

# PART 1

Confidential Filing

British Rail fares. Reference of B.R. London  
Commuter Services to the Monopolies and  
Mergers Commission. Industrial action by  
NUR. Possible line closures. British Rail  
finances. Rail Services to Gatwick Airport.  
Railway Policy

TRANSPORT

September 1979

PREM 19/599

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2.10.79		9.12.80					
<del>8-10-79</del>		31.12.80					
<del>16-10-79</del>		<del>13.3.81</del>					
17.10.79		6.4.81					
<del>8-11-79</del>		<del>8.4.81</del>					
<del>13-11-79</del>		<del>13.4.81</del>					
<del>18-11-79</del>		<del>15.4.81</del>					
<del>24-11-80</del>		26.5.81					
28.7.80.		<del>15.6.81</del>					
5-8-80		5-8-81					
<del>7-8-80</del>		<del>6-8-81</del>					
<del>8-8-80</del>		3.8.81					
<del>10-4-80</del>		- ends -					
<del>11.9.80</del>							
<del>16-4-80</del>							
17.9.80							
18.9.80							
12.12.80							



PART

1

ends:-

3.8.81

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CST to SS/Trans

PART

2

begins:-

Clarke to PM

4.8.81

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TO BE RETAINED AS TOP ENCLOSURE

## Cabinet / Cabinet Committee Documents

Reference	Date
E (79) 11 <sup>th</sup> Meeting, Minute 2	16.10.79
E (80) 100	12.9.80
E (80) 101	12.9.80
E (80) 105	12.9.80
E (80) 34 <sup>th</sup> Meeting, Minute 3	17.9.80
E (81) 41	3.4.81
E (81) 42	3.4.81
E (81) 43	3.4.81
E (81) 45	6.4.81
LCA to E (81) 14 <sup>th</sup> Meeting, Minute 3	8.4.81
E (81) 48	10.4.81
E (81) 47	10.4.81
E (81) 15 <sup>th</sup> Meeting, Minutes	14.4.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed     *C. Wayland*    

Date     25 August 2011    

**PREM Records Team**



cc A. Siquid  
A. Walters

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP  
 Secretary of State  
 Department of Transport  
 2 Marsham Street  
 London SW1P 3EB

3 August 1981

R. Norman

R  
5/8

## BRITISH RAIL FINANCES

Your letter of 28 July proposing a large increase in this year's grant to British Rail - and by implication in the grant in future years - causes me considerable concern. This is not just because of the size of the sums involved, although these are difficult enough to square with the hard decisions we have taken elsewhere. I am concerned also about the future, where we seem to be moving towards a considerable unplanned increase in the subsidy to British Rail for many years to come.

As I understand it, British Rail face a revenue loss of £90 million. They have been quite unable to reduce current costs below budgeted levels - indeed, you say that costs are running slightly above budget. They now expect us to find £60 million to enable them to continue operating passenger services. Moreover, if the Board concede a pay settlement above the already high 8% they have offered, their overall financial position will be even worse with serious implications for their EFL and thus for public expenditure totals.

While the sort of revenue losses now being faced by the Board may be difficult to offset in one year, the Board's financial position is now so bad that we cannot afford any delay or half-heartedness in the implementation of the sort of measures needed to bring about the business adjustments demanded by changed economic circumstances. These measures have been identified both by the Board's Corporate Plan and in the recent CPRS report on the commercial rail businesses. I agree that the Board's latest forecasts of passenger revenue leave us little option but to proceed as you suggest in ultimately accepting a revised claim from the Board. But before doing so, we should impose as a clear condition the Board's acceptance of measures to be implemented as soon as possible - by which I mean in time to have a major effect on next year's grant.



The measures I have in mind fall into three main areas. First, service levels of the kind recommended in the CPRS report suggesting reductions in Inter City services of 20%. Second, unit costs where the rising trend of past years underlines the need to agree urgently comprehensive targets for reductions in unit costs. Third, manpower where the Board should by now have well advanced their detailed planning for achieving the 10,500 reduction in jobs required by their own Corporate Plan.

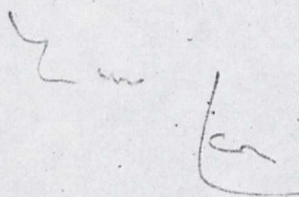
The fact that measures of these sorts tend to have long lead times underlines the need not to compromise with the Board on their quickest possible implementation if we are not to face in coming years the situation we face this year, of a revenue loss which the Board are helpless to offset. I believe therefore, that in considering any revised claim, we should seek from the Board a commitment to making these changes in the coming calendar year, 1982.

As you say, it will also be important to maintain pressure on the Board to seek offsetting measures within the financial year 1981-82 in order to mitigate the impact of an increase in grant on its EFL. This should be more than a formality. Whatever the Board's views about the desirability of the measures required, I think we should underline the importance we attach to the EFL by pressing the Board to draw up options, however unwelcome, to reduce their currently forecast overshoot of £64 million.

I think we need also to consider the tactical question of the timing of the claim. We may be in a better position to commit the Board to the sort of measures I have described above if we await a formal approach from them for an increase in grant. This is something which ultimately only you can judge but I am concerned that we should not weaken our position by taking an initiative ourselves rather than placing the onus on the Board.

Finally, I do not believe we can revise this year's grant ceiling without giving serious thought to the implications for the future of the existing grant system. The cost of the railways is rising inexorably, as reflected in the additional bids you have entered in PES for £156 million next year rising to £235 million in 1984-85. This trend cannot be allowed to continue. The existing grant system whereby a cash ceiling was placed on the total of grant available in any one year ensured that some restraint was exercised on the cost of maintaining the existing rail network. In raising the grant ceiling for the first time this year, we lose the discipline which the ceiling imposed and I am doubtful that we will ever properly be able to restore it. I would be glad to know how you see your proposal affecting the existing grant system and what sort of system you envisage for the future.

I am copying this letter to recipients of yours.



LEON BRITTAN





cc Mr. Piquard  
Mr. Vereker

Ann Smith

cc Mr. Verker

Treasury Chambers, Parliament Street, SW1P 3AG

Mr. Piquard

D

The Rt Hon Norman Fowler MP  
Secretary of State  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

48

30 July 1981

Norman

copy requested

MB

You wrote to me on 27 July to consult me on a proposal from Peter Parker, that in the context of his negotiations with the unions on the 1981 pay settlement and productivity, he should be allowed to make a positive announcement on Anglia electrification. I have since discussed this briefly with Kenneth Clarke. This letter confirms the message passed to you before the holiday that I would not be content to see the electrification card used in the way proposed in your letter on top of conceding the extra 3% on pay.

I am quite clear that before conceding anything to the rail unions in return for productivity improvements, we must be absolutely certain that we have from them bankable agreements on working practices, in sufficiently precise form to be verifiable. But even if we have such firm agreements, they cannot be used twice, ie to finance an additional 3% on pay and to justify Anglia, or any other electrification scheme.

In my view, the financial benefits of changed working practices should be divided between financing electrification, reducing the Board's external financing requirement to levels consistent with currently agreed totals and, only in small part, if anything is left over, to finance pay increases. In this last case, payments would need to be consistent with colleagues' general approach to pay.

On the pay aspects themselves, it is worrying that things have moved from the preferred course of nothing more than 7% being offered until the means to pay the whole cost had been secured, to a position where 8% has been offered and the only remaining question is how to finance another 3%. This is obviously potentially very damaging, both for British Rail's finances and for our hopes for the future level of pay settlements generally.



W My own view is that the Board should not offer more than 8%.  
In any event, I think that colleagues should have a full report  
before any irrevocable steps are taken.

I am copying this letter to the Prime Minister.

*Leon*  
*Brittan*

LEON BRITTAN





✓ Mr Inghid  
Mr Walters

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Leon Brittan QC, MP  
Chief Secretary to the Treasury  
Treasury  
Parliament Street  
LONDON SW1

Prime Minister

Mr Fowler warns that  
some increase in the

28 July 1981  
current year's passenger  
grant is unavoidable.  
This is likely to come to  
£ for decision in due  
course.

Leon Brittan

BR FINANCES

MA 29/11

You will know from my minute of 13 July to the Prime Minister that it was becoming clear that an increase in the level of passenger grant to the Railways Board will be necessary because of the effects of the recession on their revenue. At that time, there were indications that the depressed level of holiday traffic was making the position worse, and this has since been confirmed. I reluctantly conclude that we should now agree on the steps towards an increase in grant for this year.

Passenger grant is fixed in advance and subject to adjustments by reference to predetermined factors. For 1981, I accepted a claim of £644m - £30m below the cash ceiling. The loss of passenger revenue now expected gives rise to an additional grant requirement which was not foreseen at the time of the budget of some £90m in the year, of which only £30m can be found within the ceiling. There are also unbudgetted cost increases which amount to some £15-20m on the passenger sector, and these would be increased to the extent that any part of the McCarthy award over 8% were conceded without offsetting economies. My proposal is to adjust the



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grant only for the shortfall in receipts, and so to exclude any adjustment to which they would ordinarily be entitled for any increases in costs.

An increase in the level of grant is necessary, because the Board are under a legal obligation imposed by me to run the passenger railway, and I am in turn obliged, under EEC regulations, to compensate them for the loss they incur in running that railway efficiently. There is no point in forcing the Board to borrow to meet substantial losses on the passenger business, and indeed it would be improper to rely on lending to meet such losses.

We shall need to announce the increase in the grant level in due course but I expect to avoid doing so during the current pay negotiations when it could be misunderstood. My immediate step will be to invite the Board to resubmit their grant claim to take account of a more realistic view of their current receipts for my scrutiny.

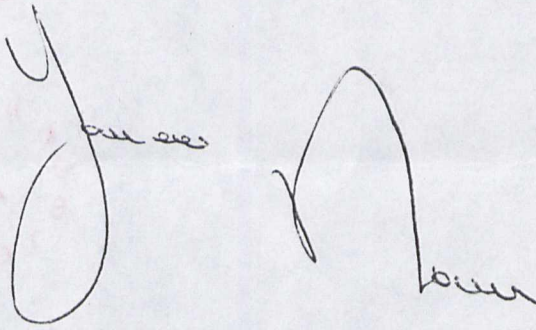
The increase in grant which, as I have indicated, is likely to be of the order of £60m this year must in part be offset by a reduction in borrowing. But other sectors are also suffering from the unexpected depth of the recession, and the Board are now forecasting that they will overshoot their EFL for 1981-82 by some £64m. Clearly we must keep up all possible pressure on them to contain costs, and our public position must be that we are not prepared at present to accept that an increase in the EFL is inevitable. We must however ourselves recognise that this year's problems on passenger business will continue into next year, and the scope for reducing them in part by policy changes is inevitably limited. We shall have to consider the extra grant requirement in the Investment and Financing Review.



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Copies of this letter go to the Prime Minister, our  
colleagues in E Committee and to Sir Robert Armstrong.

1981 JUL 8 2

A handwritten signature in black ink, appearing to read 'Norman Fowler'. The signature is written in a cursive style with a large initial 'N' and 'F'.

NORMAN FOWLER

CONFIDENTIAL





10 DOWNING STREET

*From the Private Secretary*

20 July, 1981.

Railwaymen's Pay

This is to confirm that the Prime Minister is content with the line proposed in your Secretary of State's minute of 17 July - that is to say, that he should tell the BR Board before their meeting this morning that, while an 8% payment may now be unavoidable, he would prefer that they should not offer anything further until the means to pay the whole cost of the McCarthy award have been fully secured.

I am sending copies of this letter to John Wiggins (HM Treasury), David Heyhoe (Office of the Chancellor of the Duchy of Lancaster), Ian Ellison (Department of Industry), Richard Dykes (Department of Employment), David Edmonds (Department of the Environment), John Rhodes (Department of Trade), Gerry Spence (CPRS), and David Wright (Cabinet Office).

T. P. LANKESTER

Chris Edwards, Esq.,  
Department of Transport.

CONFIDENTIAL

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*in the ...*

*Prime Minister*

*Contact with  
proposal of*

**CONFIDENTIAL**

*Yes  
no*

*x ?*

*TL*

*17/7*

Prime Minister

RAILWAYMEN'S PAY

I said I would report further developments.

The British Railways Board will meet to decide their best course at 9.30 on Monday morning and will probably need to meet the Unions on Tuesday. Peter Parker's present view, which I believe the Board will endorse, is that to reject the McCarthy recommendations and stand on the Board's earlier 7% offer will precipitate a major strike on a basis which the Board would not win. His preferred course therefore is to be to go to 8% and fight hard to limit the damage of the McCarthy recommendations by insisting that the second 3% stage should be deferred and paid only on the signature of new working agreements. Unless the unions now resile from plans agreed earlier this week, detailed negotiations are to take place at the end of this month on such matters as freight train manning, flexible rostering, and reduced staffing of stations. All these would bring worthwhile economies, but the major financial benefit in 1981/82 would be in whatever deferment of the 3% is secured. Even on this basis I cannot rule out the prospect of industrial action, given particularly the reported surrender by the GLC on the London underground and what other industries have conceded earlier in the pay round.

*x |*

I propose to tell the Board before their meeting that while an 8% payment may now be unavoidable, my preference is that they should not offer anything further until the means

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**CONFIDENTIAL**

to pay the whole cost have been fully secured - preferably by productivity improvements. If they wish to argue for a different course, they will need to do so before they meet the Unions.

Copies of this go to the Home Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy, the Secretaries of State for Industry, Employment, Environment and Trade and to Mr Ibbs and Sir Robert Armstrong.

NORMAN FOWLER

17 July 1981

**CONFIDENTIAL**





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cc Wallers not  
Vereter  
Duguid fuel

**CONFIDENTIAL**

Prime Minister

hm  
16m

Prime Minister

MT.

RAILWAYMEN'S PAY

The recommendation of the Railway Staffs National Tribunal (RSNT) announced today for employees of British Rail is that they should have 8% from 20 April (the normal anniversary date) and another 3% from 1 August. With some additions also recommended to the London Allowance and the minimum earnings level, this would represent an effective increase of something over 10% in pay rates in the current year, but of course the starting point for next year is raised by over 11%.

These recommendations are not binding on the British Railways Board, who had offered 7% and had provided for 8% in their budget. Every one per cent on pay for all the Board's staff costs £16m in a full year. So the recommended rises would cost the Board over £30m on their 1981/82 EFL, but some £65m over the 7% offer in a full year. This comes at a time when the Board have just reported further uncovered losses rising to £70m.

I have asked Sir Peter Parker to let me have urgently his best appreciation of the position.

The immediate impact of the RSNT recommendations will be on the separate negotiations about pay on the London underground which will reach some sort of outcome - probably expensive - over this weekend. We cannot influence that, but the outcome could affect the handling of the question of BR pay.

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**CONFIDENTIAL**

We shall need to give very clear guidance to the British Railways Board about our position, when we have Sir Peter Parker's appreciation and have seen the outcome on London Transport.

I will report again as soon as there are further developments.

Copies of this go to the Home Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy, the Secretaries of State for Industry, Employment, Environment and Trade and to Mr Ibbs and Sir Robert Armstrong.

NORMAN FOWLER  
16 July 1981

**CONFIDENTIAL**



**CONFIDENTIAL**

*Original on.  
Transport: London Tube Strike*

*Transport*

PRIME MINISTER

*mb*

BRITISH RAIL AND LONDON UNDERGROUND

You may find it helpful if I set out the latest position on the London Underground strike threat and the British Rail pay scene, and the features which may make it particularly difficult to handle a situation which could develop rapidly.

Mr Livingstone and his GLC colleagues came to see me on 18 June. On pay, he said that he hoped to negotiate a tube settlement not significantly out of line with the recent 8% bus pay deal. When the unions were told, the NUR issued an Order to its 15,000 members in the Underground on 25 June to stop work indefinitely from Monday 20 July.

The Railways Staffs' National Tribunal (RSNT) under Lord McCarthy will publish on Thursday 16 July its report on the Railway Unions' claim against British Rail for a substantial pay increase. The Board's External Financing Limit incorporated a pay increase assumption of 8% and the Board have been standing firm on their 7% offer. Since the reference to the Tribunal by the Unions was unilateral, the recommendation will not be binding on the Board.

Mr Livingstone has meanwhile announced that London Transport would more than match for its Underground workers any increases for BR workers which might result from the recommendations of the Tribunal. Predictably, this led the TGWU to issue a public warning that the 8% bus settlement would have to be re-opened if Underground workers are offered more. The TGWU has threatened to strike if necessary to support any claim for a supplementary award. As to the NUR, their announcement of the underground

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strike to the media with no notification to the LTE until 24 hours later suggests that their quarrel is directly with Mr Livingstone. Mr Weighell the NUR General Secretary, has publicly accused the new GLC leader of renegeing on understandings made during the run-up to the recent GLC elections. At the NUR Conference he made no bones about the fact that in return for financial and other help to Labour GLC candidates the NUR had been promised a pay rise in line with the cost of living. My own assessment is that Mr Livingstone will want to avoid a strike on the basis of pay and will try to reach a settlement once Lord McCarthy has reported, regardless of cost.

Nonetheless, we must make contingency plans in case there is a tube strike next Monday. I attach details of these arrangements. Apart from making these contingency arrangements I believe we should keep out of this dispute. Speeches in support of a low pay settlement would have a contrary effect on Mr Livingstone.

The NUR's position on BR is much less predictable. While Mr Weighell has so far taken a much more responsible line towards BR, he suffered a major defeat at the Conference when left-wing militants succeeded in carrying, by a substantial majority, a motion of total opposition to any further rail closures, or compulsory redundancies. Mr Weighell is now obviously under very great pressure from NUR left-wing elements and the pressures for some form of industrial action are growing. The Board has a full 2-day meeting on 14 and 15 July with their Unions to get down to negotiations about new working practices. They will be pushing very hard, as we would wish. It remains to be seen how far the Unions will be prepared to go.

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Meanwhile, BR's financial position has worsened. Since their EFL was fixed, the recession has made further deep inroads. Earlier this year, the risk appeared that they might overshoot the EFL by £80m to £100m. Further measures identified by the Board had by last week cut this back to some £40m. But unfortunately the most recent trading results indicate a further loss in custom, which may carry through to an additional loss of £30m in the year. These figures, of course, are on the 8% pay assumption in the EFL.

In a tight situation, the Board have already acted to secure major economies. They have cut back for this year their rate of spend on maintenance and renewal of their equipment by some £70m. They made cuts in the London commuter services in June, and they have embarked on reductions on Inter-City services. They are reducing capacity in their workshops, with the closure of the Ashford Works. They are now going for an additional £10m sales of property. I have no doubt that we shall need further economies, in BREL, in service levels, and in realisations next year. But none of these can produce results in time to offer much further relief to present problems. The only quick acting measure (an increase in the fares) is ruled out by the market situation.

This darkening situation, of which I gave fore-warning at our discussion at E last month, will certainly make it necessary for us to increase the grant this year to the passenger business, where the losses of revenue are mainly arising. There is no point in forcing them to borrow for losses on this scale in the passenger business since there could be no prospect of the borrowing's being repaid. It is not yet wholly certain that a change will be needed in the EFL, because cuts in borrowing should offset at least in part the necessary increases in grant. But it will not be possible to hold the Board to their limit if we move away from the pay assumption. We are inevitably involved, for these financing reasons, in the decisions the Board will have to face when Lord McCarthy has reported. Every 1% on pay for BRB as a whole costs £16m.



Copies of this minute go to the Home Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy, the Secretaries of State for Industry, Employment, Environment and Trade and to Mr Ibbs and Sir Robert Armstrong.



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NORMAN FOWLER

13 July 1981



ACTION TO BE TAKEN IN THE EVENT OF AN UNDERGROUND STRIKE

1. This will broadly follow the arrangements agreed by Ministers in readiness for previous threats of an LT strike.

Immediate Measures

2. The Metropolitan Police will bring into effect the following measures:

- a. Issue of press and house to house notices about traffic arrangements
- b. Deployment of additional police and traffic wardens on traffic duties
- c. Operation of clearways on key routes between 7.00-10.00 and 4.00-7.00 pm
- d. Provision of additional signs to direct traffic
- e. Provision of 8,000 extra parking spaces in London's parks
- f. Lifting of waiting restrictions on appropriate roads near suburban BR stations.

At this stage parking restrictions will on strong advice from the Metropolitan Police, not be lifted but de facto will be less strictly policed.



3. Government Departments will issue the usual instructions to staff about staggered hours, taking work home, lift-giving.

4. The AA, RHA and other transport bodies have already been alerted and will give appropriate advice to their members.

5. The Airports Authorities will take measures to cope with extra road traffic and advise incoming passengers.

6. In the event of the strike taking place, the Secretary of State for Transport will make a statement in the House on Monday deploring it and outlining these arrangements.

#### Reporting Arrangements

7. The Department of Transport emergency room will liaise with the Metropolitan Police, LT, the GLC and BR and other relevant organisations to prepare regular reports for Ministers. They will also liaise with outside bodies.

#### Reserve Action

8. In the event of the strike continuing and serious traffic problems developing, we might have to move rather quickly to:-

- a. More general lifting of parking restrictions should the police advise this is desirable
- b. In conjunction with the Ministry of Defence, provision of a further 6,000 car parking spaces in London parks.



APPOINTMENTS IN CONFIDENCE

*de Transport*

*Copied to  
Main Line Electrification  
Nov 80.*

*Electrification?*



*cc. HMT  
LPC  
CO*

10 DOWNING STREET

From the Private Secretary

15 June 1981

*Blind copies to  
✓ J. Horkyn  
D. Wilson  
A. Walker*

Sir Peter Parker and British Rail

The Prime Minister is aware that your Department and the CSD are trying to establish a basis for the renewal of Sir Peter Parker's contract.

