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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

A handwritten signature in dark ink, appearing to read '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 ink, appearing to be "Nigel Lawson", written over a large, stylized "J" or "L" shape.

not incl: board Solanes Pt 3



18 FEB 1985

CONFIDENTIAL

cc/50
To assist Cabinet Office
and Treasury reviews
15/2/85

01 211 6402

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

29 January 1985

dc Nigel

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

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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

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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.

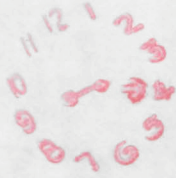
A handwritten signature in dark ink, consisting of a large, stylized 'P' followed by a 'W' and a small flourish.

PETER WALKER

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NAT. IND: Board Salaries : Pt 3.

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cc 10/15

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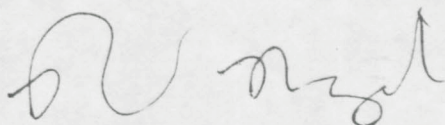
To avoid Treasury response

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

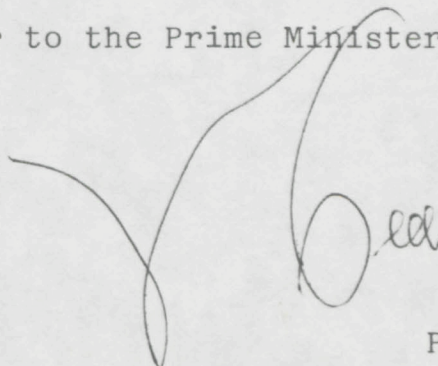
I was disappointed to receive your letter of 17 December about my proposal that we should increase Gil Blackman's salary by £10,000.

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.

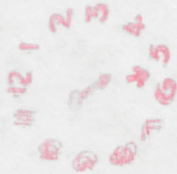
I am copying this letter to the Prime Minister.



PETER WALKER

Not Ind : Board Salaries 173.

15 JAN 1985



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*Off Mr Treasury
response - 8/11
CWO*



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.

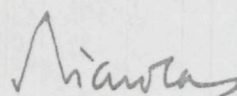
My suggestion is that we start by looking at the salaries of the Chairmen with the aim of getting those levels which we shall all regard as reasonable reward for what they do (we can always add or subtract a bit from a given

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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

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NAT IND: Board Salaries

At

19 JAN 1983

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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).

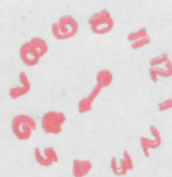
I am copying this letter to the Prime Minister, to Peter Walker and other members of E(NI), and to Sir Robert Armstrong.

Yours wls,

George

NAT NO: Board Salaries

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