of not more than 9.5 per cent, with increases for individuals limited to below 10 per cent. Formally, the Treasury needs to approve individual salaries, so I should be grateful if our officials could settle the allocation of the increase which finally emerges. It would also be useful for my officials to be kept in touch with the timing and manner of the increases becoming public knowledge.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.


JOHN MOORE

APPOINTMENTS IN CONFIDENCE

NAT IND : Grand Salaries
P. 3

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NIGEL 18/9/84



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

18 September 1984

Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 London SW1

Nigel

BT EXECUTIVE BOARD SALARIES

Further to my letter of 17 September, and following our conversation yesterday evening, I feel I should return to the subject of the salary increases which should be payable now to the collective members of the BT Board.

2 As you know, I continue to hold firmly to the view that although we can rely upon George and the rest of the BT Board to be diligent in their pursuit of a successful flotation of BT, we should not set at risk that success by failing to take account of the very strong feelings which George and his colleagues have over the salaries they receive, and their desire to have substantial increases now. But I recognise the concerns which you have expressed over the increases in salary which I proposed, in my letter of 17 September, ranging from 10% to 17.6% and averaging 14.2% overall. Taking account of what you had to say, I therefore accept that I should seek to put to George a lower level of increase overall, averaging not more than 9½%. As you know, the level of increase is something which will need to vary from Board Member to Board Member; but I would also propose that all the Board Members' salaries should have their increase limited to below 10%.

3 I should be grateful for your very early agreement that I should proceed on this basis. I feel that it is important that I should take an early opportunity to speak to George about this as I have no doubt that he will view this as a most unwelcome outcome.

Nigel Lawson

JH3AXW

NORMAN TEBBIT

NAT IND Pt 3
Board Salaries

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CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY

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Secretary of State for Trade and Industry

18 September 1984

Michael Reidy Esq
Private Secretary to the
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

Dear Mike,

IAN MACGREGOR'S CHAIRMANSHIP OF BSC: PERFORMANCE PAYMENTS TO LAZARD FRERES

Your Secretary of State and Mr Ian MacGregor came to see my Secretary of State on 17 September to discuss the handling of the performance payments to be made to Mr MacGregor in relation to his period as Chairman of BSC; Mr Tebbit's letter to your Secretary of State of 28 August refers. Mr Lamont, and Mr Mountfield and Mr Bowen from this Department were present.

2 After a very short discussion it was agreed that Mr MacGregor would ask Lazard Freres to ask for the assessment to be deferred. He was confident that they would wish to do this, and said that he saw no difficulty in playing the assessment and the payment long. The Performance Review Committee was due to meet again on Thursday (20 September), and Mr MacGregor undertook to have Lazards ask a number of questions about arrangements for the payments before that meeting. It was also agreed that Mr Lamont should see Mr Gardiner, Chairman of the Committee, and tell him that this was likely to occur; it is understood that Mr Gardiner is willing to be guided by the wishes of the two parties to the agreement (Government and Lazards) on the timing of his Committee's work, provided that the two parties are in agreement.

3 I am sending a copy of this letter to Andrew Turnbull at No 10, Judith Simpson in the Chancellor's office, and to Richard Hatfield in Sir Robert Armstrong's office. My Secretary of State would be grateful if this letter was not widely circulated within Departments.

V
LWGS,
Ruth
RUTH THOMPSON
Private Secretary

JH3AXT

Nationalised Industries - Board Salaries 1973



NBPM BT 17/9

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

APPOINTMENTS - IN CONFIDENCE

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

17 September 1984

D. Nigel.

BT EXECUTIVE BOARD SALARIES

Thank you for your letter of 12 September on the salaries of the Chairman and executive members of the British Telecom Board. I am disappointed at what you have to say.

I am in no doubt that, by comparison with any public or private sector organisations, the Board of BT deserve salary increases and I am persuaded - as I said in my letter of 6 August - that some increases should be permitted now. Your letter proposed increases up to a maximum of 5.2%. I do not consider this acceptable: it smacks of a public sector pay policy norm which, so far as I am aware, we do not have. I note your concern, however, at the scale of increases I proposed. I would be prepared to introduce some revision of the proposals which I put to you on 6 August. In this revision, which I set out in the attachment to this letter, I retain the principle that those who carry particularly important responsibilities within BT should receive more favourable treatment.

The level of Board salaries is the one remaining issue that stands in the way of harmonious relations with BT as we approach the flotation period. We should not underestimate the importance to the success of the flotation of BT's full support in the weeks ahead. Kleinwort Benson have consistently advised us (and so have Morgan Stanley in respect of the United States) that successful "road-shows" must be an integral part of our marketing effort during November. At our persuasion - and, frankly, mainly for our financial benefit - the Board of BT has agreed to undertake gruelling tours during the flotation. Virtually the entire Board will be participating. On current plans Sir George Jefferson himself will be visiting five United Kingdom cities, three European centres, and will be speaking in New York, Chicago, Toronto and the West Coast, all over a very short

APPOINTMENTS - IN CONFIDENCE



APPOINTMENTS - IN CONFIDENCE

period. I do not want to suggest that a failure to settle the level of Board salaries on satisfactory terms would cause the Board of BT to renege on its agreement to participate in the "road-shows". But the enthusiasm with which BT participates, to benefit us, will be affected by our decisions on Board salaries.

I hope you can agree that we should proceed on the basis I propose. If you cannot, I should welcome an early meeting with you.

I am copying this letter and attachment to the Prime Minister and to Sir Robert Armstrong.

Of course George and his colleagues will put their backs into the launch whatever happens - and it is in their interest - but a sour feeling can easily spread and we want them to maximize the price - which includes doing some things which they would prefer not to do - or to do not too enthusiastically!

J. Norman
Norman

NORMAN TEBBIT



	Existing salary	6 Aug proposal	Revised proposal
Sir George Jefferson	85	105	100
Mr Vander Weyer	60	70	70
Mr Hodgson	55	65	62½
Mr Vallance	51	63	60
Mr Bett	51	62½	60
Mr Crook	53	60	58½
Mr Back	45	55	50
Mr Alvey	47½	55	53
Mr King	50	55	55
Mr Perryman	48	55	53
Mr Booth	43	50	50

NAT IND : Board Square . Pr 3



NBM

AT 13/9

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

12 September 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade & Industry

A handwritten signature in dark ink, appearing to read 'Nigel Lawson'.

