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Second Clerk  
Climate Change, Environment & Rural Affairs Committee  
Welsh Parliament  
Cardiff Bay,  
Cardiff CF99 1SN

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By email: [SeneddCCERA@senedd.wales](mailto:SeneddCCERA@senedd.wales)

Dear Liz,

Given the Climate Change, Environment and Rural Affairs Committee's interest in Centrica's negotiations with our trade unions, we welcome the opportunity to provide an update and background to the discussions, which may be of assistance to the committee.

I note the committee originally considered holding a session on these matters on 7 January. As indicated in my immediate response, after returning from leave on 4 January, we stand ready to provide background information and to attend the committee with reasonable notice. As 7 January was also the first day of the GMB's industrial action, our senior management were necessarily focussed on mitigating any impact on our customers. We remain happy to provide information or attend the committee should this be helpful.

## **Background**

Centrica's restructure and modernisation of terms and conditions have been driven by three main factors.

Firstly, ensuring Centrica becomes a sustainable, innovative business that delivers value for money for all our customers. We are losing too many customers to competitors who can serve them at lower cost. For example, the average cost per hour for our service engineers is around 35% higher than if we were to contract out the work. We want to retain our valued, in-house, trusted service engineer workforce and are willing to pay a premium, but to be competitive we need to reduce this cost differential. We know that households worry about the cost of energy and services, and we want to be able to offer them more competitive, flexible products and services.

Secondly, our proposals are designed to protect well-paid, directly employed, unionised jobs in a sector which is moving more and more towards the gig economy. We believe Centrica is a good employer and we have always sought to take care of our colleagues. At the start of the COVID-19 pandemic we made a commitment to pay full wages to all colleagues throughout lockdown, irrespective of whether they could carry out their duties, without knowing how long the lockdown would last – we honoured that commitment. We are also committed to flexible working options for parents and carers, and our

commitment to mental health and wellbeing is more important than ever. We have prioritised our customer-facing colleagues in 2020 and we paid full cash bonuses to those colleagues. The actions we took to protect the company adversely impacted shareholders and more senior colleagues, not our customer-facing colleagues: we cancelled cash bonuses for our more senior colleagues; we have paid no dividends to shareholders in 2020 (including cancelling a dividend which had been declared in February 2020); and we reduced capital investments.

Thirdly, as a publicly listed company, Centrica has a broader responsibility to the UK. By this I mean the millions of pensioners, and other shareholders, that invest directly or indirectly in Centrica, as well as the extensive Centrica defined benefit pension schemes relied on by previous and current employees. Our defined benefit pension scheme has a substantial deficit and in order to continue to support this scheme, which remains open, we need to ensure the company is sustainable over the long term. For reference, our total cash contributions to defined benefit pension schemes in 2019 was £320m.

We have lost 2m energy customers, 1m services customers, and over half our earnings over the past 10 years. As well as facing strong challenger competition from new companies, we have also suffered from low oil prices and the requirement to operate under a default tariff cap. In the past decade, the leadership undertook a series of internal transformation programmes. These programmes sought to drive greater efficiency in the business through the rationalisation of offices, selling sites and assets, and reductions in headcount, often through voluntary redundancy programmes.

We have learnt through the COVID-19 crisis that we can be agile and responsive in the most difficult conditions and put our customers at the heart of our decision making. We thank all colleagues for the hard work and dedication they have shown over recent months. However, our complex business model continues to hinder the delivery of our strategy and inhibits the focus we want to give to our customers. We must create a more sustainable company for the long term which will be good for our colleagues, good for our customers, and good for the UK.

In addition, the context in which we operate has continued to erode the company's profitability. We completely accept that the price protections introduced in 2019 are here to stay, but we need to talk honestly about the requirement for these protections to allow suppliers to be profitable so we can, as an industry, deliver for our customers. The UK energy supply market is not in a good place: both the combined industry, and the majority of suppliers (both large and small), are losing money. This is an unsustainable situation and needs to be addressed quickly. Without a profitable market we risk further supplier exits, and this will be a significant barrier to green investment and the green jobs of the future. In short, the UK energy supply market needs to be investable.

### **Restructure proposals**

On 11 June we announced plans to significantly restructure Centrica's Group operations. Our CEO, Chris O'Shea, personally briefed our recognised TUs slightly ahead of the regulatory announcement being made to the stock exchange, viewing our TUs as partners who we wish to work collaboratively with.

The proposed restructure seeks to arrest our decline, stabilise our business and return to growth. With a simpler, leaner Group focussed on delivering for our customers and supporting the net-zero transition. In June, we proposed the following reforms:

- Modernisation and simplification of our structure, creating seven customer-facing business units which all report directly to the CEO. Management layers were removed to create a flatter, less bureaucratic organisation which is closer to, and focused on, the customer. As a result of these changes, half of our 40 strong Senior Leadership Team left the Group at the end of August.
- Our proposed operating model changes are expected to accelerate the delivery of targeted cost savings and lead to a reduction of roles globally across the Group, with over half of the proposed roles being reduced coming from management layers.
- In addition to the proposed new organisational design, we also commenced discussions with our recognised TUs, and colleague representatives, to modernise terms and conditions for employees in the UK. Centrica has over 80 different employment contract types, each with multiple variants, and many have not been revised in decades. Unfortunately, these contracts stop us being as competitive as we need to be.

### **The negotiation on terms and conditions**

Following the 300 hours of constructive negotiations with our four Trade Unions - UNISON, GMB, Unite and Prospect - the majority returned affirmative ballot results for their respective collectives and voted to accept our revised offer. 7,000 colleagues within our offices, Centrica Storage and PH Jones have all voted in favour of the new terms and conditions and 4,000 non-unionised UK colleagues have now individually agreed their new contracts. We are pleased to say that over 83% of our entire workforce have now indicated their acceptance to the new terms and conditions, including the majority of engineers who originally voted via GMB to reject the proposals.

