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Prime Minister

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Agree, subject to the views of colleagues?

MUS 28/12

PRIME MINISTER

SALARIES OF BOARD MEMBERS OF BRITISH AIRPORTS AUTHORITY

The Chairman of the British Airports Authority (BAA) has sent me his proposals for revised salaries for the members of his Board to take effect from 1 April 1981, drawn up in accordance with the new approach to nationalised industry salaries which you announced last year.

The BAA is, as you know, one of our more successful nationalised industries, has been consistently profitable, and in its last financial year had a CCA profit of £18 million after tax and interest on a total turnover of just over £250 million. Nevertheless it is fair to note also that the Authority's performance after one year against agreed productivity and unit cost targets for a three year period has been less successful than we had hoped. One of the reasons for this generally creditable financial performance has been the Authority's success in keeping pay increases to its own staff at quite moderate levels. Last year they held their workforce to an increase of 9% in basic pay, to which is added a productivity payment which was increased slightly but made subject to more stringent conditions. The pay of the senior managers of the Authority was adjusted by a similar proportion.

The proposals devised by a Salary Committee of the Chairman and part-time members started from this background, and recommended increases in the ranges for the Chairman, Managing Director and two full-time members which similarly combined an increase of 9-10% with a small productivity supplement. They were not accompanied by any explanation of how the productivity of Board members had increased, and I am not, in the present economic climate, disposed to approve them as they stand.

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However, simply limiting the Authority to an increase no greater than 7% on the salaries we authorised last year (which were considerably below those recommended by the TSRB) would make worse certain anomalies which have already been brought about by the restrictions on nationalised industry Board pay.

This is particularly illustrated by the Director of Heathrow - the main source of BAA's profits. My predecessor was advised to appoint him to the Board earlier, but since it would have involved a very substantial drop in salary, he was only able to do so after last year's increase narrowed this gap to a level which was likely to be acceptable. Nevertheless as a Board member and the senior manager directly responsible for by far the largest operation run by BAA, he received nearly £500 per annum less than the typical senior manager in the Authority who was not on the Board. If he now gets only a 7% increase, this inverse differential will widen considerably to more than £1,500. As well as being totally at variance with the responsibilities he carries, it will tend to move the Authority back towards the circumstances in which they cannot advise me to appoint members of the senior management to the Board because the financial penalty they would suffer is too great. The Planning Director, one of the most senior men in the Authority, who carries the responsibility for all its future development projects, such as the new terminals for Heathrow and Gatwick, and the development proposals for Stansted, last year received a little over £1,500 more than the typical non-Board Director. An increase of only 7% would reduce this difference by almost two-thirds.

These are the only two full-time members of the Board apart from the Chairman and Managing Director, and I believe that, while not conceding increases as large as BAA have suggested, we should be prepared to allow sufficient to eliminate the disadvantage suffered by the Heathrow Director, and to maintain, in money



terms, if not as a percentage, the existing relationship between the Planning Director and his typical non-Board colleague. I propose to give effect to this by authorising an increase in the present scale for these two members from £20,500-£26,000 to £23,000-£28,750. At their respective points on the scale, and including some advancement recommended by the Board, the two men would receive salaries of £27,207 and £28,750, or in percentage terms increases of 13.6% and 11.1%.

I think in equity we should also preserve the existing differential (at least in money terms, if not as a percentage) between the Chairman and the two Directors I have mentioned, by raising his salary to £36,750, an increase of 8.1%.

The other members of the Board would receive increases of 7% or less, but I shall take the opportunity to bring the salaries of the part-time members into a more realistic relationship with the amount of time they devote to the Board's affairs, since I am satisfied that this has been seriously under-rated in the past. I shall make that adjustment in two stages.

The Minister of State, Treasury, has indicated that he is content with these proposals subject to one reservation: he is less convinced of the case for preserving the Chairman's differential and feels that his increase should be limited to 7% instead of the 8.1% I proposed above. The difference (£370) is very small indeed both in absolute terms, and in relation to the total remuneration of Board members (£128,000 in 1980/81) which in turn was no more than a sixth of one per cent of the Authority's total staff cost. I remain of the view that we should increase the Chairman's salary as I have proposed. To do so will help in some way (and without sensational

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figures) to counter the criticisms voiced to the Chancellor by the Nationalised Industries Chairmen's Group of the way we have interpreted our new approach to salaries, and our reluctance to approve anything more than 7%.

I hope therefore that you and other members of E Committee, to whom I am copying this minute, will concur in these proposals. It is already too late for the Board members to receive their back-pay before Christmas, but I would like to be in a position at least to let them know the figures by then, so I should be grateful for an early response.

A copy of this minute also goes to Sir Robert Armstrong.

Jonathan Rees

Department of Trade
1 Victoria Street
London, SW1H 0ET

18 December 1981

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(Approved by the Secretary of State and signed in his absence.)

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10 DOWNING STREET

From the Private Secretary

21 December 1981

Dear John,

SALARIES OF BOARD MEMBERS OF
BRITISH AIRPORTS AUTHORITY

The Prime Minister was grateful for your Secretary of State's minute of 18 December about the salaries of Board Members of British Airports Authority. Subject to the views of colleagues, she is content with your Secretary of State's proposals.

I am sending copies of this letter to the Private Secretaries to the other members of E Committee and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

John Rhodes, Esq.,
Department of Trade.

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