BRITISH TELECOM EXECUTIVE BOARD SALARIES

Thank you for your letter of 6 August, proposing salary increases from 1 July 1984 for the Chairman and executive members of the British Telecom Board of up to 23½ per cent.

I must say that I find this very hard to justify. BT has one of the highest paid nationalised industry boards and increases of the order suggested would mean very difficult repercussions elsewhere. My strong preference is that any increase for 1984 should be deferred until after privatisation and thus not be our responsibility. As I said in my letter of 10 October to Cecil Parkinson (attached), I do not think that substantial increases after privatisation present any difficulties for either the new company or ourselves.

If you continue nevertheless to feel strongly that some increase must be made in the run up to privatisation, I would want to consider much lower levels than you are presently proposing. I understand that BT management staff recently settled for a 5.2% increase and, in view of the closeness of privatisation, I would find it hard to justify treating the Board much more generously than this. If George Jefferson wishes to regard this as an interim arrangement, pending privatisation, that is of course a matter for him.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON



cc CST
 MST
 Mr Bailey
 Mr Ridley
 Mr Lord
 Mr Burgner
 Mr Wilson
 Mr Anson
 Mr Hunter

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

10 October 1983

The Rt. Hon. Cecil Parkinson MP
 Secretary of State for Trade and Industry

Alan C...

**BRITISH TELECOMMUNICATIONS BOARD: APPOINTMENTS AND SALARIES
 OF EXECUTIVE MEMBERS**

Thank you for your letter of 16 September.

I must first say that the proposals for pay increases are higher than I had hoped to receive, and that I do not accept all of George Jefferson's supporting argument.

Specifically, I do not accept his assertion that the need to make large increases in salary scales after privatisation would present difficulties for both the new company and the Government. For our part, we shall not be responsible for what BT does for Board pay after privatisation, and I am not aware that the experience of the Cable and Wireless privatisation, where the Offer for Sale documents actually drew attention to the fact that the Court of Directors intended to implement a substantial increase in the salaries of executive Directors to levels commensurate with those prevailing in other commercial companies, has presented any problems for us. Much the same route was followed with Britoil, and again this caused no problems. Clearly any privatised Board will have to take into account the repercussive effect of the awards it makes to its own members, but that does not amount to an argument for the Government agreeing to large increases before privatisation.

I of course accept that in the run up to flotation we shall want to build up the strength and quality of the board. If this means that we have to pay market rates to obtain high calibre non-BT appointments, we can accept that, and I am content with the appointment and salaries proposed for Mr C Crook and Mr J King. Given the restructuring of the Board and the additional responsibilities which are being assumed by Messrs Hodgson and Bett I can see the case for the proposed increases for them. For the other members the need for such large increases is less clear. I note however that they would be within the range established last year if that range were now enhanced by, say, 7 per cent to bring it up to a 1983 level. I gather also that your officials have suggested that, as the reorganisation affecting Hodgson, Bett and Vallance will take effect on 1 October 1983, they should not receive the higher salaries until then, and in the meantime should get a 7 per cent increase from 1 July 1983. Subject to that modification, and provided that you are fully satisfied from your talk with the Chairman that the increases you have proposed are necessary to secure an effective Board which will actively help us to achieve our objectives for the industry, I can accept your proposals.



This case is a good illustration of the need to reform the system for fixing board salaries, along the lines I have proposed to E(NI); and I hope you can support these proposals when we discuss them on 18 October.

NIGEL LAWSON

Nigel Lawson
Nigel

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Board Salaries
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1952-1954



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DEPARTMENT OF TRADE AND INDUSTRY
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SWITCHBOARD 01-215 7877

2

Secretary of State for Trade and Industry

28 August 1984

CONFIDENTIAL

The Rt Hon Peter Walker CBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
SW1

Peter Martin

A lucky

Issue

D Peter

Dr 29/8

IAN MACGREGOR'S CHAIRMANSHIP OF BSC : PERFORMANCE PAYMENTS TO LAZARD FRERES

We need to agree our approach to an awkward issue which will have to be faced shortly.

2 In April 1980 Keith Joseph concluded an Agreement with Lazard Freres of New York on compensation for their agreeing to release Ian MacGregor to act as BSC chairman for three years from July 1980. The Agreement involved an initial flat-rate payment of £675,000: this was made in 1980. Provision was also made for two final payments based on BSC's performance during the period. The first, of up to £700,000, was to be determined when BSC's results for the year ending March 1984 were known; and the second, of up to £450,000, one year later...

3 Assessment of the two awards was entrusted to a Review Committee acting under the guidance of Agreed Criteria negotiated between the Government and Lazard Freres. These Criteria - copy attached at Annex A - were made public in April 1981. The Committee itself is independently chaired by Mr John Gardiner of the Laird Group. Lazard Freres are represented by Mr Albert Frost and Lord Weir, and the Government by Mr Gordon Manzie (now Chief Executive of the PSA) and Mr John Knox (an Under-Secretary in my Department). The Committee can take decisions by simple majority and its conclusions are binding on the Government.

JH1AUJ



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4 The Committee has kept BSC's performance under detailed review for nearly three years. BSC's results to end-March 1984 were published early in July and Mr Gardiner has now told me that the Committee will be ready to deliver its decision on the first payment towards the end of September. The Committee will include the decision in a short report describing how the task has been carried out - first draft attached at Annex B.- This is designed for us to release publicly, if we choose, so as to fend off pressure for disclosure of the Committee's detailed workings (which would be undesirable because of the commercial and political sensitivity of much of the material on which the decision is based). Although there are as yet no figures in the draft, my representatives tell me that the Committee is unanimously agreed that the first payment should be £525,000 out of £700,000. (The second award in a year's time is likely to be in the same proportion.)

5 With the miners' strike continuing, the nature and timing of the payment are clearly most unwelcome. This is a large sum which on past form will be interpreted as a personal bonus to Ian MacGregor (despite the fact that it goes to Lazard Freres, in which he retains only a small beneficial interest). But the system is of our creation and the room for manoeuvre is frankly limited. The Committee is acting strictly in accordance with the terms of the Agreement. This requires it to "certify in writing" the first payment "without undue delay after 31 March 1984" and to deliver its certificate to me and to Lazard Freres "with all due despatch after completion of its assessment". I am then required to make the payment to Lazard Freres twenty-eight days from the date of the certificate.