As you know, the CPRS report seriously questions full acceptance of British Rail's electrification proposals. Without prejudging discussion of the report, the Prime Minister is concerned that the Government should not find itself in a position where, shortly after extending Sir Peter's contract on terms which imply satisfaction with his work and confidence in the contribution he still has to make, there is then disagreement (which would quickly become public knowledge) between the Government and Sir Peter over British Rail's long-term plans in general and the electrification proposals in particular. She would therefore like a report on the state of the negotiations, with special regard to likely developments when the Government responds to British Rail's investment proposals.

I am sending a copy of this letter to John Wiggins (HM Treasury), Jim Buckley (Lord President's Office) and David Wright (Cabinet Office).

*LR*

Anthony Mayer, Esq.,  
Department of Transport.

*Copy in Appointments.*



CONFIDENTIAL

*Transmit 2*



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

*de Verbeke  
by*

*Prime Minister*

*ASLEF have voted  
against industrial  
action.*

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

28 May 1981

*ms. 12  
28/5*

Dear Tim

POSSIBLE INDUSTRIAL ACTION ON THE RAILWAY

*Play A*

Since my letter to you of yesterday evening, we have heard that at their meeting ASLEF decided - but only by five votes to four - against immediate industrial action. They decided, instead, to seek to concert their views with those of the other unions. It is unlikely that this will be practicable before some time next week.

In the meantime there is now no likelihood of official industrial action. But, of course, the possibility of unofficial action still remains.

I am sending copies of this to the Private Secretaries of all members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely

*Alice Baker*

MRS E A BAKER  
Private Secretary

CONFIDENTIAL



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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

27 May 1981

*Dear Tim*

POSSIBLE INDUSTRIAL ACTION ON THE RAILWAY

We have heard today from British Rail that they could face official industrial trouble next week as a result of their planned timetable cuts in rail passenger services, which are due to come into effect on Southern and Eastern Regions on 1 June. These cuts are designed to adjust the level of service to changes in the level of demand (a point to which the Monopolies and Mergers Commission drew particular attention in their Report on rail commuter services in London and the South East last October).

There has been full local consultation with the Unions about these timetable changes, but the Rail Unions, led by ASLEF, are now asking for a delay of several months in order to give time for national consultation. The Unions were in fact informed of the scale of these timetable changes last November. The Board have told them today that they cannot defer cost-cutting measures needed to meet changes in the level of demand.

The Board will of course keep the Government closely informed of any developments, and we should have a better idea of the Unions' attitude within the next 24 hours. But the Prime Minister will wish to have early warning of this threat, which could lead to a major disruption of rail passenger services. We do not at the moment know whether this would take the form of a series of one-day strikes, or could be more severe.

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**CONFIDENTIAL**

I am sending copies of this to the Private Secretaries of all members of the Cabinet and to Sir Robert Armstrong.

*Yours sincerely*

*Alice Baker*

MRS E A BAKER  
Private Secretary

**CONFIDENTIAL**



Doc Ind. ✓



**CONFIDENTIAL**

Prime Minister

This looks bad -  
and no doubt it  
may deteriorate into  
a Labour GLC which  
could off the business  
and underground drives  
too much.

*W. H. ...*  
*at Verba ...*  
*Dignia*  
PRIME MINISTER

RAILWAYS PAY

*ms*

*||*

*R*

As I forecast in my note of 27 March, events surrounding this year's rail pay negotiations are moving very slowly. The latest position is that the Board is refusing to improve on its 7% offer. The unions, seeking a minimum of 12.5%, have announced that they will be making a unilateral approach to the Railway Staff National Tribunal for arbitration on their 1981 pay claim. I understand that with the unions' conference season about to start, it could take some 3 weeks for them to prepare their case. Hence the Rail Board believes that a likely date for the hearing could be during the period 10 June (after the ASLEF conference) and 27 June (when the NUR conference begins). In these circumstances, Lord McCarthy might be expected to announce his findings in early July.

*875*

Any award stemming from a unilaterally sought arbitration would not be binding. But either side might find it difficult simply to ignore the result. Since McCarthy has in the past tended to adopt a "down the middle" approach, BR have felt it essential not to budge from their present offer. The Board's Financial Director will be giving evidence at the Tribunal and will emphasise that BR's financial position precludes a pay increase above 7%. Meanwhile, British Rail is urging its unions to continue discussions on the proposals for improvements to working practices leading to greater productivity.

**CONFIDENTIAL**





**CONFIDENTIAL**

The Rail Board feels that the current low key approach by its unions in no way indicates any softening in attitudes. It suspects that they are content to await the outcome of other public sector pay negotiations, and for the Government to show its hand on investment decisions, before making any further moves. And, doubtless, union leaders view the forthcoming conferences as an ideal opportunity to test their members' strength of feeling for industrial action.

Thus, I think we must recognise that while the pace may have slowed, the signs still point to both the BRB and the Government facing some difficult decisions. I am continuing to keep in very close touch with the Board to ensure that we have as much warning as possible of any developments. Copies of this minute go to the Chancellor of the Exchequer, the Home Secretary, the Secretary of State for Employment and to Sir Robert Armstrong.

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NORMAN FOWLER

8 May 1981

**CONFIDENTIAL**



*Prime Minister*

MR. LANKESTER

*12  
7/5*

cc. Mr. Ingham

British Rail Pay

The Prime Minister is aware of the looming dispute over British Rail pay; she may like to know that the dispute has now gone to the BR Arbitration Tribunal, which means that the prospect of industrial action on the railways is now delayed until, probably, July. The awards of the Tribunal are not binding, and its normal practice is roughly to split the difference between the claim and the offer, so the problem is still with us. I understand that Mr. Fowler will be reporting formally to the Prime Minister on the position after the weekend.

*[Handwritten mark]*

*[Handwritten signature]*

7 May 1981



Nat. Ind.

JS



10 DOWNING STREET

*From the Private Secretary*

24 August 1979

Thank you for your letter of 24 August to Tim Lankester about the position on the Railway Staff National Tribunal's recommendations.

M. A. PATTISON

Mrs. B.E. Riddell,  
Department of Transport.





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

24 August 1979

*Dear Tim*

/ As promised during my telephone conversation with the Duty Clerk last night, I attach a note setting out the position on the Railway Staff National Tribunal's recommendations.

*Yours ever*

*B E Riddell*

B E RIDDELL  
Private Secretary



## BACKGROUND NOTE

### RAILWAY PAY

As part of the main railways pay settlement agreed in April, the Railways Board agreed to consolidate £2 of the £6 supplement introduced under Phase I of the previous Government's incomes policy, and promised to consolidate the balance in April 1980. The union claim for immediate consolidation of the remaining £4 was referred to the Railway Staff National Tribunal. When the issue came before the Tribunal, the Board argued that consolidation before April 1980 would have to be paid for by improved productivity.

The Tribunal's recommendation has just been released; and is:

- i. consolidation of £2 from today;
- ii. consolidation of the remaining £2 from 1 January, 1980.

The Tribunal also recommended that there should be positive discussions between the unions and the Railways Board on improving productivity.

The Tribunal's recommendations are not binding on the parties, and the Board will no doubt take them as a basis for further negotiation with the unions. It would cost the Board £10m to implement them in the current financial year.



070



**CONFIDENTIAL**

Prime Minister

Agree to the  
announcement as  
proposed at X

Excellent, for send below?

ok

R

PRIME MINISTER

28/9

**CONFIDENTIAL**

When British Rail published their "half-yearly report" last month a number of Press reports forecast fares increases of 20-25% next January. By the cuts that I have proposed in the cash limits for the Board I have been tightening their financial regime. But at the same time I have challenged the grounds for fares increases on the scale of the Press Reports. My pressure has had results which I think you will much prefer. The general increase now being considered by the Board is around 18%. This will be very close to the year-on-year inflation rate at the end of the year and will compare well with the earlier and gloomier story of prospective increases. I have reminded Sir Peter Parker, however, that it will be for him to explain to the public the need for the increase.

I know that the Board will be really up against it to keep within their cash limits for 1979/80 and 1980/81. But my judgement is that it is not impossible for them to do so and I want to keep the limit tight in order to help bring about the improvements in efficiency that are necessary if the railway's demands for support are to be contained in later

**CONFIDENTIAL**



**CONFIDENTIAL**

years. To give them more money in order to keep fares down would of course undermine the financial discipline I am aiming to impose.

I have also been looking at the commuters' position. The Board do not envisage that the fares increase would have any general loading against commuters. But they are considering various particular increases within the fares structure for the London and South East region including reductions of discounts on season tickets. The proposed measures would not individually raise much additional revenue, and I have pressed Sir Peter Parker very hard to think again about the need for any of them that could be seen as discriminatory by London rail commuters.

The Board will be taking their decision at their meeting on 4 October. I will let you have a further report immediately thereafter. The Board do not intend to announce their decision immediately, but because many people are involved in implementing them knowledge of them is likely to get around in the following weeks.

X | Whether or not the Board decide on larger-than-average increases for any of their London commuter services, I think that it would be a sensible initiative to announce that we will be asking the Monopolies and Mergers Commission to look at the efficiency of BR's London commuter services. An earlier idea was that this intended reference might be announced during the course of the Second Reading of the Competition Bill.

**CONFIDENTIAL**





**CONFIDENTIAL**

But I now think that there is much to be said for an earlier announcement ahead of the Board's announcement of their increases so that we do not appear to be merely reacting to that. The best time would, I think, be just before the Board's meeting next week. Since any political criticism about fares will be aimed at me ( in spite of the Board's prime responsibility), I would like, if you agree, to make the announcement.

I am sending copies of this minute to members of the Cabinet, the Chief Whip and Sir John Hunt.

---

NORMAN FOWLER  
27 September 1979

**CONFIDENTIAL**





From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

Tim Lankester Esq  
Private Secretary  
Prime Minister's Office  
10 Downing Street  
London SW1

Dear Tim,

The Minister for Consumer Affairs has seen a copy of the Minister of Transport's minute to the Prime Minister of 27 September suggesting an early announcement of a reference to the Monopolies & Mergers Commission of British Rail's London Commuter Services.

Mrs Oppenheim agrees that a reference on this subject should be made. She also considers that it would be presentationally advantageous to announce the proposed reference before the new fare increases become public knowledge. However, it will in practice be the Secretary of State for Trade who will be making references under Clause 11 of the Competition Bill, when enacted. She therefore thinks that Mr Nott should make the announcement of the proposed British Rail investigation; alternatively, if an announcement this week is essential, she would be happy to issue it in Mr Nott's absence.

I am copying this letter to Janie Flanagan and to the Private Secretaries of those who received Mr Fowler's minute.

Yours sincerely

Dennis Parsons

DENNIS PARSONS  
Private Secretary

DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

Prime Minister

You agreed to Mr Fowler making the statement (though in view of this, I have held up my letter).

Shall I suggest October 1979

a joint announcement - since Mr Fowler has a strong political interest? (he is the one who will be criticized for the fare increase)

TL  
1/10  
Yes

1





*Transport*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP  
Minister of Transport  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

2 October 1979

*Dear Norman,*

*R 27/10*

BRITISH RAIL FARES

Thank you for sending me a copy of your minute of 27 September to the Prime Minister.

I welcome your indication that in view of the scope for improving efficiency British Rail should be able to avoid a fares increase greater than 18 per cent next year while at the same time keeping - as we must insist - within a cash limit consistent with our July decisions. I wonder, however, whether we can entirely rely on the Board being able to achieve this until their cash limit position has been further explored in accordance with our decisions at E Committee on 20 September. I gather that our respective officials will shortly be meeting the Board to discuss the make-up of the 1980-81 cash limit. Pay levels next year are, of course, a very important area of uncertainty for BR, where staff costs account for nearly 60 per cent of total costs.

I welcome the proposed reference of the efficiency of BR's London Commuter Services to the Monopolies and Mergers Commission. No doubt John Nott's Department will be advising you on the arrangements for the announcement of this.

I am copying this letter to the Prime Minister, other members of the Cabinet, the Chief Whip and to Sir John Hunt.

*[Handwritten signature]*  
*John Biffen*

JOHN BIFFEN



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET  
SW1P 3EB



*With the Compliments of  
the Private Secretary to the  
Minister of Transport*



CONFIDENTIAL

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB



Trevor Goodings Esq  
Private Secretary to  
the Rt Hon Mrs Sally Oppenheim MP  
Minister of State for Consumer Affairs  
Department of Trade  
1 Victoria Street  
LONDON  
SW1

2 October 1979

*cc Mr James*

*MBM*

*TJ*  
*2/6*

*Dear Trevor*

We spoke earlier this afternoon <sup>about</sup> after the announcement of the proposed reference of BR commuter services to the Monopolies and Mergers Commission.

Tim Lankester's letter of today records the Prime Minister's agreement to an early, joint announcement by my Minister and Mr Nott (or, if he is not back in time, by Mrs Oppenheim). As I told you on the telephone, my Minister thinks that the best way to handle this would be for the general announcement of the reference to be made in a short press notice from your Department and for him to issue separately a short statement commenting on the proposal. A draft of his proposed press notice is attached. Your press notice would then be drafted in general terms and the comment, if Mrs Oppenheim decided to make one, would be on the new powers and the Bill rather than on the specific reference of BR commuter services. In this way, the press should be clear that they should direct general queries - on the new powers, the MMC, its difference from the Prices Commission - to Mrs Oppenheim, and specific queries about this particular reference and BR commuter services to Mr Fowler.

*Wednesday*

In order to meet the London newspapers' deadline my Minister proposes that the two press notices should be released at 10.30 tomorrow morning. He will not be giving a formal press conference, but will be available to talk to transport correspondents, radio and television about the specific issues raised by the reference.

CONFIDENTIAL



CONFIDENTIAL

I should be grateful if you could let us have a draft of your Press Notice as soon as possible.

I am sending copies of this letter to Tim Lankester, the Private Secretaries to members of the Cabinet, Murdo Maclean, and Martin Vile.

Yours sincerely

*Olivia Flanagan*

MRS E C FLANAGAN  
Private Secretary

CONFIDENTIAL



DRAFT PRESS NOTICE

HM'S LONDON COMMUTER SERVICES TO BE REFERRED TO  
THE MONOPOLIES AND MERGERS COMMISSION

*Minister for Consumer Affairs*

*Government*

The ~~Secretary of State for Trade~~ announced today that ~~he~~ intends  
"to refer the Railways Board's London and South East commuter  
services to the Monopolies and Mergers Commission under the new  
powers contained in the Competition Bill, currently before the  
House of Commons.

Commenting on this proposal Mr Fowler, Minister of Transport, said  
"I have made no secret of my view that I see room for substantial  
improvement in the Railways Board's London commuter services, and  
I know this is a view shared by Sir Peter Parker. I know from the  
correspondence I have received and from my discussions with rail  
officials and with commuters that these services often fall below  
the standard that the public expect and that the Board would like  
to provide. I recognise that there are many difficult problems  
involved. But it is important that these services should be put on  
a firm footing for the future. The investigation of the efficiency  
of the rail commuter services by the Monopolies <sup>and Mergers</sup> Commission will be  
an important step in identifying clearly both the scope for early  
improvement in the services and the issues which will need to be  
tackled in the longer term".

"Subject to the final form of the Competition Bill, which began its  
second reading on 23 July, I would expect that the Monopolies and  
Mergers Commission (MTC) would wish to include in their examination  
the extent to which any deterioration in quality of service is the  
result of inefficiency; the scope for further progress on manpower



productivity and efficiency, and the effect of the manpower savings achieved so far; and the level of service provided by the Board - whether BR is sufficiently efficient in altering service patterns to match demand and whether greater flexibility in adjusting service patterns might lead to reductions in costs".

"As you will recall British Rail's fares were examined by the Price Commission in 1977-78, with special regard being paid to the higher-than-average increases proposed on London commuter services, but they did not investigate the efficiency of BR's <sup>local</sup> London commuter services".



CONFIDENTIAL

Transport



10 DOWNING STREET

From the Private Secretary

2 October, 1979.

The Prime Minister has considered your Minister's minute of 27 September which proposed that he should make an early announcement about the reference of British Rail's London commuter services to the Monopolies and Mergers Commission. She has also seen Dennis Parsons' letter of 1 October which indicated that, in Mrs. Oppenheim's view, the announcement should either be made by Mr. Nott or - in his absence - by herself.

The Prime Minister agrees that it would be a very good idea to announce this reference before the British Rail Board announce further fares increases. She has noted Mrs. Oppenheim's view that the announcement should be made by a Trade Minister; but she feels that, since Mr. Fowler has a strong political interest in the reference to the Commission, and since he may be called upon to defend the British Rail fares increases, he should at least be associated with the announcement. The Prime Minister has suggested therefore that the reference should be announced jointly by Mr. Fowler and by Mr. Nott (or, if he is not back in time, by Mrs. Oppenheim).

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, Murdo Maclean (Chief Whip's Office), Dennis Parsons (Department of Trade), and Martin Vile (Cabinet Office).

I. P. LANKESTER

Mrs. E.C. Flanagan,  
Department of Transport.

CONFIDENTIAL

GB  
Trade + 3 p.m.  
Transp



*Mr Jones*

*Transport*

*Prime Minister*

2

**CONFIDENTIAL**

*We were worried  
of this; but it  
is still a large  
increase.*

PRIME MINISTER

*arb*

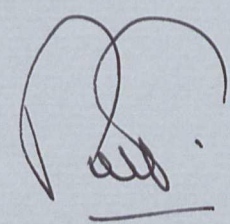
BRITISH RAIL FARES

*R  
£/10*

I wrote to you on 27 September to tell you of my discussions with Sir Peter Parker about British Rail's proposals for rail fare increases in January 1980. Sir Peter has now told me that his Board have agreed to the level of increase I discussed with him of around 18%. The Board considered very carefully the various specific increases proposed, such as a small reduction in season ticket discounts. But they have decided that these were inescapable if the overall increase was to be limited to 18%.

Sir Peter Parker plans to announce the rises in November, as he did last year. But I understand that when the new tickets are printed, which will be in the next few days, the news may become public. These increases will, of course, attract publicity whenever they are announced. But I am sure that our recent announcement of the investigation of commuter services by the Monopolies and Mergers Commission will have done much to show how concerned we are about the effects of rail fare increases on the travelling public, and in particular the commuter.

I am sending copies of this minute to members of the Cabinet, the Chief Whip and Sir John Hunt.



NORMAN FOWLER  
8 October 1979

**CONFIDENTIAL**





Transport

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

*cc Mr James*

*NRM*

*(discussed  
in E)*

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

16 October 1979

*T*

*16/10*

*Dear Tim*

The NUR Executive have decided to close all London mainline terminals for 24 hours from 2 pm on Wednesday, 17 October. All rail commuter services, and many mainline services will in consequence be disrupted on both 17 and 18 October.

The origin of the dispute is the plan of British Rail to reduce the manning of the parcels office at Paddington station by 56 men, all of whom would be found other work at Paddington. The management's proposals were put to the men's representatives in April, and a meeting to discuss them was held on 3 July. The men's representatives refused to attend four further meetings. After BR had warned the NUR headquarters, they introduced the new working rosters on 3 September. But the NUR advised the men to sign/according to the old rosters giving them assurance that they would get their pay.

/on

The NUR executive has called several one day strikes at Paddington station. Their argument is that while they have been offered consultation on the business changes, this has not been completed, and they have not had formal negotiations on the new manning arrangements. BR say that these matters are usually dealt with at the same meeting.

Yesterday the Railways Board agreed terms with NUR representatives for referring the matter to arbitration, but the NUR executive subsequently insisted that this must be preceded by a return to the old working arrangements (and so by implication payment to the men since 3 September); this stipulation the Board could not accept and the Executive called tomorrow's strike.



My Minister is keeping in close touch with the Railways Board and will be able to report further to the Prime Minister at the meeting this afternoon. He is clear that the Government should in no way urge the Board to back down in the face of this wholly unreasonable action by the union, and he will consider with the Secretary of State for Employment whether it will be helpful to make any statement supporting the Board's position during the course of today.

In accordance with the normal arrangements the Metropolitan Police will decide what arrangements are best to handle road traffic during the strike.

I am sending copies of this to the Private Secretaries to the Home Secretary, the Secretary of State for Employment, other members of the Cabinet and Sir John Hunt.

*Yours*

*Gene*

MRS E C FLANAGAN  
Private Secretary





Transport 2  
DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

*Mr Jones*  
*Mr White*

*Prime Minister*

17 October 1979

*R*

*17/10*

*am*

*Dear Tim*

The terms on which the Railways Board persuaded the NUR executive to call off the strike threatened for today represent concessions by both parties. A tight timetable has been agreed for completing consultation and negotiation on the changes to be made in the parcels office at Paddington. In consequence, if there is further difficulty with the men they should now find themselves without the support of the Union. The idea of arbitration has been dropped. In exchange, the Board have agreed to pay two weeks back pay to the men now and a further two weeks when the new arrangements are introduced and meanwhile to revert to the old rosters. This leaves it to the Union to find about three weeks pay for the men, if the Union's commitment that the men would get their pay is to be implemented.

This resolution of the problem, in which the NUR executive have in effect accepted that the management can put limits on consultation and negotiation before carrying through local changes, suggests that the Board may be able to press forward other changes which have been held up at local level. On the other hand, the very obstinate line taken throughout by the NUR executive, and their readiness to call a succession of strikes, offer no encouragement to hopes of securing their agreement to major productivity changes for the railway as a whole.

I am sending copies of this to private secretaries of other members of the Cabinet, and to Sir John Hunt.

