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C.B.G.

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

01 211 6402

Prime Minister 2
Possibly relevant to
tomorrow'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 large, stylized handwritten signature in dark ink, consisting of a large loop followed by a series of smaller, fluid strokes.

PETER WALKER

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NAT IND: Board Salaries: Pt 3.

PAY IN CONFIDENCE

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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

SNBPT

9th 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 ever,

JOHN MacGREGOR

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BOARD SALARIES
PT 3



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Caxton House Tothill Street London SW1H 9NF
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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

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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.

[Handwritten signature]

KENNETH CLARKE

cc 1/5 SOS
pls Mr Clarke
Mr DB Smith
Mr N. Covington
Mr Wragg
SC.

NAT IND PT 3

BOARD SALARIES