6 As I see it at this stage, there are three options:

- (a) To announce the payment and publish the Committee's report when the decision is sent to us in late September. The precise timing would depend on the dates of the Party Conferences and on developments in the miners' strike, but the issue would at least emerge while the House is in recess. Then and subsequently, we would have to make the most of the fact that the payment relates to Ian MacGregor, performance at BSC, not at the NCB; that his achievement was notable; that the payment is to Lazard Freres, not to him personally; and that we believe in sticking to agreements.
- (b) To announce that we have received a decision on the payment (the amount of



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which we could probably not keep confidential) but that with the agreement of Ian Macgregor and Lazard Freres - if forthcoming - we are deferring action on it.

- (c) To announce - again with the agreement of Lazard Freres and Ian MacGregor, if forthcoming - that assessment of the payment has been suspended because the miners' strike, though unrelated directly to BSC or its performance in 1981/84, makes it impossible for anyone to reach a cool conclusion at present. This would require the agreement of the Committee as well.

7 I do not think it would be practical to follow any of these courses without making an announcement. The terms of the Agreement are well-known and over recent months there has been a series of Parliamentary and press enquiries about when the payment will be made.

8 I should emphasize that Lazard Freres may not be willing to accept either option (b) or (c) above, and if we contemplate either of these two options it would be best if the approach to Lazard Freres was made by Ian MacGregor.

9 I think we should talk to Ian MacGregor before reaching a final decision on how to proceed; and in view of the obvious links with the miners' dispute, we should perhaps do this together. If you agree, I suggest that our offices make the necessary arrangements.

10 I am sending a copy of this letter to the Prime Minister and to Sir Robert Armstrong.

NORMAN TEBBIT

Payments to Lazard Freres and Co, New York, based on the
Performance of the British Steel Corporation under the
Chairmanship of Mr Ian MacGregor

On 29 April 1980 the Secretary of State for Industry entered into an Agreement with Lazard Freres & Co, New York (LFNY) for the release of Mr Ian MacGregor from his duties and obligations as a General Partner of LFNY in order that he should serve as Chairman of BSC for 3 years from 1 July 1980.

2. The terms of the Agreement provided that the Secretary of State would compensate LFNY for the release of Mr MacGregor, who has become a Limited Partner in LFNY in which he retains a greatly reduced interest. This compensation to LFNY was to take 2 separate forms:

- (a) an initial payment of £675,000, part of which is returnable if Mr MacGregor does not serve the full 3 year term as Chairman;
- (b) final payments of up to £1,150,000 to be determined by a Review Committee which is to base its decision on its opinion of the establishment under the Chairmanship of Mr MacGregor of a strong and healthy Corporation and the improvement (or deterioration) in the performance of BSC in the 3 years from 31 March 1981.

3. The final payments are to be made in two stages: a first performance payment of up to £700,000 to be determined when the results for the year ending March 1984 are known, and a final performance payment of up to £450,000 to be determined after the results for the year ending March 1985 are known.

4. The members of the Review Committee have already been announced. They are:

Chairman	Mr John Gardiner
Nominated by LFNY	Mr Albert <u>Frost</u> Lord <u>Weir</u>
Nominated by the Secretary of State	Mr K J Sharp [to July 1983, then Mr J A Knox] Mr J R Steele [to October 1981, then Mr A G Manz]

The Agreement provides that the Review Committee should be guided, in determining the performance payments to LFNY, by Agreed Criteria. These Criteria were to be determined by discussion between the Secretary of State, LFNY, Mr MacGregor and the Review Committee. These discussions have now been completed, and the attached document sets out the Agreed Criteria.

Payments to Lazard Freres, New York

Agreed Criteria for the Review Committee

1 If Mr MacGregor serves a full 3-year term as BSC Chairman, the Committee has to determine a first performance payment of up to £700,000 soon after 31 March 1984, and second payment of up to £450,000 soon after 31 March 1985. This note sets out the Agreed Criteria required to be determined under Paragraph 3(c) of the Schedule to the Agreement of 29 April 1980 for the guidance of the Committee in determining the amount of the payments which in their opinion "reasonably reflects the establishment under the Chairmanship of IKM of the health and strength of BSC and improvement (or deterioration) of its performance within the period of three years from 31 March 1981". No suggestions are made for allocations of the payments to reflect the performance in particular years up to 31 March 1984. But in exercising its discretion, the Committee should recognise that the Government is looking for a progressive improvement in BSC's performance over the years in question, and that the effects of Mr MacGregor's chairmanship should be more apparent in the later years.

2 In assessing performance, the Committee should be guided in particular by the following.

Heading I - Profit and Loss Targets

3 This heading covers the achievement by BSC of the profit and loss targets (before tax and interest) agreed for each relevant financial year between BSC and the Government. Where targets are revised during a year, the revised targets should form the basis of the assessment. The Committee's assessment should take into account the attainment of the targets year by year, the need to achieve a progressive improvement during the period and the overall achievement over the period as a whole.

4 It is left to the discretion of the Committee to decide what shortfall from the profit and loss targets should disqualify LFNY from payments under this heading. In assessing performance under this heading, the Committee, in addition to the level of profit or loss achieved in relation to the targets, should also have regard

to the level of output of the Corporation in terms of total tonnage and in relation to the size of the UK markets it serves and the amount it exports; changes in the capital structure of the Corporation; and any variations in accounting practices adopted.

Heading II - Cost Reduction

5 Targets for cost reduction will include such aspects as reductions in manning levels, better plant utilisation, improved energy utilisation and other improvements in efficiency. A different balance between the different aspects of cost reduction may be appropriate in different years. The Committee should, in its assessment of performance under this heading, have regard to the extent to which cost reduction targets, agreed between the BSC and the Government (whether in a Corporate Plan or otherwise) have been met. To earn payments under this heading there should be improvements across the board in the indicators chosen, although failure to secure a significant level of improvement in one particular indicator should not prevent LFNY from receiving payment if the overall cost-reduction programme had gone well.