*Jones*  
*Blair*

MRS E C FLANAGAN  
Private Secretary



**CONFIDENTIAL**

BR FARES

THE NEXT FARES INCREASE

1. The Railways Board decided at their meeting on 4 October to increase passenger fares from January 1980. The Board have now said that they will announce this in the middle of November. The main elements of the proposed increase are as follows:-

- i. a general increase of 18 $\frac{1}{2}$ %
- ii. some additional increases on Inter-City services where there have been recent substantial service improvements (e.g. the introduction of High Speed Trains)
- iii. no general weighting of the fares increase against London commuters, although there will be some adjustments to the fares scales in this area to remove anomalies and to bring BR fares into line with those of other public transport operators. This will mean that on some individual routes the overall increase will be greater than 18 $\frac{1}{2}$ %
- iv. season ticket discount reductions of 1-2%.

2. The average increase (19.6%) will therefore be below the 20-25% suggested in the Press earlier this year.

**CONFIDENTIAL**





**CONFIDENTIAL**

THE BASIS OF THE INCREASE

3. The Board are already taking uncomfortable measures to stay within their 1979-80 cash limit, and the headroom between the limit and the likely out-turn is small. The January 1980 fares increase is necessary for the Board to keep within their cash limits. The increase will be close to the year-on-year inflation rate; and will compare reasonably with earlier and gloomier stories of prospective increases.

PREVIOUS INCREASES

4. The pattern of fares increases during the lifetime of the previous Government was as follows:-

1974	June	12.5%
1975	January	12.7%
	May	16.5%
	September	15.0%
1976	March	12.2%
1977	January	12.5%
1978	January	14.5%
1979	January	9.4%
		<hr/>
1980		168.5%

5. For the future the Board aim to keep to a pattern of annual fares increases in January. They are anxious to avoid increases at less than 12 month intervals.

**CONFIDENTIAL**





**CONFIDENTIAL**

MINISTERIAL RESPONSIBILITY

6. Under the existing legislation fare levels and tariff structures are entirely a matter for the Railways Board.

7. The Government is, however, intending to refer British Rail's London commuter services to the Monopolies and Mergers Commission so that their efficiency can be examined. This was announced on 3 October.

**CONFIDENTIAL**



**CONFIDENTIAL**

30



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

*Mr Sanders*

*12 now*

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

*29* October 1979

*Dear Tim*

RAIL FARES

My Minister minuted the Prime Minister earlier this month to let her know that the Railways Board had agreed in principle that the fares increase to take effect from next January should be along the lines of the proposals described in Mr Fowler's earlier minute of 27 September. We have now learned from the Board that they intend to announce the details of these increases on 15 November.

The Railways Board have also now told us the final details of the proposed package. The general increase has now been fixed at 18½% although, because of the various other specific increases which make up the rest of the package, the average increase will be 19.6%. There will be some additional increases on Inter-City services where there have been recent substantial service improvements (for example the introduction of High Speed Trains), and the Board are also going ahead with their proposals to reduce the present discount on season tickets and to adjust the present fare scales on some services in the London and South East area.

I am attaching a revised note for inclusion in the background briefing for Prime Minister's Questions.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, to Murdo McLean and Martin Vile.

*Jones*

*Genie*

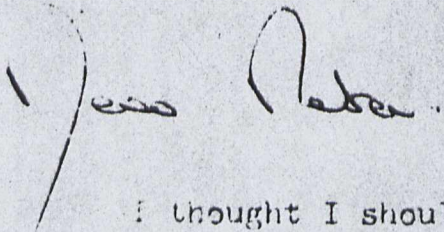
MRS E C FLANAGAN  
Private Secretary

**CONFIDENTIAL**




Air Peter Barker MVO  
Chairman  
British Railways Board  
25 Park Lane Road  
London W1K 1RA

8 November 1979



I thought I should write to you immediately following the stories in "The Guardian" yesterday and today about the Board's Corporate Review to make it quite clear that it is my firm policy that there should be no substantial cuts in the passenger rail network. This is the view which I have consistently expressed, both while in Opposition and more recently, and which I reiterated yesterday in the House during Question Time. Since under the present statutory procedures proposed passenger service closures to which there are objections would be referred to me for decision, I thought it only right to make it absolutely clear to you and your colleagues that this is the policy which I intend to pursue.

I shall want to talk with you about the Corporate Review that you sent me on 25 October. But you will understand that the option of closing 40 passenger services is one that the Government have rejected.





*Transport*

8 November 1979

Thank you for your letter of 7 November, setting out the position on rumoured British Rail line closures. The Prime Minister was grateful to see this explanation. I understand that she intends to mention the subject at the end of Cabinet this morning.

MAP

Mrs E.C. Flanagan,  
Department of Transport.

*GB*



CONFIDENTIAL

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

PRIME MINISTER

Mr Fowler's response to Today's  
"Guardian" exclusive

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

7 November 1979

MA 7/x1

Dear Tim

When Mr Fowler answers Questions this afternoon, he will make it clear that there have been no secret talks with British Rail about plans to axe large numbers of rail services and he has no list of services for closure. Mr Fowler has repeatedly made it clear that he sees no case for a further round of Beeching cuts.

The story in today's Guardian is thus false. It is the case that the Minister received from Sir Peter Parker on 25 October the Board's current Corporate Review, which evaluates the effects on the Board's finances of a number of options drawn up by the Board at the end of last year, and one of these would be a programme of closures. Mr Fowler will be discussing with the Board the various problems brought out in the review.

It is also the case that Mr Fowler has had before him a Memorandum prepared by the Board and sent to the Department in February spelling out their ideas for a new policy of substituting buses, financed by the Board, for some rail services. These are ideas which the Board put at the same time to their unions, and to the Central Transport Consultative Committee. Mr Fowler has also received representations from the latter. The Board have given no list of services that would be affected by such proposals.

My Minister accordingly does not have at this stage any new policy proposals to put to his colleagues. Meanwhile, the statutory position is that the Board cannot withdraw a passenger service except after the Minister's consent, following publication by the Board of their proposal and a statutory procedure for considering representations.

CONFIDENTIAL



CONFIDENTIAL

I am sending copies of this to the Private Secretaries to other Members of the Cabinet, and to Sir Robert Armstrong.

*Yours*

*Genie*

MRS E C FLANAGAN  
Private Secretary

CONFIDENTIAL





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Tim Lankester Esq  
Private Secretary to the  
Prime Minister

12 November 1979

Prime Minister

Agree that Mr Fowler  
should write to  
the Guardian?

Yes ok

12  
12/11

Dear Tim

At Cabinet last Thursday it was suggested that a letter should be sent to The Guardian Newspaper to put the record straight on the question of passenger rail closures.

My Minister has now decided, in the light of continuing and misleading Guardian comment on this, that he should send a letter himself. This will simply explain what the true position is, as he told the House on Wednesday, and draw attention to the letter he sent to the Chairman of British Rail last Friday (copy attached).

Mr Fowler would be grateful for the Prime Minister's authority to proceed.

I am sending a copy of this letter to Richard Prescott in the Paymaster General's office.

Yours

Genie

MRS E C FLANAGAN  
Private Secretary



Transport

file

BK.



10 DOWNING STREET

*From the Private Secretary*

13 November 1979

This is to confirm that the Prime Minister is content for Mr. Fowler to write to The Guardian on the question of passenger rail closures - as proposed in your letter of 12 November.

I am sending a copy of this letter to Richard Prescott in the Paymaster General's Office.

T. P. LANKESTER

Mrs. E.C. Flanagan,  
Department of Transport

KRF



Ref. A04714

PRIME MINISTER

- ① Pay.
- ② Woodhead Tunnel.
- ③ London Transport.
- ④ No 2. in charge.

Prime Minister - Transport

I have been not included in his folder the mass of paper from the last meeting. But I will have them.

Re-structured for 25m.  
 Freight losses. →

British Railways  
 (E(81) 41-45, 47 and 48)

BACKGROUND

At their meeting on 8 April, the Committee discussed Railway pay and did not have time to turn to the longer term papers on the Railways circulated by the Secretary of State for Transport and CPRS. Since then the Secretary of State has circulated a further paper, E(81) 47, listing the issues on which he seeks urgent decisions, and the CPRS have circulated a note, E(81) 48, drawing attention to some of the underlying problems and possible options.

2. My brief of 6 April summarised the earlier papers and suggested some of the questions for discussion. This supplementary brief lists the main questions which I suggest the Committee should now consider - they are an amalgam of the questions posed by the Secretary of State for Transport in his latest paper (E(81) 47) and the CPRS in theirs (E(81) 45). Unless, unexpectedly, the Committee is prepared to take final decisions, the aim should be to clarify what further work the Committee would like the Secretary of State or the CPRS to do, preparatory to further discussion after Easter.

3. Does the Committee agree that the Government is politically committed to maintaining the passenger network at broadly its present size?

The commitment is not in the Manifesto (which called for increased productivity but said nothing on the size of the network) but in the press statement (annexed to my brief of 6 April) which the Secretary of State issued after an article in The Guardian in November 1979 claiming that a major programme of closures was under consideration. If the Committee regard that commitment



as binding, that is an important constraint on the further work.  
 On the other hand, they may wish to defer decision on this until  
 they have seen some further work on the lines suggested by the  
 CPRS in paragraphs 6 and 7 of E(81) 48 - that is, with the aim  
 of measuring the future of the rural services by some agreed  
 economic and social criteria rather than accepting that they  
 should remain open willy-nilly.

4. What are the prospects and options for the commuter services?

The reality is no doubt that the commuter services in London and  
 in the other major conurbations must continue. The Committee may  
 wish to know, however, rather more about the likely trade-off between  
increased fares, improved productivity, standards of service, and  
levels of subsidy, and to consider whether they want further  
information on the lines suggested by the CPRS in paragraph 10  
of E(81) 48.

5. What further work is necessary preparatory to decisions on  
electrification of the commercial services (inter-city and freight)?

The Secretary of State for Transport says that he is content to wait  
 for the prospect of the commercial business to be examined quickly  
 by the CPRS in relation to the electrification report. There  
 is a procedural question to be settled here on whether this further  
 work should be undertaken by the CPRS or by the Department of  
 Transport. Mr Ibbs has explained, in his minute of 10 April  
 to Mr Lankester, that because of their other heavy commitments  
 (notably their review of the relationship with nationalised industries)  
 the CPRS could do this only if they gave much of the work to  
 consultants. He suggests that, while this could be done, it might  
 be better to ask the Department (consulting the CPRS as appropriate)  
 to provide an analysis of the viability of the commercial business,  
 the efficiency and improvements that should be achievable with and  
 without electrification, the options which then emerge, and a  
 statement of their preferred plan for this sector of BR's business.  
 I suggest that this further work should also cover the question  
of how realistic is the possibility of involving private sector  
finance in an electrification programme.



The Committee may also like to clarify what the Secretary of State for Transport means when he says that he must take up soon a "public position" on electrification. If he means that he wishes to say that lines will be electrified when and where this makes economic and commercial sense, and that decisions will be taken case by case, that would seem to be a manageable proposition. If on the other hand he envisages going further and entering into a relatively firm and general commitment for a very major programme of electrification that will present the Committee with a much more difficult decision, and you will wish to be convinced of the case for such a commitment.

6. When should decisions be taken on BR's External Financing Limit for 1982-83?

The Secretary of State for Transport argues in paragraphs 3-5 of E(81) 47 that the present provision of £579 million at 1980 Survey prices in the Public Expenditure White Paper is unrealistic because it was a holding figure based on the Corporate Plan which his Department had not fully scrutinized. His own proposal is for £695 million - £116 million higher. He asks the Committee to authorise him, in consultation with the Chief Secretary, to set the Board this figure, or something like it, without delay. If it were accepted that it is an inescapable fact that the present provision is inadequate, it may be realistic to make some adjustment now. An increase of this order would, however, be a major pre-emption of the public expenditure discussions later this summer: the Chief Secretary will wish to advise the Committee on this.

7. You should know that the Civil Contingencies Unit have just completed an analysis of the consequences of industrial action by British Rail workers and that the Home Secretary will probably circulate this to the Committee before Easter.



## HANDLING

8. After the Secretary of State for Transport has introduced his paper you might ask Mr Ibbs to speak to the CPRS' note. The Chancellor of the Exchequer will want to comment on the financial implications generally and the Chief Secretary on the problem of 1982-83 in particular. The Secretaries of State for Industry and for Trade may have comments on the implications for manufacturing industry, including export prospects, and for the consumer. The Secretaries of State for Scotland and for Wales will be particularly interested in the question of whether the possibility of closing lines is ruled out.

9. In discussion you will wish to cover the questions listed in paragraphs 3 to 6 above.

## CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions on -

1. Whether the Committee confirm the commitment to maintaining the Railway passenger network at broadly its present size or whether they want further work on the options - on the lines suggested by the CPRS - before coming to a decision.
2. Whether the Secretary of State for Transport may increase BR's EFL for 1982-83, in consultation with the Chief Secretary, or whether a decision on this must await discussions on the general public expenditure exercise.
3. Whether the Secretary of State for Transport can be allowed to take a 'public position' on electrification and if so what it should be.
4. Who is to take the lead on the further work on the electrification options - the CPRS or the Department of Transport and, if the latter, whether they should do it in consultation with the Treasury and the CPRS - and by when.





5. Whether the Committee accept the CPRS point in paragraph 16c. of E(81) 45 that investment should not be regarded as an inducement for union co-operation unless firm agreement is obtained on productivity improvements.

RGA

ROBERT ARMSTRONG

13 April 1981





PRIME MINISTER

RAILWAY POLICY

I shall unfortunately not be able to attend the meeting of E Committee on Tuesday 14 April when discussion of railway policy will be resumed.

I think it right therefore to let you and other colleagues know that I am doubtful about Norman Fowler's proposal that the Government should make clear that a major programme of electrification schemes on main lines should not be started until new productivity agreements have been signed with the unions securing the progress proposed in the Corporate Plan; and that commitments to electrification should be staged according to the improvements achieved.

There is much to be said for using the prospect of investment in a generalised way as a lever to get productivity concessions from the unions. But there are risks involved in the Government insisting that the former should be conditional on the latter. As John Biffen pointed out in his minute to you of 27 March on pay in the nationalised industries, suppliers in the private sector, and the jobs of their employees, are the first to suffer if funds for capital investment in a nationalised industry are denied. And in the longer term it will be the industry's customers who will suffer through reduced service or higher costs. If electrification, as it appears, is a sound investment in its own right it would be counter productive to refuse to fund it on the ground that the unions declined to sign productivity agreements.

Moreover the productivity concessions sought are far reaching. They can only be secured gradually. It is just not realistic to believe that the unions will sign up all at once for the many changes looked for, and the pace of electrification, given the need for much





advanced planning, cannot be made specifically dependent on the pace at which productivity improvements can be realised.

Lastly I feel sure that it would be better for the Board, rather than for the Government, to use the productivity card. This puts the Government at one remove; and it enables the Board to play the card in a way which fits with their negotiating strategy.

I am sending copies of this minute to our colleagues on E Committee, to Norman Fowler, George Younger, Nicholas Edwards, Robin Ibbs and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "JP".

J P

13 April 1981



### Passenger Railway Network

17. **Mr. John Home Robertson** asked the Minister of Transport if it is his intention to maintain all the existing railway lines and services in Scotland.

**Mr. Fowler:** I have already made clear in a letter to the chairman of the British Railways Board that it is my firm policy that there should be no substantial cuts in the passenger railway network. A copy of the letter has been placed in the Library of the House of Commons.

**Mr. Home Robertson:** I am sure that the people of Scotland will be interested in the characteristically evasive answer of

the Minister in using the term "substantial". Will he take this opportunity to give a clear assurance to the people of East Lothian that the North Berwick branch line will not be closed while he is Minister?

**Mr. Fowler:** Certainly. There is no proposal on that line before me at the moment. I can only repeat what I have repeated at Transport Question Time over the past few weeks, which is that I am totally opposed to any substantial cuts in the network. That is the same policy as was pursued by the previous Government.

**Mr. Robert Hughes:** Instead of repeating that old litany, will the right hon. Gentleman look seriously at not just passenger routes but also freight routes, especially in the North of Scotland. The roads there are particularly bad and are heavily congested with oil traffic. Will he remind me of the current position on the Buchan freight line?

**Mr. Fowler:** I shall examine the issue of freight services. I remind the House that, as the hon. Gentleman will remember, the list of lines that were to be closed, as alleged in *The Guardian* of 7 November, has been revealed to be a list estimated by the Ramblers Association and not by the Government. I do not believe that even the hon. Gentleman would reckon that the Government are committed by the Ramblers Association to a course of action.

19. **Mr. Foulkes** asked the Minister of Transport if his policy of greater investment in the rail system includes the re-opening of stations and routes previously closed, and a guarantee of no closure of existing lines.

**Mr. Fowler:** It is for the British Railways Board and local authorities to consider whether particular services or stations should be reopened. I pay tribute to the efforts of voluntary preservation societies in this regard.

**Mr. Foulkes:** Will the Minister give a categorical assurance that he will not approve any proposal to close the Ayr to Stranraer line? Will he also comment on British Rail's proposals to reduce the frequency of services on that line from January? We suspect that British Rail

can close a line by reducing services as effectively as by doing it at a stroke.

**Mr. Fowler:** I shall look into that individual line. As I have said, apart from two proposals about which I gave an answer on 7 November, there are no proposals before me concerning the closing of lines. In the event of an objection, my permission is needed to close a line and I have made my general policy clear on the matter.

**Mr. Cryer:** Will the Minister confirm that if British Rail approaches him about greater investment in existing routes and the reopening of stations to improve those routes—for example, the routes radiating from Leeds and along the Aire valley through Keighley, where a number of small stations could usefully be reopened—he will consider that approach? Does he accept that in an international fuel crisis we should make the maximum possible use of our railways and improve their usage?

**Mr. Fowler:** Here again, I shall examine any proposals that British Rail puts forward. However, at the moment, no proposals of that kind have been put to me.

**Mr. Adley:** Is my right hon. Friend aware that his opening comments will be welcome indeed to the railway preservation movement in general? Will he agree to meet representatives of the Association of Railway Preservation Societies so that they may have a chance to put to him some of the difficulties that they still encounter from British Rail and his Department with regard to some of the schemes that could be extended were it not for some of those difficulties?

**Mr. Fowler:** I have already paid a visit to one of those societies—the Severn Valley Line—and I shall be delighted to meet any other group that my hon. Friend would like to bring to me.

**Mr. Prescott:** Is the right hon. Gentleman informing the House that he believes, as he said in answer to the previous question, that the proposal for the closure of 40 lines was provided by the Ramblers Association? I have in my hand a copy of the report prepared by British Rail, which clearly states what the 40 lines are.

**Mr. Fowler:** Characteristically, the hon. Gentleman is absolutely wrong. I

challenge him to find the list of services referred to in *The Guardian* in the report that he is holding. As he will know if he reads that report, there is no such list of services, and I stand by what I have said.



**Mr. McCrindle:** Will the Prime Minister confirm that in the event of a national railway strike the attitude of the Government will be as non-interventionist as it was during the 13 weeks of the steel strike? Will she further confirm that any settlement of the railway dispute should include a high level of productivity, which many of us who use the services of British Rail feel there is ample opportunity to achieve?

**The Prime Minister:** I am glad to respond to my hon. Friend. The cash limit for British Rail is very high. It is over £700 million this year. It will be something like £730 million to £740 million next year. British Rail must live within that cash limit and accordingly make a settlement in its own way through its own negotiations. May I express one thought? I hope that British Rail will not automatically assume that the railway travelling public will go on paying ever higher fares, because they cannot do that.





cc Mr Batty  
Mr Batty

256/1

10 DOWNING STREET

THE PRIME MINISTER .

8 December, 1980.

File with pps

Dear Mrs. Batty Shaw,

Thank you for your letter of 12 November about rural rail services.

I hope it will help allay your members' concern about the future of rural rail services if I explain our policy and the statutory procedures that govern rail closure proposals. It is up to the Railways Board to decide whether to propose the withdrawal of particular passenger services. But they are very well aware that we are not prepared to see any substantial reduction in the rail passenger network, and they must follow the procedures laid down in the Transport Act 1962 and 1968.

These procedures oblige the Board to give full publicity to any closure proposal and allow users the opportunity to object to the local Transport Users' Consultative Committee. If there are objections, the TUCC report to the Minister, usually after a public hearing, on possible hardship that might be caused by the closure of a service. The Minister considers this report and any other relevant factors, including social and economic circumstances before reaching a final decision on whether to permit closure. I am sure you will appreciate that I cannot comment on particular cases which will come to Norman Fowler for decision. But I hope you will agree that the statutory procedures governing proposals to close rail passenger services afford a substantial degree of protection to passengers and they reserve the final decision to the Minister.

/ I believe



I believe that railways have a continuing role to play in meeting the transport needs of rural areas, and our refusal to countenance substantial cuts in the present passenger network should provide a stable framework in which the Board can plan the future of rural railways. Clearly, their future would be more secure if costs could be reduced. Norman Fowler has therefore asked Sir Peter Parker to look very carefully at ways of reducing costs on these lines by, for example, automating level crossings, simplifying signalling and by using lightweight rolling stock. Studies have shown that investment in these areas can pay for itself very rapidly in terms of reduced running costs.

Yours sincerely,

(SGD) MT

Mrs. P. Batty Shaw

*Chairman*

*National Federation of Women's Institutes*

*(Also invited by DOT to become a member of the CTKC until July 1983).*





*1 request.*

**10 DOWNING STREET**

MR. HOSKYNS  
MR. WOLFSON  
MR. DUGUID  
MR. LANKESTER

✓

12-

Attached is a minute I am proposing  
to send to the Prime Minister.  
Could I have your comments please?

