

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.

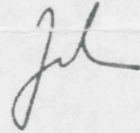
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I would have liked to have considered your proposals for the Electricity Supply Industry (ESI) at the same time as dealing with this. I understand that you are not quite ready to bring forward your ESI proposals but I hope that you will do so shortly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

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01 211 6402

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

18 September 1985

cc/no
Grant Treasury response
File with men

you please X

Nigel

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.

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

PETER WALKER

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