Heading III - Privatisation

6 The Government attach particular importance to reducing the size of the public sector involvement in the steel industry, and as a consequence to the transfer, wholly or partly, to the private sector of BSC assets and activities. In making an award under this heading the Committee should not make separate annual assessments but should take into account the extent to which BSC has been privatised over the period of Mr MacGregor's chairmanship.

7 Any transfers to the private sector which affect BSC's performance should not be a ground for a reduction of payments under other headings.

Heading IV - Broader Assessment of BSC's continuing Health and Strength

8 The Committee should take into account the qualitative factors reflecting BSC's longer term health and strength. These factors would include, but are not limited to, management structure, business organisation, financial control, management succession, technical developments, labour relations and general reputation, at all levels of the Corporation.

Assessment of Payments by the Committee

9 The Committee should, in determining payments under the Agreement, pay particular regard to the achievement of the profit and loss targets under Heading I and cost reductions under Heading II; about one-third of the money available under the Agreement should be allocated for consideration of an award under each of these headings.

10 The BSC will be expected to adhere to the External Financing Limit (EFL) as originally set for each relevant Financial Year by the Government after consultations with the BSC. Although cash discipline is an important indicator of financial performance, the Committee should regard adherence to EFLs as a normal and necessary part of the discipline to which all the nationalised industries are subject, and adherence to the EFLs should not be treated as an element meriting performance payments. The Committee should consider, however, whether success by BSC in achieving its objectives, whilst requiring less than the originally agreed EFLs, should be regarded as an element justifying an increased award under Heading I; and conversely whether failure to keep within the original EFLs should be regarded as justifying a reduced award under Heading I.

11 The effects of external economic circumstances will normally be taken into account each year by the BSC and the Government in setting profit and loss, EFL and cost reduction targets. Where unforeseen circumstances arise during the year, which are judged to be beyond the reasonable capacity of the Corporation to accommodate within their original targets, the appropriate response is for the Government and the BSC to reconsider the targets. As a general rule, therefore, the Committee should not take external economic circumstances into account in assessing performance. They should however take into account any directions given by the Government to BSC which may restrict BSC's ability to achieve its targets.

12 The Government will maintain and make available to the Committee a file of documents relevant to the Committee's task.

FIRST DRAFT

RC(82) 54
REVISE OF
3 AUGUST 1984

PAYMENTS TO LAZARD FRERES AND CO., NEW YORK, BASED ON THE PERFORMANCE OF THE BRITISH STEEL CORPORATION UNDER THE CHAIRMANSHIP OF MR IAN MACGREGOR

REPORT BY THE REVIEW COMMITTEE ON THE ASSESSMENT LEADING TO THE FIRST PERFORMANCE PAYMENT, () SEPTEMBER 1984

INTRODUCTION

1 On 15 April 1981 the Government released publicly a document describing the purpose for which the Review Committee was established, its membership, and the Agreed Criteria provided as guidance for its task. The document is attached to this report.

2 The Committee has decided that the amount of the first performance payment to be made to Lazard Freres and Co. New York by the Secretary of State for Trade and Industry (the SoS) should be £ . (A maximum of £ was provided for under the Agreement between the two parties).

3 This report describes how the performance assessment has been carried out.

COMMITTEE MEMBERSHIP AND COST

4 The original membership of the Committee is listed in paragraph 4 on the first page of the attached document. There have since been two changes. In October 1981, before the first meeting was held, Mr A G Manzie took over Mr J R Steele's post in the Department of Trade and Industry (DTI) and replaced him on the Committee. In July 1983, Mr K J Sharp's place on the Committee was taken by Mr J A Knox. Mr S J Bowen, a Principal in the DTI dealing with the BSC, has acted as the Committee's secretary.

5 The Agreement between the SoS and Lazard Freres provided that the SoS should bear the reasonable fees and expenses both of the Committee members themselves and of any outside consultants and professional advisers whom the Committee might appoint. Costs so far, over nearly three years, total £ and relate almost **exclusively** to work commissioned from professional advisers to establish and maintain a comprehensive information-base. The Committee members themselves have not claimed any fees or expenses.

METHOD OF WORK

6 The Agreed Criteria require the Committee to determine the amount of the payments due in 1984 and 1985 which in its opinion reasonably reflect the establishment under Mr MacGregor's chairmanship of the health and strength of BSC and improvement (or deterioration) in its performance within the period of three years from 31 March 1981.

7 The Committee decided that, in order to provide the necessary build-up in information, continuity and experience to support the final assessments required in 1984 and 1985, it would undertake annual reviews of BSC's performance in each of the three financial years. Accordingly, the Committee first met on 26 November 1981 and regularly thereafter. () meetings have been held to date.

8 From the outset, the Committee regarded it as essential to create a wide-ranging, objective and accurate information-base as the foundation for its assessment of the two performance payments:

- (a) For detailed assessment of BSC's performance against annual targets, as required under Headings I and II in the Agreed Criteria, the Committee

needed a clear and accurate statement, comparable from year to year, of the results achieved by the Corporation against the targets agreed by the Government (whether in Corporate Plans or otherwise). In addition, a judgement on whether progressive improvement had taken place under Mr MacGregor's chairmanship required comparable information about BSC's results in the years immediately before he was appointed. In each case, the targets and results related to a wide range of indicators, both financial (eg. profit/loss, cost reductions) and physical (eg. liquid steel output, UK market share, export sales).

- (b) The Committee also needed to be aware of the context in which it was assessing BSC's performance during the review period. Accordingly, at the outset of its work, the Committee considered detailed papers covering the history of BSC, particularly in the mid to late 1970s, as well as trends in the steel industry internationally. Thereafter, the Committee each year reviewed developments in the steel market in the UK, Europe and worldwide, with particular reference to progress under the European Community's steel policy (a key determinant of BSC's fortunes).

HEADINGS I AND II

9 To meet its information requirements, the Committee decided that for each of the three financial years it would assemble comprehensive and accurate statistical data on which to assess BSC's performance against planned targets under Headings I and II in the Agreed Criteria - Profit/Loss, and Cost Reduction. This information would be taken back wherever possible to 1978/79, the last financial year in which BSC's performance was not affected by the three-month steel strike in 1980. In May 1982 the Committee appointed Coopers and Lybrand, BSC's auditors, to carry out the detailed work.