10 April 1981



DRAFT MEMORANDUM TO THE PRIME MINISTER

BRITISH RAIL

In meetings with British Rail and the Department of Transport it is repeatedly said that there has been a commitment on the part of the Government to the existing size of the railways. In his memorandum to you of 6 April the Minister said that the "more concentrated rail network . . . . is a prospect which both you and I have publicly rejected. I really do not see how we could change our stance on this."

It is difficult to see, however, that such a statement is completely unconditional. If the railways become more and more inefficient and carry smaller quantities of traffic on this large network at increasing subsidies, then one would imagine that the issue of reducing the size of the railway network would again become a very live one indeed. Similarly, an unconditional commitment to a large railway industry, whatever the efficiency conditions and the financial results, would be an invitation to the railway unions to put in quite extravagant claims. This may explain some of the reluctance of the railways to conclude productivity agreements, and may account for the fact that productivity in freight train operation is only half that of the average of western Europe.

The threat of imminent contraction or substantial closure of the railways is one of the few disciplines we have on the labour force and on management. It would be a good occasion to emphasise that this weapon of Government has not been surrendered. Against this it will be held that railways cannot plan for the future and



and improve their services except insofar as they have a guarantee that Government will not cut them down to size at some future date. Railwaymen must see their future in the railway industry. This should be condemned as a reflection of the rigidities of British industry and the blinkered thinking that has brought about the decline of Britain over these many years. No-one can adequately predict what the efficiency of rail transport will be nor can we say what the technological developments will bring. British Rail should only have as much assurance as its performance warrants.

British Rail and the Departments may argue that the issue of a smaller railway was examined in Beeching's day in the mid-60s and in the early 70s. These alternatives were rejected as being "inoperable" or "inefficient". Such a judgement cannot be accepted. There is no immutable size of railway which is independent of cost efficiency and technology. As an example of the specious nature of British Rail's arguments, it was always urged that, in the mid-60s, British Rail required wagon-load traffic in order to stay in the freight business. If wagon-load traffic went, then all freight would go. However, we find today that wagon-load traffic has gone and freight operations are very substantially train-load traffic. So it is difficult to take seriously that the existing size of the railway system is somehow the best of all possible worlds.





CONFIDENTIAL

*Prime Minister  
Transport*

MR LANKESTER

cc: Mr Wright

*12  
514*

*ms*

BR'S INVESTMENT PROGRAMME

I have now had a breakdown from Department of Transport of the BR investment programme for 1981/82. The details are as follows:-

(a) The capital allocation is £325m at survey prices. This does not include renewal of track (treated as a revenue item) for which a further £70m has been allowed for.

(b) BR already think that they will considerably underspend the 1981/82 allocation - mainly in an attempt to cope with their EFL situation. The underspend may be £30m on capital plus an unknown amount on track.

(c) The £325m comprises £300m on the main railway and £25m on subsidiaries. The £300m is comprised of:-

£120m: rail system (including electrification already under way eg Bedford, and signalling).

£50m: freight and parcels (rolling stock and facilities).

£79m: passenger rolling stock other than "electrical multiple units".

£40m: electrical multiple units.

£14m: Administration (offices etc).

*for*  
P Le Cheminant

8 April 1981



Evidence on pay  
Treasury EFL.



7<sup>th</sup> 3-42  
Prime Minister's Nat  
Ind  
Freeze benefits -> pay.

CONFIDENTIAL

Disruption  
MR LANKESTER  
Content of Railway Policy

RAILWAY PAY

6%  
- agreement 4%  
- productivity  
W. J. Parker.

You asked if we could get additional information for the Prime Minister's use this morning when Mr Fowler raises the question on railway pay in E.

2. The only immediate useful document is Mr Fowler's minute of 27 March to the Prime Minister about pay. Transport have now however amplified this to me. The key points are:-

(a) The EFL calculations assume 8% for pay this year.

(b) As Mr Fowler told the Prime Minister last night, BR think they will be £100m, or thereabouts, down on their trading results this year. Without offsetting action this will carry straight through to the EFL. Parker does not believe BR can offset the £100m by their own efforts.

(c) BR have an arbitration agreement with their staff which gives the right of unilateral access to the BR staff Tribunal. The awards of the Tribunal are however only binding if both sides have agreed the reference. The history of the Tribunal's previous awards does not fill the Department of Transport with confidence. If the Railway unions were to exercise their right of unilateral access so that a non-binding award emerged it would nevertheless be very difficult for the Railways to ignore it.

(d) 1% on pay costs BR roughly £15m a year.

(e) Of the three pay options mentioned to the Prime Minister last night by Mr Fowler, those based on staging (7% now + 4% at the turn of the year, or 6% now + 2% in October), are designed to keep within 8% though the first option would raise the base pay for next year's negotiations by 13%. The "freeze" option was designed to reflect directly the EFL position.

P Le CHEMINANT

8 April 1981



Ref: A04647

Copy a  
Transport-  
Main line  
Electrification  
Nov 80

PRIME MINISTER

Transport

Railway Policy

E(81) 41 - 45

## BACKGROUND

The Secretary of State for Transport's main proposals are in E(81) 41 which is supported by two background papers - E(81) 43 covering his Department's appraisal of British Rail's (BR) Corporate Plan, and E(81) 44 summarising the main issues on electrification. In E(81) 42 he makes some subsidiary proposals for placing orders for BR rolling stock with Metro Cammell. The CPRS in E(81) 45, raise some fundamental questions on the proposed approach and in particular on the size of the network assumed.

2. BR published their Corporate Plan in December 1980. They propose a major programme of renewals and of electrification, with Government financing topped up by a combination of productivity improvements - manpower down from 191,000 now to 153,000 by 1985 - and revenue from increased traffic. The Department of Transport have appraised BR's proposals and substantially modified them. The Secretary of State recommends, nevertheless, that the present network, the rural and commuter services, and the Inter-city and freight services should be kept going, and he endorses a substantial programme of renewals and electrification. He emphasises the need for maximising productivity improvements and tightening the system of financial controls on BR. He would make the start of a major programme of electrification schemes contingent on the signing of the new productivity agreements envisaged in the Corporate Plan. His proposals are summarised in paragraph 19 of E(81) 41.

3. If accepted, the Secretary of State's proposals would bring substantial increases over the provision for BR in the Public Expenditure White Paper, Cmnd. 8175, and a very substantial on-going commitment. The main figures, taken from his tables, are -



	<u>£m 1980 Survey Prices</u>				
	1981-82	82-83	83-84	84-85	85-86
Cmd 8175	701	579	570		
*Proposed	701	695	628	603	579
Difference:		+116	+ 58		
* Of Which electrification	5	10	25	30	40

4. These figures allow for the electrification 'Option III fast' described in E(81) 44; that is, for net investment of £572 million completed by 1995 after which there would be a positive cash flow. This is held to show an 11 per cent real rate of return compared with maintaining a diesel railway. The geographical coverage of Option III is set out in paragraph 4 of E(81) 44.

5. The figures do not provide for the additional £25 million which would be needed in each of 1983-84 and 1984-85 if, as proposed in E(81) 42, Metro Cammell were to be invited to supply BR's requirement for a new generation of diesel engined multiple units. The purpose of giving them this order would be to make good a prospective gap in their order book, as London Transport's orders fall off, and to inject competition for the longer term with BR's own manufacturing subsidiary, British Rail Engineering Limited (BREL). Metro Cammell employ around 1,500 men on this work in Birmingham.

6. The Secretary of State points out, in paragraph 15 of E(81) 41, that not all of the costs need count as public expenditure if arrangements could be made for private sector finance. This Department are looking at this with Morgan Grenfell but for the moment there is nothing more than a general aspiration on offer.

7. These papers present very major issues, not only for the present public expenditure period but for the future of the railways to the end of the century. BR have mounted an effective public relations campaign to win support for their modernisation and electrification plans, and they will no doubt continue to lobby for an early and favourable response from the Government. The unions will also be looking for long term commitments, but I suspect that their current pay



claim is more likely to be dominated by the need to reconcile their hopes for a settlement in line with workers in the energy industries with the constraints of BR's 1981-82 External Financing Limit. Despite the impending pay negotiations, therefore, I can see no reason why the Committee should not, if it so wishes, take time to probe the details and call for an examination of alternatives.

8. As the CPRS, in E(81) 45, and Alan Walters have pointed out, the papers take a great deal for granted in that they start from the assumption that the present network and services are largely inviolate, and they offer no insight into the impact of competition from road transport, particularly following the de-regulation of bus services, and from air services. The CPRS appears to be right in holding that the prior question is what size and form the railway system should have in the future because the answer to that question conditions the rest, including the place of electrification in the future system. On this approach the Committee might want more information on the prospects and options for BR's main services: the non-commercial rural and commuter networks; and the commercial inter-city and freight services.

9. If you are to call for appraisal of some more radical alternatives, you will need first to consider the assumption made by the Secretary of State, in paragraph 10 of E(81) 41, that 'We must keep our commitment (made both before the Election and after it) to avoid any major programme of closures and continue substantially the whole of the passenger network.' The Manifesto called for increased productivity by BR but said nothing on the size of the network. The main commitment on the latter was given by the Secretary of State following a report in the Guardian in November 1979 that 41 passenger services and 900 miles of line might be axed. I attach a copy of the press statement which the Secretary of State then issued. You will wish to decide whether this rules out any substantial re-appraisal of the passenger network or whether some such appraisal is necessary in the light of the very heavy demands for financing now put forward by BR.

10. For the commuter services, both in London and for the other major conurbations, it is no doubt realistic to assume that they should continue over broadly the present networks. If so, the questioning will centre on how services can be improved by productivity changes and what are the options for



the Secretary of State intends that fare increases should be less than BR's assumption of  $2\frac{1}{2}$  per cent annually in real terms up to 1985.

11. For the so called commercial services - inter-city and freight - the question is how far they can indeed be operated commercially against competition from road and air. This leads on to the question of the role for electrification and the options for it. You will note the conclusion, in paragraph 7 of E(81) 44, that the economic appraisal of electrification shows that even with a very large fall in passenger traffic the programme should pass the test of a real rate of return of at least 7 per cent.

12. Before reaching final decisions I suggest that the Committee might want a fuller assessment of how realistic are the possibilities for meeting some of the financing requirements for BR's main rail activities - as distinct from hotels, shipping etc. - from private sector finance. They will also probably want more information on Metro Cammell and BREL before reaching any conclusions on the proposed order for Metro Cammell and the consequent additional financing involved.

#### HANDLING

13. After the Secretary of State for Transport has introduced his papers you might invite the Chancellor of the Exchequer and then Mr Ibbs to give their reactions. The Secretaries of State for Industry and for Trade will want to comment on the implications for manufacturing industry, including export prospects, and for the consumer. The Secretaries for Scotland and Wales will also want to comment, and particularly so if there is any thought of another look at the possibility of closing lines.

14. The first question before the Committee is whether they agree with the Secretary of State for Transport that the problem should be seen in terms of how best to improve and finance BR's present network and services or whether they first want to look more carefully at the prospects for each of those services, including the possibility of reductions in the network. You will need to consider in particular the extent to which the Government is committed to the present network - see paragraph 9 above. If further work is to be commissioned you might like to draw on questions raised in paragraphs 8 to 12 above and in the CPRS' paper, E(81) 45.

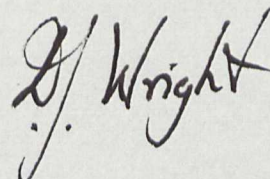


15. You will wish to ask the Secretary of State for Transport for his views on when the Committee ought to reach decisions and how this fits in with the 1981 Public Expenditure Review. You might also ask him to bring out in any further papers the extent to which the Government would be committed by decisions reached this year - you will no doubt want to ensure that, though there might be a broad strategic framework, firm commitments to investment would not be given prematurely but would be taken in the light of progress on productivity agreements and constant updating of traffic and profit forecasts.

## CONCLUSIONS

16. The Secretary of State for Transport has invited the Committee to approve the policies summarised in paragraphs 18 and 19 of his main paper, E(81) 41 and to consider the possible order for Metro Cammell outlined in E(81) 42.

17. In the light of the discussion you will wish either to endorse these proposals or to commission further work. If there is to be further work in the light of the Committee's discussion, and perhaps looking at some more radical alternatives, you will wish to instruct which other Departments should be involved - to as a minimum it would be sensible to include the Treasury and the CPRS with other Departments being consulted as necessary. The Committee could consider any further papers after Easter as soon as the Secretary of State for Transport is ready.



Robert Armstrong

(approved by Sir R. Armstrong and signed on his behalf.)

6 April 1981



# Transport

## Press Notice

319

9 November 1979

### MINISTER CONFIRMS NO RAIL CUTS

Norman Fowler, Minister of Transport, has written to Sir Peter Parker the Chairman of British Rail, to make clear to the Railways Board his position on any plan for a programme of rail passenger closures. The Minister's letter reads as follows:

"I thought I should write to you immediately following the stories in "The Guardian" yesterday and today about the Board's Corporate Review to make it quite clear that it is my firm policy that there should be no substantial cuts in the passenger rail network. This is the view which I have consistently expressed, both while in Opposition and more recently, and which I reiterated yesterday in the House during Question Time. Since under the present statutory procedures proposed passenger service closures to which there are objections would be referred to me for decision,



I thought it only right to make it absolutely clear to you and your colleagues that this is the policy which I intend to pursue.

"I shall want to talk with you about the Corporate Review that you sent me on 25 October. But you will understand that the option of closing 40 passenger services is one that the Government have rejected."

Commenting on his letter today, Mr Fowler said: "In view of further comments in The Guardian, I wish to reiterate in the plainest terms I can that, as I told the House of Commons on Wednesday, I have no list of passenger services for closure such as was printed in The Guardian, and that there have been no secret talks between my officials and the Railways Board to discuss any such list of closures. The Guardian allegation was very specific. It said that my Department and British Rail had drawn up detailed plans to close 900 miles of railway line and 41 passenger train services, which were listed. That report, as I told the House, is totally false."

Telephone No: 01-212 0431  
Night Calls (6.30 pm to 8.00 am)  
Weekends and Holidays:  
01-212 7071



### Provincial Rail Services

3. Mr. Anderson asked the Minister of Transport what is his policy towards provincial rail services.

Mr. Fowler: I am considering currently how best to safeguard and develop rural public transport, and I am considering the views recently put to me by the Central Transport Consultative Committee about how best to maintain the existing rural rail network. But I have always made it clear that I can see no case for a further round of Beeching cuts.

Mr. Anderson: How is "Beeching"

*Guardian* today is a complete figment of some civil servant's imagination, or that he was unaware of what was being done behind his back by civil servants in his Department? Is the Minister aware that if any cuts on the scale suggested in *The Guardian* go ahead, they will be fought all the way by the Opposition? We hope to be joined in that by many Conservative Members whose rural constituents would become more isolated if the cuts were to go ahead than they have been for a century.

Mr. Fowler: Let me make it absolutely clear that the report in *The Guardian* is untrue. I read it with astonishment. As I have held the House, I see no case for another round of massive cuts in the railways. I have no list of passenger services for closure such as is printed in *The Guardian*. There have been no secret talks between my officials and the Railways Board to discuss any such list of closures. I deplore the groundless anxiety caused by such inaccurate reports.

Mr. Goodhew: Can my right hon. Friend assure me, if there are not to be massive cuts, that at least he will not cut the Watford to St. Albans line, which is a very convenient alternative to those who find the electrification of the St. Pancras to Bedford line, with its bad timekeeping at the moment, rather inconvenient?

Mr. Fowler: There are no proposals of that kind. The statutory position is that British Rail cannot withdraw a passenger service or close a passenger station without my consent. The House may be reassured to know that the only cases currently in the statutory procedure are the Board's proposal to withdraw the rail service connecting to the Humber ferry when the new bridge opens, and its proposal to divert a service from Kentish Town to Gospel Oak on the North London line.

Mr. Snape: Without commenting further on the accuracy or otherwise of the article in *The Guardian*, will the Minister give an assurance that if 900 or so miles of railway line were ever to be cut, he would consider it to be a resigning matter?

Mr. Fowler: I would certainly consider it to be a disaster, and that is why I have made it clear that it is not the Government's intention to do so.

Mr. Fry: In order that the House may take a slightly less emotional view of this topic, will the Minister supply details of the subsidy paid per passenger mile to rail as opposed to that paid to bus services? Would it not be a good idea to examine this matter in detail in relation to these rural lines?

Mr. Fowler: Currently, the Government provide British Rail with more than £700 million a year, which is more than £2 million a day. Last week provision for the support of the passenger railway was reduced by £22 million, of which £9 million was decided by this Government and £13 million by the previous Government.

Mr. Booth: May we take it from what the Minister said that he has an understanding with British Rail that it will accept the £22 million cut in Government provision without any withdrawal of passenger services? The House is not satisfied that what are called rural passenger services in this context are a minority interest. They cover a vast number of towns and cities. Will the right hon. Gentleman assure the House that the report just completed by the Policy Studies Institute into the effects of withdrawal of rural rail services will be available for study by Members of Parliament before any announcements are made about changes in the network?

Mr. Fowler: I shall look into the second matter raised by the right hon. Gentleman. On the first one, obviously it is a matter for British Rail to decide how it should live within the cash limits. Sir Peter Parker sent me the Board's 1979 corporate review on 25 October. It contains financial evaluations of a number of options drawn up by the Board at the end of last year. They include an option on closing some services. However, as I believe has been made clear before, they were options. Certainly no decisions have been taken, and I have not even discussed the position yet with the chairman of the Board, since it arose only at the end of October.

Several Hon. Members rose—

Mr. Speaker: Order. I shall call one more hon. Member from each side. We shall then have had a good run on this question.

Mr. McCrindle: Whatever may be the policy about rural services, and I accept

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what my right hon. Friend said, will he take this opportunity to reaffirm that it is no part of this Government's policy to preside over a still further deterioration of London commuter services, especially when we are faced with a 20 per cent. increase in season tickets?

Mr. Fowler: It is no part of my intention to preside over the deterioration of British Rail services, and that is central to our policy.

Mr. Donald Stewart: Is the Minister aware that the cuts already made in Scotland under the Beeching plan left us with services far below an acceptable minimum? Is he aware, further, that the bus services in lieu mostly never materialised, and that where they did they have since disappeared? In many areas, the railway provides the only means of contact, particularly during inclement weather. Will the right hon. Gentleman repel any suggestions from British Rail that these should be cut further?

Mr. Fowler: I have already made my position clear on proposals for a Beeching type cut, and it is for British Rail, if it wants to put forward suggestions for bus substitution on one or two services, to do so if it wishes.



**Commuter Rail Services**

10. Mr. Fry asked the Minister of Transport what plans he has to improve commuter rail services.

Mr. Fowler: This is, in the first place, the responsibility of the British Railways Board, but I am sure that my hon. Friend will have welcomed the recent announcement of the Government's intention to refer London commuter services to the Monopolies and Mergers Commission.

Mr. Fry: Will my right hon. Friend at least take up with the chairman of British Rail the future of commuter fares to ensure that, when the next increase takes place, the commuters do not suffer disproportionately as they did the previous time the fare increases were made?

Mr. Fowler: As my hon. Friend will know, I made it clear—I again make it clear on this occasion—that I did not favour the weighting against commuters. The Board must decide the weighting of any fares increase for itself.

Mr. Joel Barnett: Reverting to the question of commuter rail service cessations or closures, the House was pleased to hear that the article in *The Guardian* was incorrect. However, it will not be quite so pleased to hear his reply to my right hon. Friend the Member for Barrow-in-Furness (Mr. Booth), which seemed to throw some doubt on it. The difference between options and proposals is not altogether clear. If the options are to close some services, which were mentioned in the article in *The Guardian*, given what the Minister said about their disastrous consequences, will he say now whether he will turn down such proposals?

Mr. Fowler: I must say to the right hon. Gentleman that no list of services due for closure has been put to my Department. I must rest on that. The right hon. Gentleman will find that British Rail is making a similar statement today.

Mr. Bowden: Is my right hon. Friend aware that the commuters in my constituency are fed up to the back teeth with the ever deteriorating service? They are reaching the point that if there is a 20 per cent. increase next year, that will be the last straw. Will he say why the commuters in my constituency must subsidise London commuters?

Mr. Cryer: Because they voted Tory.

Mr. Fowler: I understand the concern of my hon. Friend, who has consistently put the point of view of the commuters in the House. I hope that he will regard it as a constructive step by this Government to put the commuter services under the first stringent examination of efficiency by the Monopolies and Mergers Commission.

Mr. Flannery: And shut it down?

Mr. Snape: Will the Minister accept that it is difficult to organise commuter services so that they pay because of the millions of pounds worth of capital assets, which do nothing for 19 hours out of 24, needed to run the hon. Gentleman's constituents to their offices by 9 a.m.? Bearing in mind that the Government believe that people and industry should pay their way, will the Minister tell his hon. Friends to stop squealing? Does he agree that commuter services do not even remotely pay their way?

Mr. Fowler: I advise my hon. Friends to keep up the pressure on this subject. The efficiency of British Rail is a matter of importance to Members on both sides of the House of Commons.

As for possible economics, although stalling on British Rail has been reduced generally in the past nine years, between 1971 and the present day, the number of senior officers and management staff employed by British Rail has risen from 7,800 to 9,250, an increase of close on 1,500. That is why we want a review.

Mr. Costain: Has my right hon. Friend's attention been drawn to the fact that a large number of trains are not

running because of a shortage of guards? Will he ask British Rail to concentrate on this matter?

Mr. Fowler: I know that the chairman of British Rail is very much aware of that position and is trying to improve it.

