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E(81)111

5 November 1981

COPY NO

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

NATIONALISED INDUSTRY BOARD MEMBERS' PAY : MR BOSWORTH
AND MR REID OF BRITISH RAIL

Memorandum by the Secretary of State for Transport

1. It was agreed at the meeting held on 21 September (E(81)28th meeting Minutes) that I should put forward further proposals for the salaries of the Deputy Chairman and Chief Executive of British Rail after consultation with the Chancellor of the Duchy of Lancaster and taking account of the points made by the Prime Minister in summing up the previous discussion.

Mr Bosworth, Deputy Chairman

2. Discussions with the Chairman of British Rail about the terms on which Mr Bosworth might be reappointed began towards the end of last year. The Chairman made it clear that he set great store by retaining Mr Bosworth's services and felt that a salary of £50,000 would be well justified. Mr Bosworth did not wish to commit himself until the question of the Chairman's reappointment had been settled. We are now in a situation where Mr Bosworth knows that a value of £50,000 has been put by the Chairman upon his continued service as Deputy Chairman and has continued to serve under the terms of his previous appointment, with an increase of 7% backdated to 1 April, without prejudice to his decision or the Government's on revised terms for a further period of three years as from late June.

3. I am particularly anxious to retain the services of Mr Bosworth, if agreement can be reached on satisfactory terms. With his City background he has been well placed to take the lead in making use of the opportunities which we have created for bringing private capital into the subsidiaries of British Rail. He has been the central figure in negotiating the sale to private interests of 70% of the shares in Gleneagles and two other Scottish hotels

1

CONFIDENTIAL

229

formerly owned by British Rail. He has handled the negotiations with Hoverlloyd for the rationalisation of cross-channel hoverports in the private sector. He is Chairman of British Rail Industries, the wholly owned subsidiary of BR which was established to bring private capital into Sealink, British Transport Hotels and the BR property holdings, thus taking them out of the public sector.

4. My original proposal that he should be offered a salary of £50,000 even in the context of a general 7% increase was very much influenced not only by these factors but also by the difficulties relating to his pension arrangements, which are set out in the table attached. The basic problem is that when Mr Bosworth joined British Rail he opted originally to remain subject to his existing pension scheme based on private insurance policies. He has claimed that this was because the alternative of a scheme based on that provided by BR for their own employees was not properly explained to him at that time. When he did switch over to arrangements based on the BR scheme, in 1977, his earlier service continued to be covered by the original private policies. The dispute now is about the terms on which those private arrangements can be converted into equivalent service in the BR scheme. He and his advisers have been pressing for a method of conversion which, on the basis of a salary of £46,000, would give him a pension of £21,120 a year, 76.3% of which would be inflation proofed. It has been agreed, however, that the only acceptable basis for conversion would be one that gave him a pension of £16,915 a year, just over 70% of which would be inflation proofed. This is a figure lower than the pension which he would receive under his existing private scheme (£18,560) although only about 45% of that amount would be inflation proofed. Mr Bosworth has backed his argument for the higher figure by pointing out that the lower degree of inflation proofing in the private sector has to be judged against the much higher salaries paid in that sector.

5. It was against this background that I argued in my paper E(81)87 that a rather higher salary might be justified than would otherwise have been the case. This was on the basis of CSD advice that it was better to seek a higher salary rather than a pension scheme which would have gone beyond what is generally acceptable in the public sector.

6. Among Deputy Chairmen Mr Bosworth is senior, having held office since 1972. His salary has been ahead of those of other Deputy Chairmen. Taking account of his pension position as well, I think that the right offer to secure his services for a further term is £46,000, but I cannot guarantee that this will be enough to succeed in that purpose.

Mr Reid, Chief Executive

7. The Transport Act 1968 provides for the appointment of one or more Vice-Chairmen at British Rail in addition to one or more Deputy Chairmen. This is because the studies on which the Act was based, carried out jointly by the Department and the Board with the assistance of business consultants indicated the need for the structure of the Board to be made as flexible as possible. In fact, since 1968 there has always been a single Deputy Chairman but - for most of that time - two vice-chairmen. The vice-chairmen have normally been paid at the top of the Board member scale. The two current vice-chairmen are responsible, respectively, for finance and planning and for engineering. I know that Sir Peter Parker is anxious that Mr Reid, who is Chief Executive (Railways) should be seen as on equal terms with the Vice Chairmen responsible for finance and engineering. The present arrangement, where the Chief Executive appears to have a lower status, lacks logic and will become increasingly difficult to defend as the subsidiary businesses are privatised and the Board concentrates more exclusively on its rail business.

Overall salary structures

8. In Table A I set out the present and proposed salaries of the British Railways Board. Table B shows how these compare with those of other nationalised Boards within the field of comparisons which we have inherited from TSRB.

9. I believe that my revised proposal for Mr Bosworth and my original proposal for Mr Reid can be justified within that framework. Mr Bosworth's previous salary of £40,500 (now increased to £43,335 as from 1 April) was already above that of any other Deputy Chairman in the TSRB grouping of industries to which BR belonged (the former Group 3). With a salary of £46,000 he would still be well behind the Chairmen of the Group 3 industries (assuming they get increases of at least 7%) as well as the Group 2 Chairmen. An increase to £35,045 would put Mr Reid on the same salary as the two existing Vice-Chairmen of BR which is the same as senior Members of the NCB would get with a 7% increase.