HEADING III

10 As regards Heading III in the Agreed Criteria - Privatisation - the Committee quantified progress achieved under Mr MacGregor's chairmanship. In particular it reviewed:

- Disposals of UK businesses, including wholly-owned companies.
- Disposals of shares and holdings in UK partly-owned companies.
- Disposals of overseas interests.
- Disposals of surplus land, buildings, plant and machinery.
- Formation of private sector joint companies (the "Phoenix" programme).
- Formation of Companies Act companies.

HEADING IV

11 As regards Heading IV in the Agreed Criteria - BSC's continuing Health and Strength - the Committee was required to assess a range of "qualitative factors" which were not susceptible to the quantified approach adopted under the other Headings. In this case, therefore, the Committee based its judgement on information drawn from a number of sources including:

- Enquiries by Committee members amongst major UK steel-users.
- Written submissions to the Committee from the General Secretary of the Iron and Steel Trades Confederation.
- Reports by the House of Commons Select Committee on Trade and Industry and its predecessor (reflecting the results of four enquiries into BSC since 1981).
- Academic and other publications.

CONCLUSION

12 The Committee has decided that the amount of the first performance payment to be made to Lazard Freres and Co. New York by the Secretary of State for Trade and Industry (the SoS) should be £ . (A maximum of £ was provided for under the Agreement between the two parties).

13 The Agreed Criteria require a second and final performance payment of up to £450,000 to be determined after BSC's results for the year ending March 1985 are known. The Committee intends to reach its decision on the second payment by the same methods as those outlined above.

Signatures

J A Gardiner Chairman

A E Frost

Lord Weir

A G Manzie

J A Knox

September 1984

u 10



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

*NBPM
13/8*

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

13 August 1984

R. ...

NATIONALISED INDUSTRY BOARD MEMBERS: TERMS OF APPOINTMENT

I have seen Norman Tebbit's letter to you of 6 August. Recent full-time appointments to the NCB have also provided for Board members to be removed from office at six months notice without a reason being given. While I recognise that we agreed in E(NI) that the Nationalised Industries Bill should provide for 12 months notice of removal from office without a reason, I agree with Norman that we should retain the flexibility we currently have.

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

Peter Walker

PETER WALKER

NAC IND: board Salaries Pt3



10 DOWNING STREET

NOTE FOR THE RECORD

I passed on the Prime Minister's comment about the proposal to increase BT Executive Board salaries to the Chancellor's Office and to that of the Secretary of State for Trade and Industry. We should now await Treasury's response.

8 August, 1984



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 215 7877

JF7079
Secretary of State for Trade and Industry

2

6 August 1984

APPOINTMENTS IN CONFIDENCE

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

Very difficult with the present

Prime Minister's

The increases proposed for BT Board members average 18% for Sir George Jefferson, the figure is 22/3%

D. Nigel.

BT EXECUTIVE BOARD SALARIES

Sir George Jefferson wrote to me at the beginning of June making recommendations for very steep increases in salaries to take effect from 1 July. The increases proposed averaged some 40 per cent. He explained that advice from consultants showed that salaries in BT remain far below the salaries paid to those with comparable levels of responsibility in the private sector and he viewed his proposals as the second in a three stage programme of increases which commenced last Summer.

2 I have separately had a recommendation from the BT Board Remuneration Committee composed of BT's non-Executive Members that Sir George Jefferson's own salary should be increased.

3 The salaries at present paid, and those recommended, are in the first two columns of the table that is attached. After extensive discussion with Sir George Jefferson I am persuaded that it would not be right to insist that there should be no increase until privatization and I would like your agreement therefore to the figures in the third column of the table.

4 The increases proposed are not welcome but in reaching the view that they should be accepted I have had in mind the scale of the task BT's Board is taking on in

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APPOINTMENTS IN CONFIDENCE

converting BT into a commercial organisation, the level of salaries in some other companies being privatized and the desirability, in the interests of the flotation, of keeping the full co-operation of Sir George Jefferson and his colleagues. These proposals will I believe satisfy the Board without being at the outrageous levels originally proposed. Are you content?

5 I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Norman', with a horizontal line underneath the name.

NORMAN TEBBIT

Encl

£000

	Existing salary	Original proposals for 1.7.1984	Revised proposals for 1.7.1984
Sir George Jefferson	85	120	105
Mr Vander Weyer	60	90	70
Mr Hodgson	55	No proposal made	65
Mr Vallance	51	80	63
Mr Bett	51	70	62½
Mr Crook	53	65	60
Mr Back	45	70	55
Mr Alvey	47½	65	55
Mr King	50	65	55
Mr Perryman	48	65	55
Mr Booth*	43	65	50
	—————	—————	—————
Total (excluding Mr Hodgson and Mr Booth)	490½	690	580½
	—————	—————	—————
% increase in total		41	18

*Mr Booth is not yet a Member of the Board, but his appointment has been agreed in principle

N1 Board Salaries

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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Secretary of State for Trade and Industry

6 August 1984

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

N3PM
Dr
7/8

D. Nigel

NATIONALISED INDUSTRY BOARD MEMBERS: TERMS OF APPOINTMENT

Thank you for your letter of 27 July enclosing a note to be sent to the Nationalised Industries' Chairmen's Group (NICG) on this subject.

2 Although I am generally content with the note and agree that it should be sent to NICG when they are consulted about the Nationalised Industries Bill, there remain two points on which I still have reservations, and which I raised in my letter to you of 1 June. These concern the length of appointment and the period of notice on dismissal.

3 I have noted your comment on length of appointment that there will be no prohibition of terms shorter than five years. However, I am not convinced that, particularly for non-executive Board members, five years should be the normal length of appointment. Consequently I would prefer paragraph 3 of the note to read "for a fixed term and, in the case of executive members, normally of five years".

4 I also have difficulty with your proposal to standardise on a minimum period of 12 months notice if Board members are to be dismissed, since this would pose particular problems in cases of appointments shorter than five years. Furthermore, as I said in my letter of 1 June, in certain circumstances it is desirable to retain the flexibility to provide for a shorter period of notice. I was thinking particularly of BSC, where currently Board members may be removed from office, without a reason being given, on six months notice. It makes no sense for the new Bill to change this.

JH1ARQ

CONFIDENTIAL



I hope, therefore, you will include in the new Bill such provisions as are necessary to allow BSC to continue as now.

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

*Yours
Norman*

NORMAN TEBBIT

JHLARQ

Not Ind : Board Salaries A3.