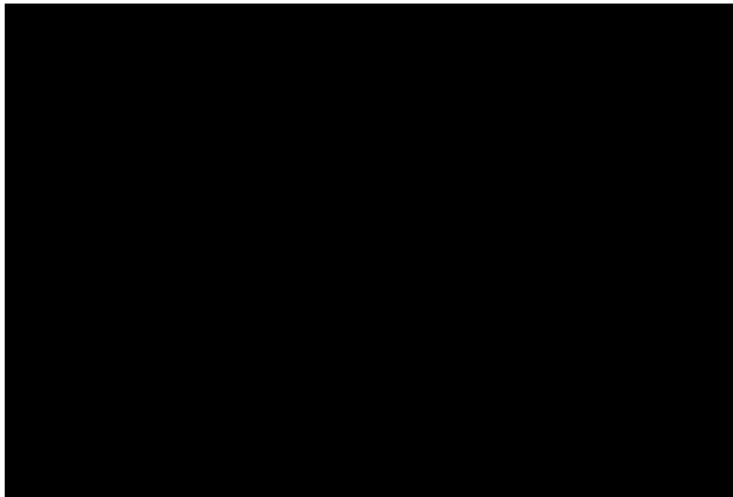
Within our engineer workforce who opposed the deal we are concerned that some colleagues received misleading and confusing information from the GMB which may have influenced their vote, including saying that it includes a 'zero hours contract' and a '10% pay cut' – both of which are totally untrue as our colleagues have base salaries which are protected. Indeed, the base salary of a gas repair engineer is around £40,000, exceeding that of a junior registrar, an experienced nurse, a school teacher, a police officer, a firefighter. In short, these jobs are very well paid. And they benefit from an open defined benefit pension scheme, a very generous sick pay scheme, private health care to ease the pressure on the NHS, and generous holidays. We believe these terms are market leading.

We need to get productivity back to where it used to be and for some we need to increase their working week hours from 37 to 40 hours a week - which many of our engineers already work. Again, we believe this is a reasonable request and it still results in our working week being shorter than a number of our competitors'.

It was therefore a matter of deep regret that the GMB membership in our workforce voted to take industrial action in the middle of a global pandemic, during the coldest weekend of the winter. As only 52.5 per cent of GMB members who could vote, voted to support industrial action, we do not believe the GMB leadership has a strong mandate for strike action. Nonetheless, the GMB subsequently announced

that it would ask the majority of GMB members to withdraw labour for five days in January from Thursday 7 January through until Monday 11 January.

In addition, we have seen regrettable behaviour from some GMB officials and representatives including providing lists of engineers working to those on strikes, and the unacceptable use (pasted below) of the outdated and frankly abhorrent term “scab” by the GMB’s [REDACTED]. We would be interested to hear the Committee’s view of the use of such terms and would welcome any support the Committee can give in eliminating such unacceptable behaviour. Tweet by GMB [REDACTED] below:



In response to this strike we implemented strong contingency plans in place to ensure we can still be there for customers who really need us, and prioritised vulnerable households with emergencies. We are pleased that the majority of our engineers chose to turn out to support our customers during the strike period (with fewer on strike each day) and we were able to successfully mitigate the impact for the majority of our customers. During this cold weather we prioritised vulnerable customers with emergencies, and by doing this we are confident that all such households continue to be well taken care throughout the strike.

Centrica is a company in urgent need of change. We have lost too many customers and too many jobs in recent years. If we are to avoid more job losses and continue, unlike most in the sector, to maintain a highly skilled team of engineers employed directly by the company, these new terms and conditions are essential. I am sure you will also understand that it wouldn’t be fair to reopen negotiations when 83% of our colleagues, including those represented by UNISON and Unite, have accepted the changes. That is why the proposal GMB helped us to shape in hundreds of hours of negotiations, and is within the top quartile of the market, must be our final offer. As UNISON and Unite have said to their members within Centrica, a strike won’t lead to a better outcome.

This has been a difficult road for all involved, but an essential one if we are to create a more sustainable business, quality jobs, and ensure we are able to play our part in delivering the energy transition. We are

absolutely committed to continue to work in good faith with the Trade Union movement. UNISON and Unite have already signed up to new streamlined collective arrangements.

## **NEST programme**

I recognise that the Committee has a particular interest in the delivery of the NEST programme, and I wanted to provide specific reassurance that delivery of this important programme is not affected by the GMB's industrial action. All NEST engineers are contracted and managerial and support staff on BG contracts are not partaking in industrial action. I hope that this is of some reassurance to the Committee.

## **Fit for the future – supporting the drive to net-zero**

The modernisation of our structure, and terms and conditions, is to make us more competitive. We need to take action to reverse our decline and return to growth as a company. This will not only protect further job losses but as we grow, it will allow us to create more jobs in the future, particularly green jobs.

With 9,000 British Gas engineers and technicians visiting UK homes every day, we think we are in a unique position to help our customers make their homes net-zero through the installation of low carbon heating and energy efficiency measures, as well as the use of smart technology.

With the right policy frameworks and incentives in place to kickstart customer demand for greener homes, the right regulatory conditions, and with a competitive terms and conditions package, we could respond by developing a skilled low carbon workforce to drive faster progress in this area.

I hope this provides a fuller picture of the background to our negotiations. Please let me know if there is anything further that I can provide at this time.

Kind regards,



ALEX ANDERSON  
Centrica plc Public Affairs