10. Views of CSD Ministers: I have consulted the Chancellor of the Duchy of Lancaster about my proposals. Her view is that although she is in no position to judge precisely what remuneration would be required to retain Mr Bosworth, it is better to offer an improvement in pay rather than further pensions benefits, as the latter are usually much more expensive. For example the minimum pension improvement, in addition to that already agreed, which has been suggested for Mr Bosworth would cost £11,000 a year for a 3 year appointment at a salary of £46,000 pa.

11. As to Mr Reid, the Chancellor of the Duchy sees no reason to object to my proposal if other colleagues are convinced of its necessity.

Recommendations

12. I recommend -

i. that I be authorised to negotiate with Mr Bosworth a further tour of duty not exceeding three years from June 1981 at a rate of salary not exceeding £46,000;

ii. that I be authorised to approve a salary of £35,045 for Mr Reid as Chief Executive of the British Railways Board.

DARH

Department of Transport
2 Marsham Street
London
SW1P 3EB

5 November 1981

MR BOSWORTH: COMPARISON OF PENSIONS PAYABLE AFTER FURTHER 3 YEAR TERM ASSUMING SALARY OF £46,000 P.A.

	(1) BASIS OF PENSION	(2) PENSION FROM INSURANCE POLICIES £pa	(3) PENSION FROM ANALOGY SCHEME £pa	(4) TOTAL PENSION £pa	(5) (4) AS PERCENTAGE OF SALARY	(6) INDEX LINKED PORTION OF PENSION (3) AS PERCENTAGE OF TOTAL (4)
A	Current arrangement (ie insurance policies to 20.6.77; analogy scheme thereafter)	10,300	8,260	18,560	40.3%	44.5%
B	Making over value of insurance policies (1971-1977 only) in return for credit under analogy scheme:- (i) Using CSD preferred method of calculating credit (5 years on salary of £46,000) (ii) Using BRB proposal for credit to analogy scheme	5,000 5,000	11,915 16,120	16,915 21,120	36.8% 45.9%	70.4% 76.3%

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ADDENDA TO E(81)111

Tables A and B are attached

Mr. [Name]	£30,500	[£35,045 proposed]
Mr. Robert Lawrence	£ 9,825	£10,514
Mr. [Name]	£29,375	£31,825
Mr. [Name]	£28,165	£30,435
Mr. [Name]	£ 8,815	£ 9,431
Mr. David Serpell	£ 5,875	£6,287
Mr. [Name]	£ 3,670	£ 3,925

Mr Peter Parker, Mr Bosworth and Mr Reid all received increases of 7% as from 1.4.81, giving them from that date:-

Sir Peter Parker	£54,360
Mr Bosworth	£43,335
Mr Reid	£32,340

Department of Transport

6 November 1981

Present and proposed salaries of the ER Board

Salary as at
1.4.80

Salary as at
1.4.81
or on reappointment

	Salary as at 1.4.80	Salary as at 1.4.81 or on reappointment
<u>Chairman</u>		
Sir Peter Parker	£48,000	£60,000*
<u>Deputy Chairman</u>		
Mr Bosworth	£40,500	£46,000 proposed
<u>Wice-Chairmen</u>		
Mr Campbell } Mr Fowler }	£32,750	£35,045
<u>Chief Executive</u>		
Mr Reid	£30,600	£35,045 proposed
<u>Members</u>		
Sir Robert Lawrence (1½ d.p.w.)	£ 9,825	£10,514
Mr Urquhart } Mr Rose }	£29,375	£31,435
Mr Myers	£28,165	£30,135
Mr Posner (1½ d.p.w.)	£ 8,815	£ 9,431
Sir David Serpell } Mr McLeod } Miss Leith (1 d.p.w.) }	£ 5,875	£6,287
Lord Caldecote } Mr Jenkins (½ d.p.w.) }	£ 3,670	£ 3,925

* Sir Peter Parker, Mr Bosworth and Mr Reid all received increases of 7% as from 1.4.81, giving them from that date:-

Sir Peter Parker	£51,360
Mr Bosworth	£43,335
Mr Reid	£32,740

Sir Peter was reappointed as from 12 September 1981 on the salary of £60,000. Mr Bosworth's former appointment expired on 15 June 1981.

BOARD SALARIES IN BR COMPARED WITH THOSE OF OTHER INDUSTRIES

Salaries as at 1.4.80 Salaries as at 1.4.81
or on reappointment

Senior TSRB Group 2

Chairman	£48,500	Not decided
British Steel Corporation	Not applicable	
British Telecom	Not applicable	£57,650
Office		£53,650
Deputy Chairman	£43,375	Not decided
British Steel Corporation	Not applicable	
British Telecom	Not applicable	£44,600
Office		£44,000
Senior Members		
British Steel Corporation	£35,500	Not decided
British Telecom	Not applicable	£39,700
Office	£38,880	£40,000

Senior TSRB Group 3

Chairman		
British Rail	£48,000	£60,000 (on re- appointment)
National Coal Board	£48,000	£51,360
British Airways	£48,000	Not decided
British Shipbuilders	£48,000	(£51,360 proposed)
Electricity Council	£48,000	£51,360
Deputy Chairman		
British Rail	£40,500	(£46,000 proposed on reappointment)
National Coal Board	£39,650	£42,425
British Airways	£36,250	Not decided
British Shipbuilders	£34,425	(£36,000 proposed)
Electricity Council	£32,000	£34,240
Senior Members		
British Rail	£32,750	£35,045
National Coal Board	£32,750	£35,045
British Airways	£30,450	Not decided
British Shipbuilders	£32,750	(£34,000 proposed)
Electricity Council	£28,700	£30,710