1115 1004



CONF
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NSPM
AF 218

CONFIDENTIAL

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

31 July 1984

Dear Nigel,

NATIONALISED INDUSTRY BOARD MEMBERS: TERMS OF APPOINTMENT

Thank you for sending me a copy of your letter of 27 July to Norman Tebbit.

I confirm that I am content with the terms of the draft note to be sent to the Nationalised Industries' Chairmen's Group.

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

Yours sincerely,
George.

MAT WND A 3

Board Salaries

52 AUG 1984



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01 211 6402

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

31 July 1984

Dear Chancellor

NATIONALISED INDUSTRY BOARD MEMBERS: TERMS OF APPOINTMENT

Thank you for the copy of your letter of 27 July to Norman Tebbit.

I am generally content with this outline of the new arrangements, which I presume from paragraph 2 of the note will only apply to appointments and re-appointments made after enactment of the legislation. There are, however, two points where I think some amendment would ensure no misunderstanding on the part of the Nationalised Industries Chairmen's Group. I think it would be as well to emphasise the option of shorter periods of appointment, particularly for part-timers. You might therefore consider adding a sentence to paragraph 3 to the effect that "shorter terms may be considered, particularly for part-time Board members". It would also avoid any misunderstanding if you qualify the unconditional statement in paragraph 5 that "compensation will be payable" by adding a cross-reference "in accordance with the terms of paragraph 6 below" (which make it clear that compensation will not necessarily apply for non-executive Board members).

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

Yours sincerely
G. H. H. H.

Approved by the Secretary of State
and signed in his absence

NAT IND PT 3 ●

BOARD Salaries

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AT 30/7
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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

27 July 1984

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

Norman

NATIONALISED INDUSTRY BOARD MEMBERS: TERMS OF APPOINTMENT

Following the various E(NI) discussions we have had on nationalised industry Board members' terms of appointment and the Nationalised Industries Bill, we are now in a position to finalise the details of the proposed new arrangements.

...

I enclose a note to be sent to the Nationalised Industries' Chairmen's Group at the same time as they are consulted about the Bill in its entirety. The note takes fully into account the points made by various colleagues but I should draw attention to the following aspects:

(i) Length of appointments

Some Ministers wish to be able to make Board appointments for shorter terms than the 5 years which E(NI) decided should be normal. I think that 5 years will usually be right but as the proposed Bill will not specify the length of an appointment, there will be no prohibition on shorter terms and exceptions can be settled on a case-by-case basis.

(ii) Loss of office and compensation

We agreed that the draft Bill should provide a minimum of 12 months' notice if Board members are to be removed from office. I am sure that the statutory protection this affords Board members is the right counterpart to the loss of office provisions. It will presentationally be helpful to have "12 months" appearing on the face of the statute and I do not think therefore



that we should change this to, say, "12 months or such shorter period as may be laid down". It is agreed, however, that the Bill should be drafted so there is some flexibility in compensation provisions. To achieve this, the legislation will contain the power to promise compensation but the terms on which the compensation is calculated will not be prescribed in statute. This will be a matter for individual instruments of appointment, although the general presumption will be that the approach described in the enclosed note will be followed. If a Board member can be prevailed upon to resign rather than be dismissed, it will be possible to pay compensation.

(iii) Compensation for Board members promoted from within the industry

Some Board members promoted from within an industry have been allowed to retain certain elements of their staff contracts. I do not think that this is altogether desirable but the Bill will not change present practice. The terms on which an employee joins the Board will, as now, be a matter for individual determination and administrative decision to be set out in the instrument of appointment. The loss of office procedures will of course apply but the effect may be that certain members will revert to employee status rather than leave the industry. There may also be different compensation terms.

(iv) Non-executive members

It will be necessary to give a part-timer formally 12 months' notice if he is to be dismissed but, of course, I would expect that in practice an unsatisfactory non-executive will normally be prevailed upon to leave more quickly. Some colleagues have argued that compensation should not be payable to non-executive Board members (ie part-timers). I think on the whole there is something to be said for treating all Board members equally but because the compensation provisions are, as far as the Bill is concerned, discretionary and not mandatory, we can settle this on a case-by-case basis. The NICG note admits the possibility that compensation can be payable if a part-timer is dismissed and I think this is generally helpful if we are to attract good

CONFIDENTIAL



quality non-executive members. However, the terms are flexible and the details can be varied according to circumstances in individual instruments of appointment. I accept that it will not necessarily be appropriate to pay part-timers compensation if 6 months' notice is not given of an intention not to reappoint at the expiry of a term of office. The note allows for this.

I should be grateful if you and other colleagues would confirm by the end of the month that you are content with the draft note.

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

A handwritten signature in black ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

TERMS OF APPOINTMENT OF NATIONALISED INDUSTRY BOARD MEMBERS

PROPOSED NEW ARRANGEMENTS

The Government has reviewed the terms of appointment of nationalised industry board members and has concluded that some changes are desirable to bring contractual arrangements more into line with ^{those in} the private sector. It is important to continue to attract good quality candidates to serve on nationalised industry boards and the proposed new arrangements should help to secure this.

2. Some minor statutory changes are needed to allow the new arrangements to be implemented. Subject to the passage of the necessary legislation it is intended that all future appointments and reappointments should follow the broad principles set out below. The exact terms to be applied to each board member will be set out in individual instruments of appointment agreed at the time of appointment.

Appointments

3. Board members will be appointed for a fixed term normally of 5 years. A board member may resign by giving 3 months notice in writing or such shorter period of notice as the Secretary of State may approve.

Grounds for declaring an office vacant

4. The Secretary of State may declare an office vacant if a board member:

(a) is absent from meetings of the Corporation for a period longer than 3 consecutive months without the Corporation's permission;

(b) becomes bankrupt or makes an arrangement with his creditors;

(c) is incapacitated by physical or mental illness

(d) is otherwise unable or unfit to discharge the functions of a member.

Instruments of appointments will be able to specify additional grounds if the Secretary of State considers it appropriate in the case of particular industries.

Termination of office

5. The Secretary of State may terminate the appointment of any board member on 12 months' notice with no reason for loss of office needing to be given. Where this occurs, compensation will be payable.

