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From the Secretary of State

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Private Secretary to the
Prime Minister
10 Downing Street
Whitehall
SW1

28 August 1979

Dear Tim

In his letter to you of 20 July concerning executive perks, Richard Broadbent sought comments from sponsor departments on the position in the nationalised industries for which they are responsible. This letter deals with British Airways (BA), the British Airports Authority (BAA) and the Civil Aviation Authority (CAA) and is based on our own knowledge without reference to the industries themselves.

Both BA and the BAA provide cars for some senior executives. In the case of the BAA this amounts to around 30 cars. We do not have a figure for BA but we believe the practice is on a small scale compared to the total size of the business. There are no allocated cars in the CAA which operates a car pool very similar to that which exists for Government Departments. Since a number of nationalised industries provide cars for senior personnel, the practices of BA and the BAA do not represent any disparity within the public sector.

The other main executive perk of which we know is the entitlement to free first class air travel for life which is enjoyed by members of the main British Airways Board. We are not sure how this ranks for taxation purposes under existing arrangements and would probably have to approach BA to get a clearer idea of this. It would appear to be unique in the public sector and, whilst there would be no justification for excluding it from any proposals to alter the tax provisions relating to perks, my Secretary of State does not wish to take separate action to remove or reduce the existing arrangements at this present moment. We are at a delicate stage in the Government's relationship with the Board and we shall need their full co-operation to achieve a smooth transition to a public limited company and a successful share flotation.



From the Secretary of State

There is another concession in BA which I should mention but which is not an executive perk as such since it applies to staff at all levels. This is the arrangement for concessionary fares whereby all full-time employees of BA with more than one year's service are entitled to an unlimited number of concessionary tickets for themselves and their families (as defined) at rates approximating to 10% of the average lowest fare quoted to the public. There are similar concessions for the staff of all the world's major airlines.

Such travel is on a standby basis meaning that the staff may only occupy seats which would otherwise be empty, they can be off-loaded at intermediate points to make way for fare paying passengers and there is no assurance that return travel will be available on a desired date. Thus it cannot be said that the value of the ticket is equivalent to the price which would be paid by a normal passenger. The reduced rate is calculated to be more than enough to cover the marginal costs involved and provides an additional revenue contribution which amounted to some £5m in 1976/77.

An attempt was made in the 1976 Finance Bill to make this concession taxable but it resulted in a united and vociferous campaign of protest from all levels within BA which argued that concessionary travel for employees is available in all airlines and is a recognised benefit of airline employment. Their case also drew on the factors described in the preceding paragraph concerning the conditions which attach to such travel. In the event the proposal was dropped but there is no doubt that any attempt to revive it would meet with the same reaction and, at a time when we shall need the goodwill of all employees as we move towards a sale of shares in BA, this could well prejudice our wider policy objectives for the airline.

In addition, a new factor has arisen since 1976. BA's overall industrial relations record in recent years has been poor and during 1978 the number of unofficial stoppages reached an intolerable level. The trade unions having failed to produce any constructive remedies of their own, BA's management decided unilaterally in February this year that any employee involved in unofficial industrial action would automatically lose his privilege of concessionary travel for 12 months. After an initial storm of protest from the trade unions there is no doubt that the management's action has been successful. Unofficial stoppages have virtually ceased since their announcement of the policy.

In all the circumstances, my Secretary of State considers it would be most unwise to take any action at this time to reduce this benefit of concessionary air travel.



From the Secretary of State

I am copying this letter to Andrew Duguid (Industry), Genie Flanagan (Transport), Bill Burroughs (Energy), David Edmonds (Environment), Richard Broadbent (Treasury), Jim Buckley (Lord President's Office) and Martin Vile (Cabinet Office).

Yours sincerely

Hugh Bartlett

H W BARTLETT
Private Secretary