Mr. Cook: If the right hon. Gentleman insists on a cut in the passenger services obligation which, as he fairly said, was on top of a cut by the previous Government, and if he is to discourage British Rail from increasing fares to certain sections of passengers, how does he expect British Rail to meet that deficit without going for the kind of closures over which the right hon. Gentleman has said he does not wish to preside?

Mr. Fowler: I will tell the hon. Gentleman exactly. In the words of the chairman of British Rail when he took over the job, an improvement in the efficiency and productivity of British Rail is the rock upon which the future of British Rail is based. I hope that both sides of the House agree.



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cc Mr. Ibbs  
Mr. Lankester  
Mr. Wolfson  
Mr. Hoskyns  
Mr. Duguid

PRIME MINISTER

BRITISH RAIL

In meetings with British Rail and the Department of Transport it is repeatedly said that there has been a commitment on the part of the Government to the existing size of the railways. In his memorandum to you of 6 April the Minister said that the "more concentrated rail network .... is a prospect which both you and I have publicly rejected. I really do not see how we could change our stance on this." (The Annex lists the official commitments.)

It is difficult to see, however, that such a commitment can conceivably be construed as completely unconditional. If the railways become more and more inefficient and carry smaller quantities of traffic on this large network at increasing subsidies, then one would imagine that politically the issue of reducing the size of the railway network would again become a very live one indeed. Similarly, an unconditional commitment to a large railway industry, whatever the efficiency and the financial subsidies would be an invitation to the railway unions to put in quite extravagant claims. Recall the notorious Guillebaud nostrum: if government wills the end it must will the means. This apparent commitment may explain some of the reluctance to conclude productivity agreements, and may account for the fact that productivity in freight train operation is only half that of the average of western Europe.

The threat of imminent contraction of the railways is one of the few disciplines we have on labour and management. It would be a good occasion to emphasise that this weapon of Government has not been surrendered. Against this it will be held that railways cannot plan for the future and invest and improve their services except insofar as they have a guarantee that government will not cut them down to size at some future date. "Railwaymen must see their future in the railway industry" etc. This should be condemned as a reflection of the rigidities of British industry and the blinkered thinking that has brought about the decline of Britain over these many years. No-one can adequately predict what

/the efficiency

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- 2 -

the efficiency of rail transport will be nor can we say what technological development will bring. British Rail should only have as much assurance as its performance warrants. Its not the Government that cuts an industry (whether rail or steel) down to size - its the departing customer.

British Rail and the Departments may argue that the issue of a smaller railway was examined in Beeching's day in the mid-60s and in the early 70s. These alternatives were rejected as being "inoperable" or "inefficient". Such a judgement cannot be accepted. There is no immutable size of railway which is independent of cost, efficiency and technology.

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13 April 1981

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ANNEX

STATEMENTS OF POLITICAL COMMITMENT TO NO SUBSTANTIAL  
REDUCTION IN RAIL PASSENGER NETWORK

The main commitments to the existing passenger network seem to have been made on 7 November 1979 in response to a report in The Guardian that substantial cuts in rail services were planned. (Flags A, B and C attached refer.)

The second commitment, and the most recent, is the Prime Minister's letter to Mrs. Batty Shaw, Chairman National Federation of Women's Institutes (flag D). This is particularly an assurance about passenger services in the rural areas. It says:

"I believe that railways have a continuing role to play in meeting the transport needs of rural areas, and our refusal to countenance substantial cuts in the present passenger network should provide a stable framework in which the Board can plan the future of rural railways. Clearly, their future would be more [emphasis added] secure if costs could be reduced."

Thus it can be interpreted as saying that they are not now entirely secure. And that although the Government does see a considerable role for the existing passenger network, it cannot be provided at any cost.

13 April 1981

CONFIDENTIAL





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EP

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

cc. PS/Mr. Clarke  
PS/Sir Peter Baldwin  
Mr. Lazarus  
Mr. Palmer  
Mr. Goodfellow  
Mr. Baker  
Mr. Moly  
7 November 1979

Dear Tim

When Mr Fowler answers Questions this afternoon, he will make it clear that there have been no secret talks with British Rail about plans to axe large numbers of rail services and he has no list of services for closure. Mr Fowler has repeatedly made it clear that he sees no case for a further round of Beeching cuts.

The story in today's Guardian is thus false. It is the case that the Minister received from Sir Peter Parker on 25 October the Board's current Corporate Review, which evaluates the effects on the Board's finances of a number of options drawn up by the Board at the end of last year, and one of these would be a programme of closures. Mr Fowler will be discussing with the Board the various problems brought out in the review.

It is also the case that Mr Fowler has had before him a Memorandum prepared by the Board and sent to the Department in February spelling out their ideas for a new policy of substituting buses, financed by the Board, for some rail services. These are ideas which the Board put at the same time to their unions, and to the Central Transport Consultative Committee. Mr Fowler has also received representations from the latter. The Board have given no list of services that would be affected by such proposals.

My Minister accordingly does not have at this stage any new policy proposals to put to his colleagues. Meanwhile, the statutory position is that the Board cannot withdraw a passenger service except after the Minister's consent, following publication by the Board of their proposal and a statutory procedure for considering representations.



I am sending copies of this to the Private Secretaries to  
other Members of the Cabinet, and to Sir Robert Armstrong.

*Yours*

*Benie*

MRS E C FLANAGAN  
Private Secretary



Mr Peter Barker MVO  
Chairman  
British Railways Board  
25 Abchurch Lane  
London EC4N 3DF

- PS/ Sir Peter Baldwin
  - Mr Lazarus
  - Mr Rosenfeld Miss Page
  - Mr Cole Mr Baker
  - Mr Palmer Mr Goddell
  - Mr Dempster Mr Haggie
  - Mr Goldman
- 8 November 1974

*John Baker*

I thought I should write to you immediately following the stories in "The Guardian" yesterday and today about the Board's Corporate Review to make it quite clear that it is my firm policy that there should be no substantial cuts in the passenger rail network. This is the view which I have consistently expressed, both while in Opposition and more recently, and which I reiterated yesterday in the House during Question Time. Since under the present statutory procedures proposed passenger service closures to which there are objections would be referred to me for decision, I thought it only right to make it absolutely clear to you and your colleagues that this is the policy which I intend to pursue.

I shall want to talk with you about the Corporate Review that you sent me on 25 October. But you will understand that the option of closing 40 passenger services is one that the Government have rejected.

*John Baker*



Prime Minister Transport <sup>2</sup>cc Mr Hoshorn  
Mr LybanAs predicted, the  
Trains have agreed  
to the £40m EFL  
increase.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP  
Minister of Transport  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

11 September 1980

Dear Minister

## BRITISH RAIL FINANCES 1980-81

You wrote to me on 9 September seeking an early decision on an increase in British Rail's EFL from £750 million to £790 million.

Any proposal for an increase in an EFL is bound to be unwelcome. This is particularly so in British Rail's case, given the high pay settlement which they conceded this year and the impact of the recent announcement of a November fares increase. We must avoid at all costs the appearance of being willing to finance any deterioration in the Board's position by fares increases and further Government funds without the industry itself taking the maximum offsetting action.

That said, I was grateful for the explanation in your letter of the measures which the Board have taken to offset the excess which they now expect. In the light of your judgement that there is no possibility of the Board making further economies this year, other than perhaps some further asset sales, I am prepared to agree to the increase in the Board's EFL which you propose.

However, I think we will need to consider its presentation very carefully in present circumstances. Your proposal to limit the increase in the EFL to less than their forecast excess, leaving them to make further economies this year or face an equivalent deduction from next year's EFL is very helpful in this context. We will also need to consider timing. I appreciate your wish to pin the Board to their new target as soon as possible but I think a decision must wait until after the discussion in E Committee of the steel and shipbuilding 1980-81 position. There may be advantages for our general policy towards EFLs in a simultaneous announcement of any changes rather than a series of independent ones.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours sincerely  
R. Watts

PP JOHN BIFFEN

[Approved by the Chief  
Secretary and signed  
in his absence]





*TK*  
*N*  
*14/9*

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP  
Minister of Transport  
Department of Transport  
2 Marsham Street  
London SW1

10 September 1980

*Dear Norman*

*-TPM*  
Thank you for your letter of 9 September and for bringing me up to date on the Board's decision to withdraw immediately from their collected and delivered parcels business. I agree that we do not want to do anything which might weaken the resolve of the Board although as Nigel Lawson pointed out in his letter of 1 September we cannot preempt next week's discussions about the financing requirements of the nationalised industries.

I note that the repercussions of BR's move on National Carriers Limited may lead to further transition costs and to a requirement for additional external finance for NFC of up to £10m. As with the original decision by BR, I welcome the commercial approach being adopted by NFC and if the need arises, I agree that we shall need to look sympathetically at NFC's case for additional external finance. Again, however, you will understand that it is impossible to make any sort of commitment in advance of next week's discussions which will take place against the background of an assessment of the overall financial position of the nationalised industries.

I note that you judge it unnecessary to hold up incorporation of NFC on this count and on this basis my officials are making arrangements to have the necessary Order signed by two Lords Commissioners as soon as possible.

I am copying this letter to the Prime Minister.

*John Biffen*

JOHN BIFFEN



air  
copied to :  
Econ Pst, Pt 4  
Public Sector Pay Policy

cc W Jarek  
A Duguid

**CONFIDENTIAL**

Prime Minister

PM seen

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RAILWAYS PAY

We are now coming towards the due date (20 April) for the main railway pay settlement. The Unions have presented claims for substantial increases on which they have not put a figure, but they appear to be looking for 13%. Before making any reply, the Railways Board are pressing the three Unions to say what they will do about the commitment from last year to negotiate a new productivity agreement. The Unions are not agreed among themselves how to reply, and this is likely to prolong matters.

I have emphasised to the Railways Board the powerful reasons for a settlement within the figure, incorporated in their budget and in the EFL, of 8%. With the levels of settlements being achieved in the public services, in many public industries (like the National Freight Company, which has settled just above 5%) and in private manufacturing industry, the railways cannot be in any serious recruitment difficulty. The recession is still eroding their traffic, and so cutting back their ability to pay. I shall keep in close touch with the Board to see that we reach as soon as a settlement as can be managed.

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But we must recognise that the Unions' attitude has hardened in recent weeks, as they have seen developments in the coal industry and the water industry - and now gas - and they may now have expectations which cannot be met. With the heavy pressure the Railways Board are putting on manpower reductions and cutting out excess capacity, we must recognise an increasing possibility of industrial action linked to jobs as well as pay; and on the pay front we must remember that the Rail Unions have a right of recourse to the Railways Staff National Tribunal under Lord McCarthy, though any award from him would not be binding where the reference had not been agreed by the Railways Board. The existence of the Tribunal is another factor which may inhibit the room for manoeuvre. I expect that matters may move quite slowly. I am keeping in close touch with the Board to secure that we have as much time as possible to consider matters as they develop.

I hope colleagues agree with this approach; there are obviously dangers. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Employment and to Sir Robert Armstrong.

~~\_\_\_\_\_~~  
NORMAN FOWLER

27 March 1981

**CONFIDENTIAL**



Transport

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10 DOWNING STREET

PA  
MM (CF file)  
MS

PRIME MINISTER

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Several things of interest in New Scientist this week, at the flags.

I attach a note from Transport about the alarming story on the advanced passenger train. You will see that it has some truth in it.

The piece on binary nerve gases is relevant because Q1 on Tuesday, from Frank Hooley, is on that very subject.

There is also an article on radar developments in the Air Force.

MS

13 March 1981





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3BB

Nick Sanders Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

13 March 1981

Dear Nick,

#### ADVANCED PASSENGER TRAIN

You asked about the article on the Advanced Passenger Train in this week's New Scientist. The article is unduly alarmist.

The main points are:

- i. Since the prototypes were authorised in 1974 there have been many delays resulting from technical problems and industrial disputes;
- ii. the latest problems are better described in the Board's Press Notice of 23 February, and a Financial Times article of 12 March largely based on briefing by the Board (copies attached);
- iii. the Board's decision that the APT should operate at 125 mph rather than the maximum design speed of 150 mph was a business one based on considerations of cost and that the extra speed would save only about five minutes between London and Glasgow, because of the nature of the track and signalling;
- iv. it has always been made clear to the Board that any approval of a fleet of APTs would depend on successful experience of the prototypes in commercial service;
- vi. the future of Inter City cannot be allowed to depend entirely on the success of the APT. The Department is awaiting the Board's latest appreciation of the prospects for the APT and of the implications of the delays in the project.

dear  
me!  
ms

On the question of APTs colliding, we understand from the Board that they have identified only a theoretical possibility of any



collision occurring in the event of a failure of both the tilt mechanism and the safety device for returning the train to the upright position. This possibility is restricted to certain curves where the separation between the tracks is less than normal. The Board is establishing whether there would be any risk in practice. If so, the solution would be to increase the separation between the tracks by a foot or so. Such modest track works would certainly not invalidate the APT concept.

Yours,

Anthony Mayer

R A J MAYER  
Private Secretary





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

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*Prime Minister*

The Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

*cc Mr Layman  
Mr. Duguid*

*Mr Fowler would like to announce the E40m cash limit increase on Thursday, when BR plan to 15 September 1980 announce the Nov 30 fare increases.*

*John Biffen*

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Shed  
mt*

*R.  
16/9*

BRITISH RAIL FINANCES 1980/81

I am very grateful for your letter of 11 September and for agreeing to the increase in British Rail's EFL for this year from £750m to £790m.

I entirely agree with you that the presentation and timing have to be handled carefully. In view of the very heavy press campaign that British Rail have been mounting over the past two or three weeks, I shall need to make three things very clear. The first is that we have in fact responded very positively to Sir Peter Parker's arguments for limited flexibility. The second is that we are still setting him very tight short-term objectives. The third is that we are not expecting him to make the fare paying passenger pay for the losses on the freight business.

I appreciate that there could be advantages in a single announcement relating to several industries. But there is a particular timing problem about railways. Sir Peter Parker has committed himself publicly to announcing on 17 September the particulars of the fares increase to apply from 30 November. He is short of time, because he needs to make the announcement

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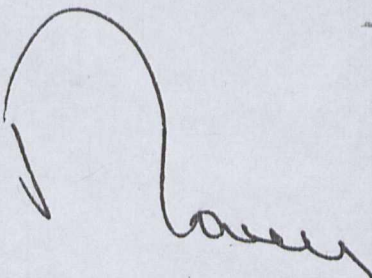
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before the particulars are widely disseminated within the railway, as is necessary for working out all the new fare schedules. But I have persuaded him, without any promise at all, to defer his announcement for at least 48 hours. I have thus secured a very brief interval which would allow us to make the announcement about the change in the EFL. I think it is very desirable to do so. That way we will secure that questions about the justification of the fares are shifted back on to the proper topic, which are the Board's costs and the fortunes of the passenger business.

I should therefore very much like to go for an announcement on Thursday 18 September.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours ever.



NORMAN FOWLER

CONFIDENTIAL





16/81

BR'S ADVANCED PASSENGER TRAINS:  
A PROGRESS REPORT

British Rail said today that although the testing and commissioning stage of the Advanced Passenger Train was taking longer than expected it had yielded excellent results. The first 100,000 miles of test running had already proved beyond all doubt the fundamental soundness of the train's advanced technology and the technical excellence of the coach tilt system.

Giving a progress report on the APT project, Mr Ian Campbell, British Railways Board's Vice-Chairman said the main cause of the delay to the start of APT 125 services was the time needed to design and implement the technical modifications found to be desirable to improve performance and efficiency following the test runs. It is clear now, explained Mr Campbell, that the test and commissioning programme, which included a big driver and crew training element as well as test running, made insufficient allowance for programming the three prototype trains into works for modifications.

With the trains based on Glasgow for test running, it has also proved time-consuming transferring them back over the non-electrified route to Derby, where the main APT design and works resources are located, for modifications to be implemented.



Mr Campbell said it was believed that the main areas where technical improvement could be achieved had now been identified but a great deal of further test running would be necessary to prove the modifications that these entailed.

The work currently in hand was primarily concerned with the fitting of a device to lock a coach in the upright position in the event of a tilt failure and another to monitor the performance of the trains conventional clasp brakes which are for use during slow speed running and for parking the train.

Test running had shown that a tilt failure would be a rare occurrence, nevertheless the device was considered to be a sensible precaution to avoid discomfort and unnecessary concern among those travelling in such a coach.

The brake monitoring device was necessary because it had been found that a brake shoe of the conventional clasp brake occasionally rubbed excessively on a wheel. This could create an unacceptable build up of heat in a wheel. Because of this unsatisfactory characteristic, changes in design would be made for the production trains, but the device now being fitted to the prototype trains would enable a faulty brake to be isolated. The APT's main hydrokinetic (water turbine) brakes for use at high speeds had performed extremely well throughout the test runs.

Turning to the future Mr Campbell said he expected the first fully modified train to resume test running next month. He would not forecast a date for the start of passenger service as this would depend on the overall performance of the train. A date would be announced as soon as the commissioning team was satisfied that APT had been tuned to the highest standard of reliability and comfort.



? At that time the train would be scheduled to run at its full 125 mph service speed. There would not be a running in period.

The next step is to concentrate more effort into the design of the production train. Translating the experience gained from the prototype stage to the production train, called for a big design effort and the longer than expected prototype stage has delayed the start of this.

A date for the first production trains will depend largely on the performance of the prototype trains in passenger service and the extent to which it proves possible to build up resources for the production train design team. This problem is now being examined, said Mr Campbell, and if the kind of resources needed can be found, the first production train vehicles could well be coming off the production line towards the end of 1984.

At that stage the level of production could be adjusted to meet business requirements and relate to a programme of electrification of the kind recommended in the recent joint report.\*

In view of the delay to the production trains, Mr Campbell confirmed that the Board was studying options for re-phasing or bringing forward rolling stock building plans to fill the production lines until the start of work on APTs.

\* Review of Main Line Electrification.  
HMSO £4.50.

February 23, 1981



*Financial Times 12 March 1981*

## Advanced train crash risk probe

BY LYNTON McLAIN, TRANSPORT CORRESPONDENT

"A RARE possibility" that British Rail's 150 miles an hour Advanced Passenger Train could collide with another tilting APT travelling at high speed in the opposite direction is to be investigated, British Rail said last night.

The possibility of a collision between two travelling toward each other at a maximum combined designed speed of 300 mph occurred to British Rail's engineers after runs with the prototype trains on so-called "reverse curves" of track on the London-Glasgow route.

The trains' automatic tilt mechanism tilts them to take a corner at high speeds, then tilts it the other way to take a reverse curve, again at speed.

Occasional malfunctions with the tilt mechanism made BR

instal a fail-safe device to return the train automatically to vertical in the event of a tilt failure.

BR accepts that a "remote possibility exists" that a collision could occur if the tilt mechanism and the fail-safe device both fail, allowing the train, tilting one way to enter a curve where it should be tilted in the opposite direction.

The train would then be outside British Rail's loading gauge, the safe width allowed for trains, and could collide with an oncoming train of the same type at full tilt on a separate track.

"This phenomenon has theoretically proven itself possible" BR said last night, "we shall now look at the reverse curves on the route to see if clearances are adequate

to meet this problem. If the clearances are not adequate we will make them adequate," BR said.

This would involve re-laying track specifically to allow for safe running by the train. This would be ironic for BR because the train was designed in the late 1960s as an example of what could be done to make passenger travel at 150 mph possible, on existing track.

The French and Japanese high-speed trains have all been designed round a purpose-built track. The Japanese Bullet trains have been running for many years, and the French TGV train enters service in October at 160 mph.

The train is vital to the future of commercial success of Inter-City, and was to have entered service in 1979.





Transport  
DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB 2

CONFIDENTIAL

*at the byline*

*Ami Minto*

*to 31/12*  
31st December 1980

Tim Lankester  
Private Secretary  
10 Downing Street  
Whitehall  
SW1.

*MS*

*Dear Tim,*

RAIL SERVICES

I am writing to let you know of the possibility that services on Southern Region may be disrupted during the coming week. Elements within ASLEF are seeking to cause trouble on the introduction of the new rosters on 5 January, as part of the service reductions that British Rail is having to make. Further meetings are being held this week to try to ensure normal working, and it seems unlikely that any action would have official Union support. But in any event the British Railways Board will need to hold firm to the sort of the measures they must take to keep within the financial limits they have been set.

2. I should explain that this matter is not directly connected with the unspecific threats of industrial action reported in recent weeks from both the ASLEF Executive and previously the NUR Executive. These arise from Sir Peter Parker's efforts to confront his Unions with the problems facing the railways, and to secure from them joint commitment to genuine productivity changes. These efforts are continuing.

3. I am sending copies of this to the Private Secretaries of the Secretaries of State for Employment and Industry, the Chief Secretary and Sir Robert Armstrong.

*Yours,*

*Anthony Mayer*

(R A J MAYER)  
Private Secretary



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cc Pass

NJS

Transport 2



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Mike Pattison Esq  
Private Secretary to  
Prime Minister  
10 Downing Street  
LONDON SW1

Prime Minister

MP  
15  
xii

12 December 1980

mb

Dear Duke

The Prime Minister may like to be aware that the British Railways Board have decided to publish the Corporate Plan which they have just submitted to Mr Fowler. They have decided that this is the best course, to avoid the disruptions of last year when a version of the entire document was leaked from within the Board's organisation to the Guardian newspaper. We understand that publication is likely to be next Monday.

In this year's Plan, the Board have sought to set out what the railways could achieve, including a rising investment programme, without additional calls for external finance. The Plan sets out proposals for major productivity improvements, involving manpower reductions of some 30,000. It also projects real fare increases of 2½% per annum and asserts that such a policy is made necessary by the financial limits; however, this upward pressure on fares appears to arise from projected increases in costs which are not fully described or explained.