Compensation

6. Compensation will be discretionary if a member's office is declared vacant under paragraph 4 (above). If a member's appointment is terminated, lump-sum compensation will be payable in respect of the unexpired period of an appointment. Normal terms for compensation will be as follows:

(a) a period of notice of 12 months, or compensation in lieu of notice equivalent to the salary that would have been earned in the notice period;

(b) additional lump sum compensation calculated by taking the gross loss of remuneration for the unexpired period of appointment (ie the time between the end of the notice period and the termination date of the appointment), reduced by the amount which the member might reasonably be expected to obtain from immediate pension or to earn in other suitable employment, the resulting net figure being discounted for immediate payment and adjusted to take account of loss of pension rights and of actuarial and tax considerations.

Arrangements may be varied for non-executive board members.

Re-appointment

7. The Secretary of State will expect to give board members 6 months' notice if it has been decided not to reappoint a board member at the expiry of a term of office. If due notice is not given, compensation up to the equivalent of 6 months' salary will normally be payable. Non-executive members may be excluded from these provisions.

PE2
H M Treasury

26 July 1984

30 JUL 1984





NBPM
HT 2817
CCND

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

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 PT 3

Board Salaries

27 JUL 1954

U.S. AIR FORCE



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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CCNO

NB PM

AT

27/2

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

JH4ABS



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.

JH4ABS

NORMAN TEBBIT

NAT IND PT 2

BOARD SALARIES

27 JUN 74





Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

22 June 1984

NBAM
J

Dear Nigel,

NATIONALISED INDUSTRIES: BOARD APPOINTMENTS, DISMISSAL AND COMPENSATION

My earlier letter - of 23 May - was really directed to the position of full time members and particularly Chairmen, as these are the people who can cause so much trouble and whom it can be most important, and difficult, to get rid of.

So far as part-timers are concerned, I entirely agree with what Nicholas Ridley says in his letter of 21 June. In general it does not matter all that much if they do leave: therefore we do not need to protect our position by providing for long periods of appointment or long periods of notice. From their point of view, the claim to compensation is exiguous to a degree. If they are professionals they have no better claim than one's lawyer or accountant, or one's bank for that matter, if one decides to take one's business elsewhere. If - as so often happens - they are retired worthies, they are lucky to have got the appointment in the first place: it is hard luck if they lose it: but hardly a suitable subject for compensation.

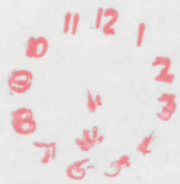
I am copying this to the Prime Minister, other members of E(NI) and to Sir Robert Armstrong.

Yours,
Arthur

COCKFIELD

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1P 3AG

22 JUN 1984





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBP M

AT
21/6

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

21 June 1984

Dear Nigel

NATIONALISED INDUSTRIES: BOARD APPOINTMENTS, DISMISSAL
AND COMPENSATION

Thank you for sending me a copy of your letter of 18 ~~May~~
to Norman Tebbit on this subject.

I think that so far as concerns full time executive members, we are close to a more satisfactory regime. I do however wonder whether it will be satisfactory to leave the provision for compensation to be negotiated on each appointment. I can see that we may certainly need some flexibility, but a provision in the statute on the minimum basis of compensation might both reassure NICG and simplify greatly the handling of individual appointments.

I am more concerned about whether we have yet reached a satisfactory position in relation to non executive part-timers - those who serve less than 2 days a week and are therefore not eligible for pension. It seems to me that they are in a quite different category. As Peter Walker has said, we should not tie ourselves to a normal period of

appointment of 5 years. It may often be appropriate to appoint for less, as has been the practice for my industries. I do not see that members in this category should have an entitlement to compensation for failure of advanced notice about whether they will be reappointed. These appointments can in fact carry no expectation of reappointment and indeed we would I think usually favour some turnover among the part-time members. I suggest therefore we should establish the contrary assumption, that there will not be reappointment and that it is therefore up to the Minister to act early if he wants to secure the member's continued services. There would be no question of compensation.

The point that concerns me most however is the idea that dismissal of part-time members should lead to compensation on the standard formula. Of course, the members should have notice or compensation in lieu of that. But I cannot see the case for more. It really is most unreal and artificial to claim to make a judgement about a person's prospects of obtaining an employment which will be an alternative to an existing appointment that may take as little as half a day a week. This unreality comes out sharply in the case of those members of the London Transport Board, appointed by the GLC, whom I dismiss on taking over the new responsibility for London Regional Transport. I have written to you separately about that. I think that the right principle in dealing with part-time members, is that if they are dismissed they should have compensation in lieu of a fixed period of notice, and nothing more.

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

Yours em.

Nicholas

NICHOLAS RIDLEY

Nat Ind Rel Services

1984

Pt 2

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APPOINTMENTS IN CONFIDENCE



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

13 June 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry

A handwritten signature in cursive script, appearing to read 'Norman Tebbit'.

BRITISH SHIPBUILDERS: BOARD SALARIES

You wrote to me on 29 May with your proposals for the 1983-84 and 1984-85 salaries for the BS executive Board members (excluding the Chairman).

I understand that both Mr Hares and Dr Milne have assumed significant additional responsibilities since the arrival of Mr Day and the departure of the full-time Deputy Chairman. In particular, I gather that Mr Hares is now the effective deputy to the Chairman across the whole range of the Corporation's activities. The increase for Mr Phelps is very large, though I appreciate it would still leave him with a lower 1983-84 salary than Mr Steele for whom you are proposing no increase. But if you are satisfied that his performance warrants this and that a large increase is required in terms of the internal relativities for this Board, I should not want to object to your proposals for 1983-84.

For 1984-85, I am sure you are right to seek to revert to the previous pattern of settling salaries early in the financial year. I am content with your recommendations of 5.9 per cent for Mr Phelps and no increase at all for Mr Steele. But I do not think the further large increases proposed for Mr Hares and Dr Milne could be justified on the basis of your letter alone. As you will be aware from the Parliamentary and press reaction to some of the increases announced recently, large percentage rises for nationalised industry Board members can still attract considerable attention.

/Unless

APPOINTMENTS IN CONFIDENCE



Unless therefore there are any special factors which you have not brought out in your letter, I feel bound to ask you to re-consider your proposals. Against the substantial increases agreed for 1983-84, I hope the increases for 1984-85 can be kept to single figures in percentage terms.

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

A handwritten signature in black ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

NAF. IND : Board Salaries: P 2

15 JUN 1984





CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

ccyo

CONFIDENTIAL

NDPM
AF
14/6

My ref: J/PSO/13932/84

Your ref:

13 June 1984

Dear Nigel,

NATIONALISED INDUSTRIES: BOARD APPOINTMENTS, DISMISSAL AND COMPENSATION

I am glad of the chance to comment on your letter of 18 May to Norman Tebbit.

The policy we agreed in E(NI) on 17 January, on the terms of appointment to nationalised industry boards, makes it easier for us - or our successors as Ministers - to dismiss board members. We have to recognise that it will make these appointments less attractive - and appointees are already aware that they can fall out of favour without having fallen down on the job.

Despite these considerations, and Arthur Cockfield's point that the compensation terms you propose are less than would be normal at this level in the private sector, I do not think that we can, as a rule, pay more compensation than a court would award. But we must be prepared, in appropriate cases, to appoint on better terms if we are not to lose some of the people we want as board members.

In some nationalised industries, board members are entitled, under the terms of their present appointment, to compensation for early retirement under their industry's ordinary arrangements. We have always recognised that such people cannot be expected to accept a worsening of their terms when appointed to the board, and we should stick to that approach.

Secondly, to some people the possibility of being paid off with less than a year's salary without reasons given in four years' time might be a serious drawback when an appointment is offered; we must not foreclose the possibility of negotiating different terms in particular cases.

I am content to agree your proposals with these two provisos.

I am copying this letter as you did yours.

Patrick Jenkin

PATRICK JENKIN



JF6604

Secretary of State for Trade and Industry

NORMAN AT 1/16 CEN
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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1 June 1984

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

D Nigel.

NATIONALISED INDUSTRIES BILL : BOARD APPOINTMENTS, DISMISSAL
AND COMPENSATION

Thank you for your letter of 18 May setting out the latest proposals for dealing with the appointments, dismissal and compensation of nationalised industry Board members.

2 I fully agree with the points made in the letter and I am content that we should proceed as you suggest. I would like however to make two points on the detailed proposals set out in the Annex to your letter with regard to the length of appointments and the notice of dismissal. In an industry which is subject to rapidly changing conditions a normal term of five years might be too long. I would hope that there will be sufficient flexibility for appointments to be normally up to five years where this seems appropriate for a particular industry. Where such shorter terms are used, there should also be a shorter period of notice of dismissal. I hope therefore you will agree that the proposed Bill should provide the powers for the Secretary of State to dismiss any Board member on twelve months' notice or such shorter period as is specified in the individual minute of appointment.

3 I am sending a copy of this letter to the recipients of yours.

Norman Tebbit
NORMAN TEBBIT

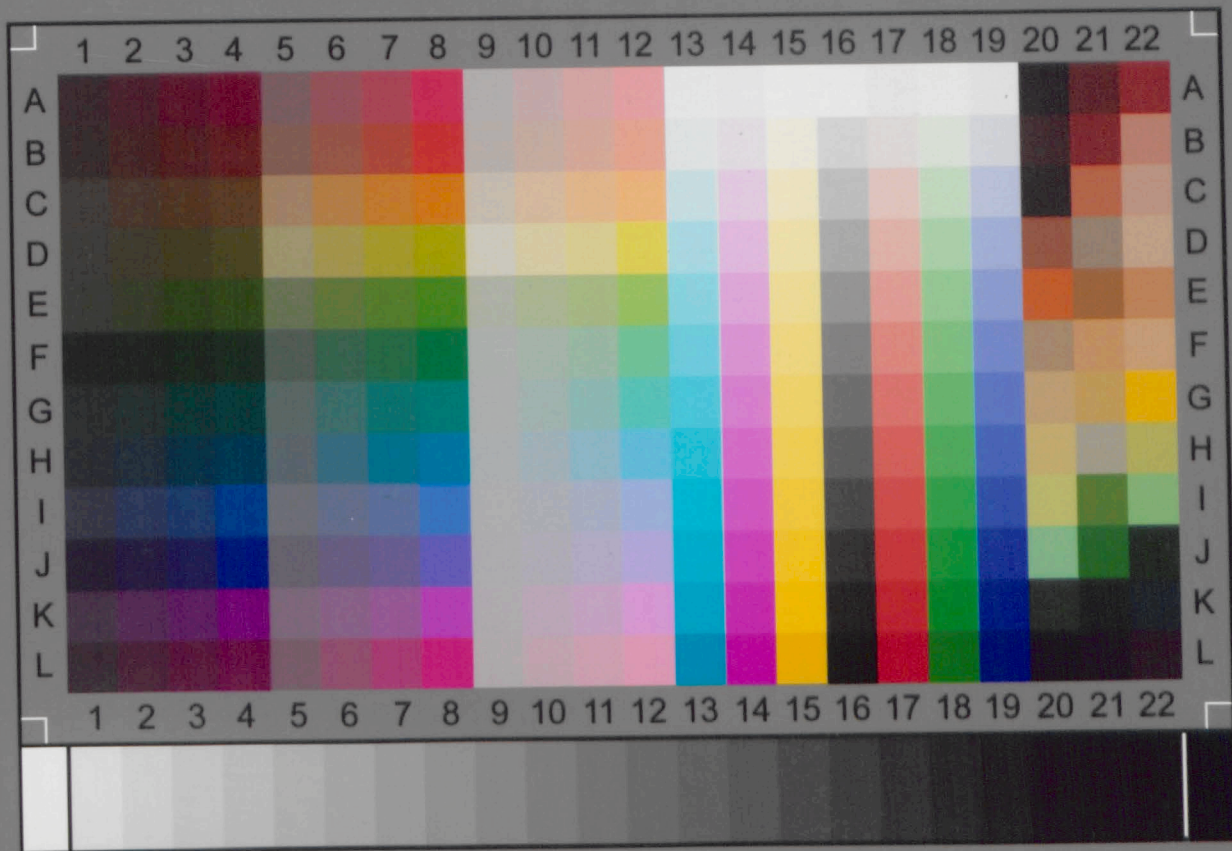
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PART 2 ends:-

SS/DTI to CU/EX 29.5.84

PART 3 begins:-

SS/DTI to CU/EX 1.6.84



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