My Minister will be putting his analysis of this Plan to E Committee, when he reports early in the New Year on his longer term view of railway finances. Meanwhile, Mr Fowler is considering whether to issue a brief statement when the Plan is published.

Yours

Barbara

MRS B E RIDDELL  
Private Secretary



*Transport*

CONFIDENTIAL



DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
LONDON SW1P 4QJ  
01-211 3932

Rt Hon Norman Fowler MP  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

9 December 1980

*12*  
*8/12*

*Dear Norman,*

BRB: EFL AND GRANTS FOR 1981-2

*see flap  
+ CST + MSTR 17/9.*

In David Howell's absence at the IEA Ministerial Meeting in Paris, I have seen copies of the correspondence between John Biffen and yourself about the announcement of the increase in grants to BRB in 1981-2.

You must be the best judge both of the decision itself and of the need to announce it now. However, there must be a risk that any concession to BRB may be used in a distorted form in argument about our handling of the NCB, especially given the links between NUR and NUM. I hope therefore that you will keep an announcement in the lowest key possible. Further, I hope that you will be able to avoid stressing that EEC rules require this increase, since I am resisting NCB pressure to pay them the full amount of a discretionary grant which is allowed by some ECSC decisions.

*John Moore*  
*John*  
JOHN MOORE



010

**CONFIDENTIAL**

Transport

2



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

cc Press Office

Ann. British

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

18 September 1979

Dear Tim,

RAIL FARES

British Rail will announce tomorrow the fare increase to come into effect on 30 November. The average increase is 18½%. Following discussion with the Minister on the need to lessen the impact on commuters, British Rail are applying a lower average increase on season tickets and will exceptionally allow season tickets to be bought at the current rate right up to 30 November.

Details of the individual fare changes will be published in late October. These include higher increases on shorter journeys within London where the average increases on the ordinary fares are 24%. These fares will still be some 15% below London Transport's.

In his announcement today of the increase in British Rail's EFL the Minister has made clear that the financial forecasts by the Board on which that increase was decided included the effect of the decision which the Board had already announced to increase fares on 30 November. He has also stressed that the effect of the increase in the EFL is to avoid any need for the freight losses to be loaded on to passengers.

The reason for the fares increase can only be the changes in the Board's costs. In any comment he makes tomorrow on BR's announcement the Minister has it in mind to point to this year's pay settlement on the railway as the main factor.

I am sending a copy of this to the Private Secretaries of the Chancellor of the Exchequer and the Paymaster General.

Yours,  
Anthony

R A J MAYER  
Private Secretary

**CONFIDENTIAL**





Transport

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP  
Minister of Transport  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

17 September 1980

Dear Norman,

12  
18/9

BRITISH RAIL FINANCES 1980-81

Thank you for your letter of 15 September. As you know, I would have preferred to consider how an announcement about British Rail's EFL might fit in with other announcements which may be necessary, but the timing of the Board's announcement about fares increases does, unfortunately, seem to preclude this. On balance, I agree that most seems likely to be gained from an announcement in advance of the Board's announcement about fares and I therefore agree that you should make it on Thursday 18 September. I still attach importance to the presentation of this announcement and I would therefore be grateful if you would clear its text with my officials before it is put out.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

*W,*  
John Biffen

JOHN BIFFEN





*From the Secretary of State*

Roger Watts Esq  
Private Secretary to the  
Chief Secretary  
HM Treasury  
Treasury Chambers  
Parliament Street  
London, SW1P 3HE

16 September 1980

Dear Roger

#### RAIL SERVICES TO GATWICK AIRPORT

In his paper on rail services to Gatwick (E(80)100) the Chief Secretary referred to the relationship between forecasts of the number of passengers who are likely to be using the airport in the 1980s and the need for improvements at Victoria Station. My Secretary of State has asked me to write in advance of the E Committee meeting to give the latest available information on this aspect of the issue.

While it is certainly true that the BAA have, since last year, been forecasting little, if any, growth in overall air passenger traffic at their South East airports during the current year, this does not fully reflect the particular circumstances of Gatwick airport. As a result of the measures this Department has taken to divert growth from Heathrow, the number of passengers using Gatwick in the twelve months ending July 1980 grew by 10.8 per cent as against only 2.4 per cent at Heathrow. In June and July (for which the latest figures are available) the number of passengers increased by 15.5 per cent and 14.8 per cent respectively over the same months in 1979, whereas traffic at Heathrow actually declined. It would, therefore, be misleading to draw any conclusions from the overall state of the air transport market at present.

So far as the future is concerned, there are, of course, very great uncertainties about any set of forecasts produced in present economic circumstances, but the BAA's current view is that Gatwick will reach the 16 million passenger level by about 1986 (as opposed to 1984 predicted 18 months ago) and 25 mppa at some stage in the early 1990s. This, more pessimistic, estimate still implies however that the number of passengers using the airport will increase by about





*From the Secretary of State*

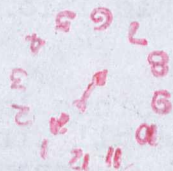
10 per cent per annum or, on average, by more than a million additional passengers each year. This will clearly have repercussions on the quality of the transport links between Gatwick and Victoria.

I am copying this letter to the other Private Secretaries to Members of E Committee, to Tony Mayer (Department of Transport) and to David Wright (Cabinet Office).

*Yours sincerely,*

*Stuart Hampson*

S HAMPSON  
Private Secretary



16 SEP 1980





CONFIDENTIAL

*Prime Minister*

*There will be a  
new Cabinet Min  
ister on Monday.*

Qa 05315

To: MR LANKESTER ✓

From: J R IBBS

*12  
15/4*

British Rail

1. Following the short discussion at E Committee on 8 April, the CPRS has prepared a supplementary note which is intended to put the most recent paper by the Secretary of State for Transport (E(81)47) into context with the papers previously submitted and to draw attention to some of the underlying problems and possible options. I attach an advance copy of this paper (E(81)48).

2. In paragraph 7 of E(81)47, the Secretary of State says: "But I am content to wait for the prospect of the commercial business to be examined quickly by the CPRS in relation to the electrification report." Because of our heavy current commitments I believe we could only undertake such an assessment of the commercial business if we remitted much of the work to consultants. I do not foresee difficulty in obtaining suitable help of this kind if Ministers were to decide they would like an assessment made.

3. Personally I think the Department of Transport might be asked to provide an analysis of the viability of the commercial business, the efficiency improvements that should be achievable with and without electrification, the options which then emerge, and a statement of their preferred plan for this sector of BR's business.

4. I am sending a copy of this minute to Sir Robert Armstrong.

*J.R.I.*

10 April 1981

Att

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Qa 05126

To: MR LANKESTER

From: J R IBBS

BR Finances: E(80)105

1. The British Railways Board currently forecast an over-spend of £68 million on their EFL for 1980/81. A £40 million increase has been agreed between the Minister of Transport and the Chief Secretary. The over-spend is in part due to the steel strike and to the recent loss of business. However, the pay settlement (at 18 per cent) cost £44 million more than the budgeted amount.

2. BRB's forecast of financing requirements for 1981/82 is for an increase of £59 million above existing provision. This does not include the £50 million sought for the parcels closure (£30 million of which would fall in 1981/82) nor the sums for the Victoria-Gatwick service. The Minister proposes savings (paragraphs 6 and 7 of the Annex) to offset the £59 million which if realised to the full could yield some £70 million.

3. It is important to ensure that price rises for 1981 should be kept to a minimum both because of the general effect on inflation, and the further possible loss of traffic. It is claimed that the investment programme has now been reduced to an extent such that any further cuts in it may endanger the long term viability of the system.

4. The CPRS believes that, in addition to the Minister's proposals, three further avenues need to be explored:

(i) Pay. BRB's forecast implies a pay settlement of  $\frac{1}{2}$  per cent above the April 1981 rate of inflation ( $2\frac{1}{2}$  per cent below the RPI plus 3 per cent for productivity). The Minister proposes a saving compared with this of £40 million by aiming at a settlement in single figures. It is not clear what assumption is being made about the April 1981 rate of inflation. If, as we suspect, the assumptions imply a settlement of just below 10 per cent, does this go far enough? If necessary are Ministers prepared to face a national rail strike?



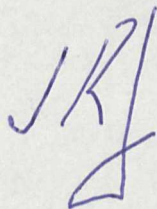
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(ii) Productivity. In 1976 a potential of 40,000 manpower savings in six years was identified with about half to come from productivity agreements; so far little has been achieved. In a Report on passenger services in the South East of England about to be published the Monopolies Commission has identified a number of national and local conditions which restrict efficiency. The 1980 pay settlement included a timetable for consultation (as distinct from implementation) on proposals for major productivity improvements which BRB hope will be operational by 1983. It should be possible to produce rapid improvements in productivity. For example, in 1975, under the impulse of severe financial pressure, major savings were achieved in under three months (equivalent to £2 million per annum in Southern Region alone). To what extent can the savings envisaged in the 1980 agreement (put at £150 million) be speeded up to ensure that more of them occur in 1981/82?

(iii) Future investment. Consideration of this must await the new Corporate Review which is due in the Autumn. It will be important to ensure that options to be considered then will include the possibility of cutting back the loss making rural services.

5. The CPRS also believes that if significant additional savings can be found as identified above, priority should be given to the parcels closure scheme as there should be longer term savings of about £30 million a year.

6. I am sending a copy of this letter to Sir Robert Armstrong.



16 September 1980





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PRIME MINISTER

British Rail Finances

(E(80) 105)

Rail Services to Gatwick Airport

(E(80) 100 and 101)

BACKGROUND

These papers deal with British Rail financing and investment, and as a separate issue (because the project would not attract high priority from British Rail) the possibility of a special rail link to Gatwick Airport.

2. On British Rail financing, the Minister of Transport has agreed with the Treasury an increase of £40 million on the EFL for the current year, but proposes a very tight target for 1981-82, including any carry-over from the current year. The existing British Rail forecasts for 1981-82 assume a wage settlement only  $2\frac{1}{2}$  per cent below the RPI, and the Minister believes that with pressure a substantially lower figure should be achievable. He proposes, again with support from the Treasury, to earmark special loans outside the normal EFL of up to £50 million to ease British Rail's withdrawal from parcel services. This would improve British Rail's cash flow by over £30 million per annum in the longer term, but would result in the loss of 7,800 jobs, and risks major industrial disruption (paragraph 7).

3. The Minister proposes to threaten to withhold capital approvals in 1981-82 unless these can be financed in the normal way within the EFL, or by advancing from later years the disposals of assets, such as hotels or shipping services. Although this approach would increase the pressure on British Rail, it would also leave them with all the benefit of the disposals, whereas other public sector disposals have been used to reduce the PSBR, rather than to permit additional expenditure by the body carrying out disposals.

4. On the financing and investment programme for years beyond 1981-82, the Minister proposes to bring forward proposals in the New Year. In the meantime the assumption in the Chief Secretary's paper (E(80) 104) is that the existing provision for 1981-83 and 1983-84 will not be increased.





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5. British Rail have made no provision for a special rail link to Gatwick, since this would be only marginally beneficial to their finances. The Department of Trade argue that airport policy depends on providing an adequate service from Gatwick to London. The Chief Secretary accepts that it will be necessary in due course to improve the service to Gatwick, but believes that further study of the expected growth of passengers is needed, before the optimum timing for such investment can be decided. In the meantime, he recommends against making provision to finance the link, which would cost £21.3 million in the survey period.

HANDLING

6. It would be as well to handle general British Rail finance (including any special provision for parcels) and the Gatwick issue separately. On the former you might invite the Minister of Transport to introduce his general paper. You will then wish to call the Chief Secretary and the Secretary of State for Employment, particularly for his views on the industrial relations consequences of withdrawing from parcels, and of pressing hard for a low pay settlement. Subject to points raised, the Committee may be able to accept the Minister of Transport's proposals, as summarised in paragraph 9(a) - (d) of E(80) 105.

7. You might then turn to the Gatwick issue. You might ask whether any Ministers disagree with the Chief Secretary's recommendation of a further study, before the timing of the project is decided. It is possible that the Secretary of State for Trade will wish to seek agreement for the project in principle, even if a one-year delay is accepted now and the precise timing after that is left open to study, on the ground that, if the project is delayed too long, it will not be completed in time to cope with the additional load of passengers deriving from the increased use of Gatwick Airport, and that will make it more difficult to transfer flights to Gatwick and relieve congestion at Heathrow. Against that, the Chief Secretary will no doubt argue that any financial provision now will add to the difficulties of controlling the nationalised industry totals.

CONCLUSION

8. You will wish to record conclusions on:-

- (i) how far the Committee accepted the Minister of Transport's recommendations in paragraph 9 of E(80) 105; and





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- (ii) on the Gatwick link - whether the Committee agree in principle to the investment (subject to further review of timing), or whether they merely agree that the proposal should be looked at again when the timing has been further examined.

REA

(Robert Armstrong)

16th September 1980



CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

16 September 1980

*Dear Secretary of State,*

IMPROVEMENT OF VICTORIA/GATWICK RAIL LINK

I have seen the paper which you have prepared jointly with Norman Fowler for the meeting of E Committee on 16 September. As no Minister from this Department will be attending, I am writing now to record our support for your recommendation.

I have also seen John Biffen's memorandum (E(80)100). However, I do not believe that the downward revision in the forecast of traffic growth is a sufficient argument for delaying work to improve the Victoria station end of the Victoria/Gatwick rail link. The facilities at Victoria for anyone travelling to or from Gatwick are already inadequate and a bad advertisement for visitors to this country. We have had considerable difficulty in persuading the Chinese to use Gatwick Airport and are still trying to persuade the Portuguese to do so. The Americans also put up strong resistance in the re-negotiation of BERMUDA II last spring to their new air services being compelled to use Gatwick. If it should become known that improvements to Victoria were to be delayed it would become much more difficult to persuade any other airlines that they should operate out of Gatwick rather than Heathrow. Furthermore I would not discount the possibility that those airlines which we had persuaded to use Gatwick would protest vigorously that they had been manoeuvred into using Gatwick on the basis of misrepresentations by HMG with regard to the improvements which were to be made to access to that airport.

I am copying this letter to Norman Fowler and to the other members of E Committee.

*Nicholas Ridley*  
Nicholas Ridley

(Approved by Mr Ridley and  
signed in his absence by

The Rt Hon John Nott MP  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
LONDON SW1

*Nott*

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Transport 2



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1

9 September 1980

*John Biffen*  
*An letter*

*John* *It's a bit to ask for*

*Amundson*

*Mr Fowler is asking for another £40m for BR this year. This will be a call on the Contingency Reserve.*

*The Treasury are likely to agree (even though I made it clear at an earlier stage that you thought this was not justified)*

BRITISH RAIL FINANCES 1980-81

We agreed in our correspondence last month that it would be necessary to review BR's position in relation to their EFL for the current year.

The Board's EFL was set last autumn at £750m (£660m of which is grant) - some £50m less than their forecast. Peter Parker has repeatedly reaffirmed his commitment to do all he can to live within this limit. Early in the year BRB had to deal with the remaining effects of the BSC strike, and the net cost (about 18 per cent in the financial year) of a pay settlement which they had judged the minimum cost to reopen the way to advances in productivity and to recover their ability to recruit the necessary staff. They should have been able to contain both of these within the EFL, but they have been overwhelmed by the heavy erosion of their traffic by the recession, first of freight and more recently - after a promising start - of passenger traffic. The Board now forecast that they will overshoot the 1980/81 EFL by some £68m. Savings from further measures now in hand may reduce this, but the risk on the traffic side must be of further losses, as the effects of the recession spread.

*Pl.*  
*19/9*

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# CONFIDENTIAL

Ignoring the effect of a further deterioration, the prospect that the Board now face is this: cost increases on the railways are expected to be some £41m above the budgetted level: £37m of this is attributable to the pay settlement. The Board have more than offset these by a series of economies - they have put all their managers under tight manpower ceilings, cutting back on freight train mileage, tripling the normal rate of property sales and "deferring investment projects. These measures should save some £50m. But the effect of the steel strike and the recession on all sectors of the railway business is currently forecast to be £70m, allowing for a partial recovery of the loss of passenger revenue by a fares increase at the end of November. The deterioration on the Board's subsidiary business is forecast to be £16m. Your officials have a note of the detailed make-up of these figures and the steps the Board have taken through the year to offset the worsening prospects.

Against this background, there is no possibility that the Board could, on top of the action they have already taken, make further economies to offset the £68m overshoot now in prospect. They have, as you know, made determined efforts to live within their EFL in this and earlier years, and neither I nor they would want the discipline relaxed. But unless the EFL is adjusted to a level which is not wholly beyond the Board's ability to achieve, the danger is that the discipline will be weakened.

I propose that the Board's EFL should be increased by £40m to £790m. An increase of this size would meet roughly half the currently estimated loss of revenue on the Board's businesses and would not meet any part of the cost increases. It would recognise, as I think reasonable, that the Board's ability to adjust the extent and costs of railway operations to sudden changes in traffic is very limited in the short-term.

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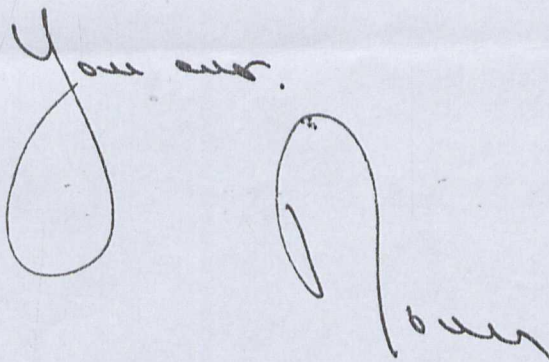


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The new limit would be a very demanding one, given the difficulties which the Board face, but it should not be impossible. In setting it, I should tell the Board that any excess over this new level, either as a result of failing to make the further economies which are necessary on present forecasts, or greater ones if there is a further deterioration, which would have to be offset against the 1981/82 EFL.

I hope that, in the circumstances, you will agree to the increased EFL which I propose, which can be reported to E Committee when it considers BR's external finance requirement for 1981/82 on 17 September. We should need to consider further the timing of any statement to the Board; my own preference would be to let them know our decision during the course of this month so that they can plan their actions accordingly.

A copy of this letter goes to the Prime Minister and to Sir Robert Armstrong.

You are.  


NORMAN FOWLER

CONFIDENTIAL





CONFIDENTIAL

2

The Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Parliament Street  
LONDON SW1

*John Hodgson  
John Biffen*

*John Biffen*

*Remember  
You are already aware that  
BR plan to close their  
parcel business. But 1 September 1980  
this was an industrial  
action. The extra redundancy  
costs - i.e. their financing -  
will have to be considered  
when the 1981/82 EPL comes to E  
next week.*

*M*

*R*

*10/9*

Nigel Lawson wrote to me on 1 September about the costs of running down the BR collected and delivered parcels business. I am glad to see that he agrees with my view that the right commercial course for the Board is to get out of this field as quickly as possible rather than, as they were hitherto planning, to run it down over a period. In present circumstances to temporise with a business that is producing revenue of only £43 million a year towards costs of £81 million must be wrong.

The Board have now decided to look for a quick closure. They had earlier opened discussions with the Unions about ways of reducing the loss on the business and will want to feed in the new proposal at a suitable stage. They will be handling this as delicately as circumstances permit and will want to minimise as far as possible the risks of severe industrial disruption. But we must I think expect the decision to become public within the next few weeks.

Once this happens matters are bound to move quickly. Customers will begin to take traffic elsewhere and it will be important for the Board to shed staff as quickly as their industrial agreements allow although that will entail the financing of redundancies. I quite see the need, as you suggest,

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# CONFIDENTIAL

to look at the costs in 1981-82 in the context of the financing figures for nationalised industries generally, but I must say that for the moment I see no alternative to providing them with additional earmarked finance to meet these transitional costs. Attempts to spin out the process would I am sure be counter-productive and simply prevent the Board reaping the very considerable financial benefits which closure promises from 1982-83 onwards. We ought to do nothing that might weaken the Board's resolve.

I have now discussed with the National Freight Corporation their assessment of the effect of this new development on their subsidiary, National Carriers Ltd., which does the road collection and delivery work for BR under contract. Assuming reasonable severance arrangements with the Board (which I understand are likely to be negotiable) and no industrial action by NCL drivers, the effect will be the loss of £4m or £5m a year margin they would expect otherwise to gain on the contract. We shall need to look at their EFL for 1981-82 with this in mind but the gains to BR far outweigh any effect of this kind.

I must however warn you that the NFC consider that industrial action by NCL drivers (who are members of the NUR) is likely. In that case, depending of course on the length of any strike, NFC would want to consider closing down NCL parcels operations entirely since the non-BR part of the parcels business is itself at present losing money and would be likely to be pushed further into the red. Closure of NCL parcels operations would lead to further redundancies and we could be faced here also with a need for extra finance in 1981-82 to cover transitional costs. The amount would be unlikely to exceed £10 million and, as with BR, there would be financial benefits from 1982-83 onwards. The Post Office would have an opportunity, as with the closure of the BR services, to win some of the traffic.

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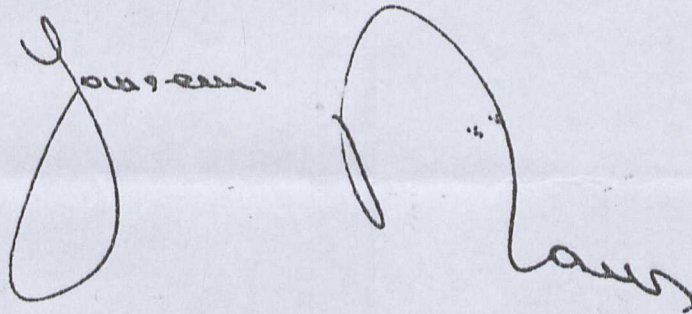
0821 932 0

Taking the two industries together therefore gross transitional costs could be about £50 million. If things go reasonably smoothly however and cost-savings can begin to be reaped quickly we might be able to contain extra lending next year within about £30 million.

These developments have begun to emerge in a less orderly way than we might have wished. But as I am sure you know, excess capacity in the public sector parcels businesses has been a long-standing problem which successive Governments have failed to solve. I am quite sure therefore that we must not stand in the way of the solution which economic events are producing, inconvenient as the immediate financial and possibly industrial effects may be.

I foresee significant effects on the prospects for floating NFC only if there is severe industrial disruption. But I am not holding up the incorporation of NFC Ltd on 1 October.

I am sending a copy of this letter to the Prime Minister but, in view of the delicacy of the industrial position, not more widely at this stage.



NORMAN FOWLER

CONFIDENTIAL





Transport  
Prime Minister

2.

Treasury Chambers, Parliament Street, SW1P 3AG

MAF 2/1X

The Rt Hon Norman Fowler MP  
Minister of Transport  
Department of Transport  
2 Marsham Street  
LONDON  
SW1

1 September 1980

ms.  
Dear Minister,

BRITISH RAIL FINANCES

In your letter to John Biffen on 7 August you explained that you would be reviewing the position in relation to British Rail's 1980/81 EFL later this month in the light of the Board's decision not to raise fares before the holidays. When you come back to us we will clearly have to look carefully at the situation and the means open to BRB to live within the present figures. I know that they have already taken some action but you will be aware of the very difficult decisions maintaining present EFLs has forced on other industries, notably gas, electricity and the Post Office. In the meantime I am sure that it was right not to give Sir Peter Parker any reason to think that we could look for any increase in his EFL this year.

In your letter you also raised the question of our attitude to the financing implications for 1981/82 of a decision by the Board to close the collected and delivered parcels service by 31 December 1981. I agree with you that this decision seems the right one on purely commercial grounds and I am very glad that the Board now recognise this. However, you point out that such a decision by the Board will have significant implications for the level of their 1981/82 EFL. As you know volume financing figures for the nationalised industries have not yet been agreed. The position could demand difficult decisions when the extent of the additional bids from the loss makers over the White Paper figures is established. In these circumstances I do not think I can do more than register my sympathy for the case which you and BRB make. It would clearly be wrong to preempt now the discussions on the industry's investment and financing which will take place in two weeks time. The best course would be for you to cover this point in the paper on BRB for those discussions. We can then consider the case against the overall constraints.

I am sending a copy of this letter to the Prime Minister.

Yours sincerely, Stephen Lake (Private Secretary)  
(Approved by the Financial Secretary in draft) NIGEL LAWSON





Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

8 August 1980

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*mf*

2

PRIME MINISTER

*Dear Tim*

*To see. We will also*

*let you see Mr Fowler's response.*

My Secretary of State has seen your letter to Tony Mayer of 5 August explaining the Prime Minister's views on proposals to alter British Rail's EFL.

*ms*

2 He has commented that the postal side of the Post Office achieved considerable success last year in remaining within their EFL by disposing of property. He understands that British Rail has a considerable amount of property and believes that the British Rail Property Board have been slow and unimaginative in making disposals. Supposedly "operational needs" are used as an excuse for retaining un-used land having a very great market potential. He thinks that British Rail should be encouraged to dispose of these assets as a means of staying within their EFL and of mitigating any fares increase.

*u/8*

3 When the postal business was considering property disposals last year they were given considerable help by my Secretary of State's special adviser, Mr David Young, who as you know has considerable experience in property matters. He was able to give the Post Office Board fresh insights into the way they could manage their property portfolio. My Secretary of State thinks that Sir Peter Parker and the British Rail Board would gain much from seeking Mr Young's advice. He therefore wonders whether Mr Fowler would wish to arrange for Mr Young to be introduced to Sir Peter Parker.

4 I am sending copies of this letter to the recipients of yours.

*Yours ever*

*Ian Ellison*

I K C ELLISON  
Private Secretary



CONFIDENTIAL

2

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB



The Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Parliament Street  
LONDON SW1

*Prunty*

To note that BR intend  
to close their

August 1980

heavy loss-making  
collected and delivered  
parcel business.

*W & M Hodgson  
in letter*

*Dear John.*  
BRITISH RAIL FINANCES

You will have seen a copy of my minute today to the Prime Minister reporting the outcome of my discussion with Sir Peter Parker about British Rail Fares and finances following your letter of 4 August. I gave Sir Peter Parker no reason to think that he could look for any increase in his EFL this year. I was glad however to note that you contemplate that an adjustment might prove to be warranted - since the erosion of the Board's traffic by the effects of the recession is now I judge likely to present them with problems that they will not be able to resolve within the financial year. We shall certainly have to review this fully in September.

I doubt whether we could then be in a position to settle a full range of policies towards the railways. I have been pressing Sir Peter Parker and his colleagues very strongly to bring forward the material for us to take a new strategic view, and to show how they can bring about the necessary major changes in the business, as the Financial Secretary will know from the part he too, in these meetings. In the autumn we shall have a fresh Corporate Review from the Board on more realistic assumptions, we shall have the reappraisal I have asked for of the future of the Freight business and the results of their studies of the passenger business, and the separate

*R 8/8*

*ms*

CONFIDENTIAL

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# CONFIDENTIAL

report I have commissioned from them on low cost options for the rural passenger services. We shall have the Monopolies Commission Report on the London Commuter Services, the results of the Electrification Study, and more technical material like the costing of the passenger business sectors. So we shall have much to digest in setting new directions for the railways.

In September we will have to concentrate on the problems of 1981/82, in the light of the way the present year is going, and of the measures the Board have taken or can still take to secure short run improvements.

There is one matter I should mention now. One major problem, which has dragged on for far too long, is the heavy losses in the collected and delivered parcels business. This at present brings in £43m a year but the costs - including a large slice of joint costs - total £81m a year. Hitherto, the Board has been contemplating a relatively slow run down with a continuing high level of loss, and plans of that kind were indeed incorporated in the pay agreement with the unions early this year. You will be glad to know that I have now got the Board to see that we simply cannot go on like that. Now, if ever, is the time for drastic action. The financial pressures so clearly point that way and the general situation should dampen any disposition by the workforce to inflict wide and costly disruption on the business.

The Board have already accordingly warned the union leaders that closure of this business must be a real option, and they now need to put a definite proposal to a meeting already arranged for 21 August that would otherwise be discussing the existing proposals. This will probably mean announcing on 1 January next that the service will be closed by 31 December 1981. Our best estimates are that the short-term financing costs of this operation, from revenue lost before the resources

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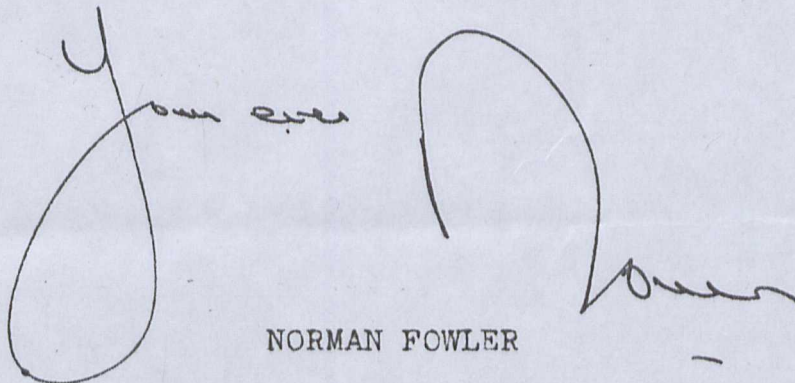


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can be eliminated, and from redundancy costs within the Board and those they may have to pick up in National Carriers Limited, are likely to be of the order of some £40m. Against this must be set an increase in the net margin of the Parcels business of about £20m from 1983 onwards. So what is in effect a £40m investment promises a very high return indeed.

The Board must now act decisively, and I am sure it would destroy not only this opportunity but also the prospects of securing wider changes if we seemed to hold back now. I should accordingly be grateful for your recognition that this must be the right course to follow and that it will have significant implications for the discussions later in the year on the EFL for 1981/82. I should add that a good part of the £40m revenue will not be wholly lost to the public sector, since a good part of the traffic will transfer to the Post Office.

I am sending a copy of this letter to the Prime Minister and also to the Financial Secretary, who had written to me on 6 August about the preparations for our September discussion.

A handwritten signature in black ink, appearing to read 'Norman Fowler', with a large, stylized flourish on the left side.

NORMAN FOWLER

CONFIDENTIAL





Transport  
2

**CONFIDENTIAL**

Prime Minister  
Duty Clerk 7/8

PRIME MINISTER

MF

RAIL FARES

I had a long talk with Sir Peter Parker yesterday evening about British Rail's financial problems, and told him I could not offer any increase in his EFL. He was much concerned that the EFL regime might start to fail if it was applied too rigidly.

We then discussed fares. I went over with him very fully the points in your Private Secretary's letter of 5 August about what the effect would be on the business and about the points he would need to deal with in justifying any increase to his customers.

I sent you a message at the beginning of this afternoon that the Railways Board at their meeting today have decided to announce at once that they will not be raising their fares before the end of November. This is welcome news, particularly for 75,000 holders of annual season tickets. I must report that this is not the end of the Board's financial problems this year, as the recession continues to erode their traffic and I will be bringing forward proposals on this in September.

I am sending copies of this to the other members of the Cabinet and to Sir Robert Armstrong.

NORMAN FOWLER

7 August 1980

**CONFIDENTIAL**





10 DOWNING STREET

*From the Private Secretary*

5 August 1980

The Prime Minister has now considered your Minister's minute of 31 July about British Rail fares. She has also seen the Chief Secretary's letter of 4 August.

The Prime Minister has asked me to say that she agrees with the Chief Secretary that an insufficient case has been made for increasing British Rail's EFL. She doubts whether British Rail have exhausted their options for expenditure savings. But she also believes that the early fares increase suggested by British Rail if the EFL is not increased will only aggravate their problems. She therefore hopes that it will be possible to dissuade them from going ahead with it.

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

**T. P. LANKESTER**

Tony Mayer, Esq.,  
Department of Transport.

**CONFIDENTIAL**

JAT





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP  
Minister of Transport  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

4 August 1980

*Dear Norman,*

BRITISH RAIL FARES AND FINANCES

Thank you for your further letter of 31 July in which you again propose that we should make an immediate adjustment of £12 million in BR's external financing limit. You make the same point in your minute to the Prime Minister.

In my previous letter I did not suggest that we should rule out the possibility of ever adjusting BR's external financing limit. I did say, and this remains my view, that an adequate case has not been made and until we can base a decision on a proper assessment of the reasons for the deterioration in BR's finances and an alternative range of options to offset it, we should avoid precipitate action.

The additional information set out in your letter, and that of 24 July from Sir Peter Parker, underlines my concern to see this issue tackled squarely and not in a piecemeal fashion. The Board is facing difficulties posed by the current economic climate. That much is true of all nationalised industries, indeed of virtually all industry. Whatever the Board's opening bid for external finance, the finally agreed figure of £750 million represented an increase of some £50 million on the amount implied by the volume figures we had previously agreed collectively as appropriate. They are certainly not badly placed therefore, relative to many other industries, to face the problems posed by the recession; yet they are experiencing severe difficulties.

The causes of their present problems go much wider than the economic circumstances referred to by Sir Peter Parker and we cannot take a proper decision without taking these factors into account. A major factor not mentioned by Sir Peter Parker is the fact that BR conceded one of the highest pay settlements in the public sector in the last pay round. The additional cost of



this settlement, beyond that for which the Board budgeted, is not very different from the excess on their EFL now in prospect. In his minute to the Prime Minister of 8 April, Geoffrey Howe made clear his view that the excess cost of this settlement, insofar as it was not financed through productivity, should not be passed on in higher fares. But it would be even more unacceptable to pass on the cost to the taxpayer. In my previous letter, I pointed out that we were assured that the Chairman realised in dealing with the pay settlement that he would have to find ways of cutting costs, uncomfortable to him though they might be, if the alternative was a fares increase. I do not think we should lightly give up this commitment.

Second, the full range of options open to the Board are not reflected in the choice you present between an increase in the EFL or an increase in fares. I am aware of the measures which BR have taken thus far to make savings, but can we really accept that BR is so efficient that "acceptable" cost reductions total £16 million against current costs of over £2 billion? I would like to see a great deal more detail about the measures they have taken thus far and a range of possible further measures reflecting the reduction in demand for the Board's output before coming to such a conclusion. Similar considerations apply to the Board's investment programme. One would expect the Board's acquisition of fixed capital assets to be falling in addition to the economies in revenue investment which they have made.

External financing limits are not immutable but if the system is to work adjustments have to be approached with caution and justified with rigour. I do not think this has been done in this case and I must stress the desirability of seeing a paper along the lines set out in my previous letter. If you feel that the Board truly cannot be dissuaded from increasing fares early without a guarantee that their EFL will be increased, then reluctantly - and notwithstanding the political implications - I believe we should accept the consequences of an earlier price increase rather than pass on the consequences of delay to the taxpayer. If we are ever to get to grips with the problems of British Rail it is at this stage that we must see them exposed in full.

I am copying this letter to the Prime Minister, other members of Cabinet and to Sir Robert Armstrong.

*John Biffen*

JOHN BIFFEN



u.k. letters  
A. H. H. H.

CONFIDENTIAL

PRIME MINISTER

BRITISH RAIL FARES

An increase in fares of this size  
would lose more traffic.  
I agree with the C.S. I doubt whether B.R.

have enhanced their other expenditure

economies  
sufficiently.

We cannot  
increase the

GFL but

fare increases  
with only  
a few pence

B.R.7 million  
net.

Annex 1

The issue, as stated here, is  
whether to grant B.R. a £12m  
addition to their EFL, or to  
let them bring forward the 20%  
fare increase from November to October.

The Unit Secretary (Play A) wants  
a fuller assessment. But if there  
isn't time for this, he would prefer  
the earlier fare increase.

Do you

1. You will have seen my correspondence with the Chief the earlier  
Secretary.

2. It is of great political and practical importance to us <sup>want to</sup>  
to maintain the discipline of the external financing limits. <sup>raise</sup>

I have taken a very firm line with Sir Peter Parker on the need <sup>at</sup>  
to act promptly and effectively to keep within the limits, and <sup>E</sup>

I have had a ready response. Under his chairmanship, the <sup>on</sup>  
Railways Board have a good and consistent record of keeping <sup>loans</sup>

within their financial limits, in every year since 1976. As <sup>?</sup>

Sir Peter Parker made clear at the Chancellor's recent meeting <sup>IL</sup>  
with Nationalised Industry Chairmen, he (unlike some other <sup>IL</sup>  
Chairmen) regards this as an important management discipline. <sup>..</sup>

3. I am satisfied that the Board have been keeping their  
rapidly changing prospects under very close review and taking  
promptly the decisions that are needed. They are sending more  
locomotives, wagons and rolling stock to scrap, cutting back  
on train operations, reducing fuel and other stocks, slowing  
down investment, curbing recruitment, and pushing forward  
on their productivity changes. They are also speeding up  
property sales. But the fact is that railway costs cannot  
be cut back as quickly as the traffic loss they are suffering.

4. But I am concerned now with another political priority.  
If British Rail, under the pressure of their financial limits,  
put up their rail fares in early October, then up to 75,000  
commuters with annual season tickets will face a rise of some  
40% when they come to renew them later this year. If the  
increase is put off until 30 November, almost all will renew  
their tickets at the rate which contains only last January's

i.e. last  
January's 20%  
plus a further  
20%.

IL





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increase of 20%. That is the issue we have to face in deciding whether to raise British Rail's EFL to allow them to borrow an extra £12m so as to make the deferment possible. I would prefer a regime of twelve month intervals between fare increases, but we cannot achieve that this year.

5. I am afraid there is now some urgency in this. BR will have to decide at their Board meeting on Thursday, 7 August whether or not they are to put up their fares in October.

6. I am sending copies of this to the Chief Secretary, to other members of the Cabinet and to Sir Robert Armstrong.

NORMAN FOWLER

31 July 1980



**CONFIDENTIAL**



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Parliament Street  
LONDON SW1

*R*  
31st July 1980

*John Biffen*

RAILWAY FARES AND FINANCES

Thank you for your letter of 28 July.

It was not my intention in writing to you on 22 July, to suggest that BR should be compensated automatically for changes in circumstances beyond their control. Indeed, I am in no way suggesting that they should be compensated for all the changes they have had to face. I fully agree that the external finance limits should be firmly adhered to, and I value the assurances we had from Sir Peter Parker. But at the same time, we must operate the system with some regard for the changes which it is practical for an industry to achieve in the short-term when they are faced with a sudden deterioration in their business. If not, our undertakings to consider adjustment of the external finance limits are misleading, and the limits will lose credibility as the means of control.

When the Board's EFL for 1980/81 was fixed last autumn at £750m we agreed that it was a realistic figure in the light of the economic prospects as they were then foreseen, and it represented a cut of £50m on the Board's proposal. In considering developments since then, I think I should now ask you to read the letter which Sir Peter Parker wrote to me on 24 July, and of which I enclose a copy. You will see that the

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total deterioration forecast so far for 80/81 is in excess above the EFL of £84m. £28m of this deterioration was caused by the deterioration in the prospects between mid May and mid June. To meet this, the Board have found reductions in expenditure totalling £16m, set additional targets for sales of £20m, and plan a fares increase on 30 November to bring in £12m. The only issue they have raised is whether they should bring forward that fares increase to 5 October to gain another £12m.

Even if we adjust the EFL to enable them to hold back the fares increase to 30 November, they still have an excess of £24m which they have to find ways to cope with and there is the possibility that not all the assets sales can be brought to fruition within the financial year.

You will see from the Chairman's letter that they are pursuing all the courses one would expect to cut back, by curbing recruitment, reducing stocks, deferring maintenance, scrapping equipment, and slowing down investment. But the fact is that it is not easy to cut costs rapidly on the railway. They have considered and rejected further cost cuttings of £12m including a complete ban on recruitment and further reduction in track renewal. Both the Board, and my own Chief Inspecting Officer of Railways have been expressing concern to me about the declining physical condition of the railway assets and particularly of the track, and I think it would be quite wrong for us to urge the Board to make further savings in that area.

The savings to be secured during the present year from the productivity part of the pay settlement were already included in the budget. The Board are now pressing forward negotiations for the major changes to be secured up to 1983; the plans to provide for detailed local consultation case by case are about to go to the National Executives of the Unions.

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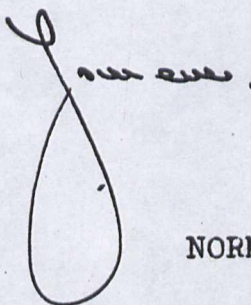
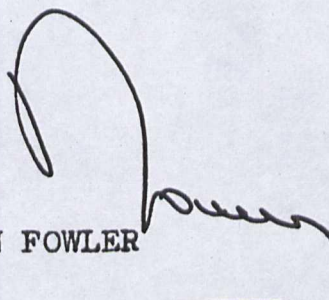


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As we agreed, I shall be coming to 'E' Committee in September with my assessment of the Board's prospects for 1981/82 and later years. I have been discussing this with the Board particularly in relation to their Freight business where they have to face this major reduction in traffic. They are determined to meet the interim financial target for the business by 1982 through rationalisations, and reductions in the locomotive and wagon fleet. But the path to the target will now be much steeper, and it would be quite unrealistic to suppose that the financial results this year and next will be no worse than we assumed when the target was set.

A major fares increase requires considerable preparation because of course it cannot be a simple percentage across the whole range of fares; the Board have to adjust their prices to different markets. That is why the Chairman says that the decision in relation to an October increase has to be taken in early August. I have some considerable doubt whether the Chairman and his colleagues would feel able to comply with a request from me to defer that fares increase to November without any corresponding adjustment to the EFL. If they were to do so, they might well draw the conclusion that the EFL is going to be exceeded despite their best efforts. Neither do I think that the political sensitivities surrounding rail fare increases should be underestimated. I am writing to the Prime Minister separately about this.

Copies of this letter go to the Prime Minister and to Sir Robert Armstrong.

   
NORMAN FOWLER

**CONFIDENTIAL**



# British Railways Board

Sir Peter Parker MVO  
Chairman



24th July, 1980

The Rt.Hon. Norman Fowler, MP.,  
Minister of Transport,  
2 Marsham Street,  
LONDON, SW1P 3EB.

## FINANCIAL PROSPECTS : FISCAL YEAR 1980/81

On several occasions you have emphasised the importance attached to the Board working within the external financing limit of £750m. in the current fiscal year and so far the Board have pursued policies to try to ensure that this requirement was met. Indeed, the Board has consistently met Governments' requirements to work within external financial constraints resulting in a large underspending of the order of £147m. on PSO cash limits over the past four years.

While recognising the need to meet short-term expenditure controls, the Board has been mindful of longer term business requirements and has tried to reduce the long-term impact of current constraints so far as practicable; even so, standards of service have declined and arrears of maintenance and renewal have increased. The focus on this problem has recently been sharpened by the paper we have sent to you on the physical state of the railway which is the subject of current discussion.

This background is important when considering the Board's financial prospects for the current fiscal year. Latest forecasts show a financing requirement of about £36m. above the external financing limit of £750m., before taking into account the option of bringing forward passenger price increases to early October. Details are summarised on the enclosed Appendix.

The decline in financial prospects since the external financing limit was fixed is due to the effect of the steel strike and the sudden deterioration in the domestic economy. All freight commodity groups have been adversely affected and we are now beginning to see a decline in passenger prospects. The major significance of these events could not have been foreseen when financing constraints were determined last year.

cont'd....



The Board has given very careful consideration to remedial measures and action has been taken to reduce budgeted expenditure. For example -

- Curbing manpower recruitment;
- Reduction in fuel and other stocks;
- Deferment of permanent way maintenance;
- Withdrawal and scrapping of locomotives and wagons;
- Reducing investment in road service vehicles and other projects;
- Delaying rolling stock refurbishment programmes.

In addition, a further target of £15m. has been set for property sales, thus more than trebling the normal programme of sales to a total sales figure for the year of some £48m. B.T. Hotels have been set a target of £5m. for asset sales. It is doubtful whether all the proceeds from these sales will be received by 31st March, 1981, hence the need for flexibility in the application of the external financing limit.

Further cost reductions measures amounting to £12m. were considered, e.g. a complete ban on further staff recruitment and overtime, further reductions in C.W.R. renewals and deferment of purchases of civil engineering equipment. These measures have not been implemented because they would result in a further decline in service standards and the Board decided that this was unacceptable, particularly in view of the report on the physical state of the railway which I have referred to.

I believe these measures demonstrate the seriousness with which the Board view the present situation but on current economic trends there is a high risk that external financing requirements will exceed the limit for the current fiscal year.

The forecasts assume that there will be an increase in passenger fares on 30th November, 1980. This is the option preferred by the Marketing Division and produces the optimum yield, but an option to bring forward the increase to 5th October has not yet been discarded because of a financial gain of the order of £12m. in the current fiscal year, but an early decision on this matter is inevitable. However, a fares increase on 5th October would make sense only if short-term considerations override all other factors.

Against this background, I believe it would make good business sense if some flexibility in the application of the external financing limit was permitted this year.

cont'd....



Summarising -

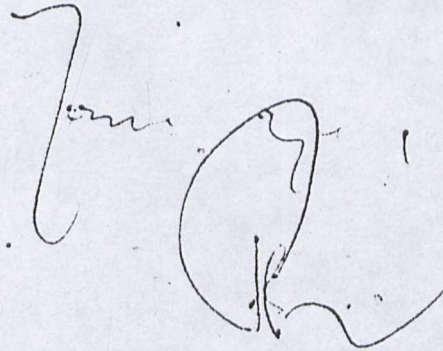
External factors over which the Board has no control are having a significant adverse effect on finances and latest forecasts of external financing requirements exceed the limit set by Government.

Measures have been taken to reduce expenditure below budgeted levels; this action will adversely affect services in the future and the Board is averse to taking further action which will accelerate the decline in standards of service.

Pricing options from October onwards are still open. From a marketing standpoint 30th November, 1980 would be the best date but an increase from 5th October, 1980 would produce £12m. more cash in the current fiscal year. A decision on a 5th October increase would have to be taken by 4th August.

The need to avoid further action which will adversely affect future operations; the Board's record of keeping below PSO cash limits for four consecutive years and the balance of £42m. on consolidated profit and loss account combine to support a case for more flexibility in the application of the external financing limit.

These points were discussed with Peter Baldwin when I met him last week and some of the chords I am striking are within the theme of the letter I wrote to you on 16th August, 1979. I would welcome an opportunity of an early discussion of the next steps with you; in the meantime the next financing return to the Department of Transport and the Treasury will disclose a potential overspending on the grounds that an adjustment to the external financing limit can be justified.



Peter Parker



## EXTERNAL FINANCING LIMIT 1980/81

## FORECASTS OF OVERSPEND

	£m.
Forecast overspend shown on April financing return based on 20 weeks figures	* 40
(* After taking into account action to reduce budgeted expenditure by £16m.)	
Subsequent adjustment arising from further deterioration in domestic economy assessed at 24 weeks	28
Forecast overspend at 24 weeks	<u>68</u>
Additional targets for asset sales -	
	£m.                  £m.
Property Board	15
Hotels	<u>5</u> 20
Passenger fares increases from 30th Nov.	<u>12</u>
	<u>32</u>
	36
Effect of bringing forward passenger fares increase from 30th November to 5th October, 1980	<u>12</u>
Forecast net overspend.	<u>24</u>

Note: The potential overspend of the order of £36m. is, of course, very small in relation to the aggregate sums involved. Turnover and working expenses in 1980 will total some £5,550m. and £36m. is only 0.65% of this figure.



COVERING CONFIDENTIAL



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Alistair Pirie Esq  
Private Secretary to  
the Chief Secretary to  
the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1

<sup>1</sup>  
~~30~~ July 1980

*Dear Alistair,*

BRITISH RAILWAYS BOARD: 1980/81 EFL

You will now have seen my Minister's minute to the Prime Minister on this. In it he refers to the correspondence between him and the Chief Secretary. I attach this correspondence and am copying it to the Private Secretaries to the other members of the Cabinet and Sir Robert Armstrong.

*Yours,*

*Anthony Mayer*

R A J MAYER  
Private Secretary



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PRIME MINISTER

BRITISH RAIL FARES

1. You will have seen my correspondence with the Chief Secretary.
2. It is of great political and practical importance to us to maintain the discipline of the external financing limits. I have taken a very firm line with Sir Peter Parker on the need to act promptly and effectively to keep within the limits, and I have had a ready response. Under his chairmanship, the Railways Board have a good and consistent record of keeping within their financial limits, in every year since 1976. As Sir Peter Parker made clear at the Chancellor's recent meeting with Nationalised Industry Chairmen, he (unlike some other Chairmen) regards this as an important management discipline.
3. I am satisfied that the Board have been keeping their rapidly changing prospects under very close review and taking promptly the decisions that are needed. They are sending more locomotives, wagons and rolling stock to scrap, cutting back on train operations, reducing fuel and other stocks, slowing down investment, curbing recruitment, and pushing forward on their productivity changes. They are also speeding up property sales. But the fact is that railway costs cannot be cut back as quickly as the traffic loss they are suffering.
4. But I am concerned now with another political priority. If British Rail, under the pressure of their financial limits, put up their rail fares in early October, then up to 75,000 commuters with annual season tickets will face a rise of some 40% when they come to renew them late this year. If the increase is put off until 30 November, almost all will renew their tickets at the rate which contains only last January's



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6. I am sending copies of this to the Chief Secretary, to other members of the Cabinet and to Sir Robert Armstrong.



NORMAN FOWLER

31 July 1980



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3/2



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Parliament Street  
LONDON SW1

31st July 1980

*John Biffen*

RAILWAY FARES AND FINANCES

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total deterioration forecast so far for 80/81 is in excess above the EFL of £84m. £28m of this deterioration was caused by the deterioration in the prospects between mid May and mid June. To meet this, the Board have found reductions in expenditure totalling £16m, set additional targets for sales of £20m, and plan a fares increase on 30 November to bring in £12m. The only issue they have raised is whether they should bring forward that fares increase to 5 October to gain another £12m.

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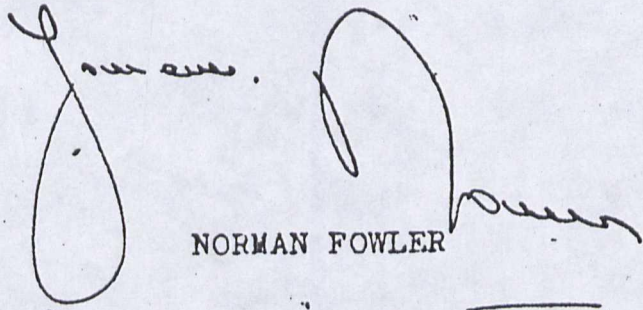


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A major fares increase requires considerable preparation because of course it cannot be a simple percentage across the whole range of fares; the Board have to adjust their prices to different markets. That is why the Chairman says that the decision in relation to an October increase has to be taken in early August. I have some considerable doubt whether the Chairman and his colleagues would feel able to comply with a request from me to defer that fares increase to November without any corresponding adjustment to the EFL. If they were to do so, they might well draw the conclusion that the EFL is going to be exceeded despite their best efforts. Neither do I think that the political sensitivities surrounding rail fare increases should be underestimated. I am writing to the Prime Minister separately about this.

Copies of this letter go to the Prime Minister and to Sir Robert Armstrong.



NORMAN FOWLER

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# British Railways Board

Sir Peter Parker MVO  
Chairman



24th July, 1980

The Rt.Hon. Norman Fowler, MP.,  
Minister of Transport,  
2 Marsham Street,  
LONDON, SW1P 3EB.

## FINANCIAL PROSPECTS : FISCAL YEAR 1980/81

On several occasions you have emphasised the importance attached to the Board working within the external financing limit of £750m. in the current fiscal year and so far the Board have pursued policies to try to ensure that this requirement was met. Indeed, the Board has consistently met Governments' requirements to work within external financial constraints resulting in a large under-spending of the order of £147m. on PSO cash limits over the past four years.

While recognising the need to meet short-term expenditure controls, the Board has been mindful of longer term business requirements and has tried to reduce the long-term impact of current constraints so far as practicable; even so, standards of service have declined and arrears of maintenance and renewal have increased. The focus on this problem has recently been sharpened by the paper we have sent to you on the physical state of the railway which is the subject of current discussion.

This background is important when considering the Board's financial prospects for the current fiscal year. Latest forecasts show a financing requirement of about £36m. above the external financing limit of £750m., before taking into account the option of bringing forward passenger price increases to early October. Details are summarised on the enclosed Appendix.

The decline in financial prospects since the external financing limit was fixed is due to the effect of the steel strike and the sudden deterioration in the domestic economy. All freight commodity groups have been adversely affected and we are now beginning to see a decline in passenger prospects. The major significance of these events could not have been foreseen when financing constraints were determined last year.

cont'd....



The Board has given very careful consideration to remedial measures and action has been taken to reduce budgeted expenditure. For example -

- Curbing manpower recruitment;
- Reduction in fuel and other stocks;
- Deferment of permanent way maintenance;
- Withdrawal and scrapping of locomotives and wagons;
- Reducing investment in road service vehicles and other projects;
- Delaying rolling stock refurbishment programmes.

In addition, a further target of £15m. has been set for property sales, thus more than trebling the normal programme of sales to a total sales figure for the year of some £48m. B.T. Hotels have been set a target of £5m. for asset sales. It is doubtful whether all the proceeds from these sales will be received by 31st March, 1981, hence the need for flexibility in the application of the external financing limit.

Further cost reductions measures amounting to £12m. were considered, e.g. a complete ban on further staff recruitment and overtime, further reductions in C.W.R. renewals and deferment of purchases of civil engineering equipment. These measures have not been implemented because they would result in a further decline in service standards and the Board decided that this was unacceptable, particularly in view of the report on the physical state of the railway which I have referred to.

I believe these measures demonstrate the seriousness with which the Board view the present situation but on current economic trends there is a high risk that external financing requirements will exceed the limit for the current fiscal year.

The forecasts assume that there will be an increase in passenger fares on 30th November, 1980. This is the option preferred by the Marketing Division and produces the optimum yield, but an option to bring forward the increase to 5th October has not yet been discarded because of a financial gain of the order of £12m. in the current fiscal year, but an early decision on this matter is inevitable. However, a fares increase on 5th October would make sense only if short-term considerations override all other factors.

Against this background, I believe it would make good business sense if some flexibility in the application of the external financing limit was permitted this year.

cont'd....



Summarising -

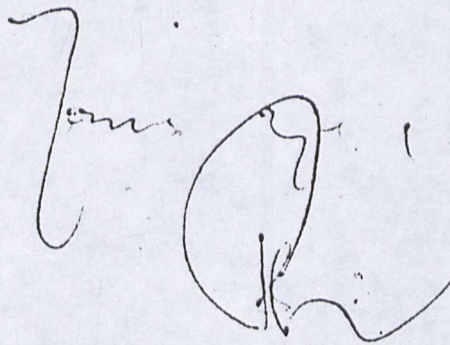
External factors over which the Board has no control are having a significant adverse effect on finances and latest forecasts of external financing requirements exceed the limit set by Government.

Measures have been taken to reduce expenditure below budgeted levels; this action will adversely affect services in the future and the Board is averse to taking further action which will accelerate the decline in standards of service.

Pricing options from October onwards are still open. From a marketing standpoint 30th November, 1980 would be the best date but an increase from 5th October, 1980 would produce £12m. more cash in the current fiscal year. A decision on a 5th October increase would have to be taken by 4th August.

The need to avoid further action which will adversely affect future operations; the Board's record of keeping below PSO cash limits for four consecutive years and the balance of £42m. on consolidated profit and loss account combine to support a case for more flexibility in the application of the external financing limit.

These points were discussed with Peter Baldwin when I met him last week and some of the chords I am striking are within the theme of the letter I wrote to you on 16th August, 1979. I would welcome an opportunity of an early discussion of the next steps with you; in the meantime the next financing return to the Department of Transport and the Treasury will disclose a potential overspending on the grounds that an adjustment to the external financing limit can be justified.

A handwritten signature in dark ink, appearing to read 'Peter Parker', with a large, stylized flourish extending from the end of the name.

Peter Parker

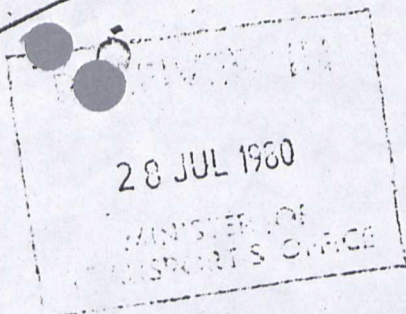


EXTERNAL FINANCING LIMIT 1980/81FORECASTS OF OVERSPEND

	£m.
Forecast overspend shown on April financing return based on 20 weeks figures	* 40
(* After taking into account action to reduce budgeted expenditure by £16m.)	
Subsequent adjustment arising from further deterioration in domestic economy assessed at 24 weeks	28
Forecast overspend at 24 weeks	<u>68</u>
Additional targets for asset sales -	
	£m.      £m.
Property Board	15
Hotels	<u>5</u> 20
Passenger fares increases from 30th Nov.	<u>12</u> 32
	<u>36</u>
Effect of bringing forward passenger fares increase from 30th November to 5th October, 1980	<u>12</u>
Forecast net overspend.	<u>24</u>

Note: The potential overspend of the order of £36m. is, of course, very small in relation to the aggregate sums involved. Turnover and working expenses in 1980 will total some £5,550m. and £36m. is only 0.65% of this figure.





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP  
 Minister of Transport  
 Department of Transport  
 2 Marsham Street  
 London SW1P 3EB

28 July 1980

*Dear Norman,*

BRITISH RAILWAYS BOARD: 1980/81 EFL

You wrote to me on 22 July to suggest that we should agree urgently to a minimum increase in BRB's 1980/81 EFL of £10-12 million to compensate them for postponing at your request until end November the fare increase they currently propose for early October. You also suggest that we should consider increasing their EFL further to take account of the effect of the recession on the Board's freight traffic and the results of the steel strike.

I do not think that an adequate case has been made out for either of these courses. Given the pressures on public expenditure this year we need to be quite certain that all scope for offsetting measures by the industries has been exhausted. The "Ryrie Report" on the talks with the Chairmen's Group (now circulated under cover of the Chancellor's letter of 22 July to Sir Keith Joseph) makes it quite clear that primary responsibility for keeping within the EFL must lie with the industry itself and that adjustments will only be contemplated where they are unavoidable. To compensate automatically for changes in circumstances beyond an industry's control would be a significant relaxation, well beyond our intention.

However, I do agree that the situation revealed by your letter warrants serious and urgent consideration. This is particularly so given our generosity in giving BRB an extra £50 million when we fixed its 1980/81 EFL last year and the continuing deterioration in the Board's finances in later years revealed by the Investment and Financing Review. You are already committed to bringing forward a paper in early September on measures to eliminate this. On this year's EFL problem I understand that your Department have not yet established with the Board the make up of the figures underlying the deterioration in performance. When

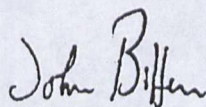
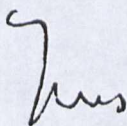


you have done this, I think you must bring forward for immediate discussion a paper setting out the reasons behind the deterioration in the Board's trading performance ( including the contribution of the 20% pay settlement, and its productivity element) together with an alternative range of options for offsetting action by the Board.

In dealing with the pay settlement, you assured us that the Chairman realised that he would have to find ways of cutting costs acceptable to us but uncomfortable for him. The present proposals do not seem to bear that out. The cost reductions proposed are quite derisory. Your letter reports the Board as having firmly decided that no further savings are possible without unacceptable implications for the quality of service. But we, through the PSO grant, are the Board's principal customer. Let us have those consequences set out so that we can judge them in the light of our overall policies. To the extent that reductions in demand, rather than increases in costs, are at the root of the deterioration in trading performance, there ought to be cost savings to be secured, whether capital or current, from reduced requirements for resources. I also think we need to be clear about the impact of the deterioration on the Board's ability to meet the interim financial targets we have set for the commercial businesses and whether the action proposed is sufficient to get the Board back on course.

Until we can reach decisions in the light of better information, I think that the Board should be dissuaded from putting up fares in the early autumn. But there can be no assurance that the revenue thus foregone will be made good at the taxpayers' expense; indeed, one of the risks we must take is that the ultimate price increase may need to be higher but at least we would know after proper consideration that there were no sensible alternatives.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.



JOHN BIFFEN



CONFIDENTIAL

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EH



The Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Parliament Street  
LONDON SW1

22 July 1980

*John Biffen*

RAILWAY FARES AND FINANCES

I think I am bound to consult you urgently about the fact that in the light of declining traffics - particularly freight - British Rail are finding very great difficulty in keeping within their EFL for the current financial year, and have consulted me about a proposal that they should increase their passenger fares from October 5th by 18.4%, a course which I think would be bound to lead to substantial political difficulties.

First, as to the facts, the Board have been concerned for some time that they were likely to exceed their EFL of £750m by up to £10m. As they saw the position, a couple of months ago, this was mainly a freight problem. The excess requirement for finance resulted from the costs of the steel strike, and the effects of recession on almost all their main freight traffics, other than aggregates. A few months ago, passenger traffic was buoyant, and above budget. At that stage, their figure of £40m included some provisions for contingencies.

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At the end of 24 weeks, their figures have deteriorated substantially. Passenger traffic is now falling below budget, as well as freight. After taking account of savings in working expenses of more than £15m (these are in addition to the substantial savings already incorporated in their budget) some of which, such as decisions to delay the laying of new track are bound to have an effect on their quality of service, and without any provision for contingencies - the gap is still at least £40m. The Board have therefore decided that they must sell more assets than they had already intended, and they have decided to sell a further £15m of property this year, and they have told their hotel company to realise assets to the value of £5m. They are convinced that this is the maximum that they can achieve this year. The Board as a whole have also firmly decided that they cannot make any further savings in working expenses without implications for the quality of service which they regard as so serious as to be unacceptable.

This still leaves a gap of some £20m, without provision for contingencies. They could meet just over half of this by bringing forward the fares increase, which they already had in mind to bring forward from January to the end of November, to the beginning of October. They are currently planning to do this. But this would have to be announced not later than around Mid-August because of the need for advance warning, printing of tickets, and so on. I do not myself think that it would be tolerable for the Board to announce such a large increase in advance of the report of the Mergers and Monopolies Commission on the reference about services in London and the South East. I think it would be extremely damaging if British Rail were to have a second price increase only nine months after the last one. Furthermore, up to 75,000 season ticket holders will find that, as a result, the increase in fares since they last bought an annual ticket will be of the order of 40%.

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The Board attach very great importance to keeping within their EFL, but had promised to consult me before reaching any decision about a fare increase. I know they share my concern about the political difficulties of an increase in October, and about the effects this is bound to have on their longer-term prospects. But they feel that they cannot properly give up the £10-£12m that they would gain, this financial year, from an October increase without specific authority from Ministers. (They also have it in mind that whatever they now do, they are bound to exceed the PSO cash limit, which means that after payment of grant, the passenger services will be in deficit; this can however, in accounting terms, be set against the reserves built up over recent years). The Board need to know very quickly (i.e. within the next 2 weeks) if they are to stop their preparations for an October increase without abortive expenditure and - more important - a serious risk of their plans being leaked. . . .

The Board have pointed out to me that the discussions between the Chairmen's Group and the Treasury, not yet completed, have led them to believe that there may be some greater readiness by the Government to review EFLs in circumstances where agreed economic assumptions have been shown to be very different from the reality. They believe that we should at least consider making some additional provision to take account of the effect of the recession on their freight traffics (at least £20m) and the results of the steel strike (up to £30m). It is not feasible for them to reduce costs quickly in response to these changes.

I do see very real political difficulties if there is to be an early fares increase. I should be grateful if we could discuss, urgently, whether you can agree that we should, as a

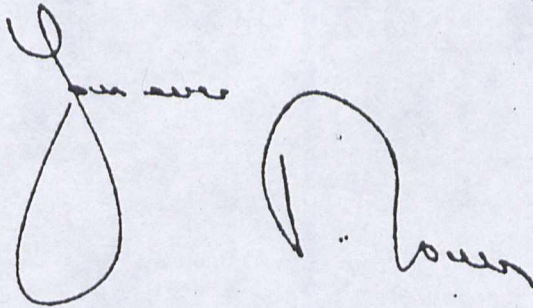
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I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Fowler'. The signature is written in a cursive style with a large initial 'N' and a long horizontal stroke extending to the right.

NORMAN FOWLER

6  
CONFIDENTIAL



Transp.



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP  
 Minister of Transport  
 Department of Transport  
 2 Marsham Street  
 London SW1P 3EB

28 July 1980

*MBM set*

*Dear Norman*

*R  
2/7*

BRITISH RAILWAYS BOARD: 1980/81 EFL

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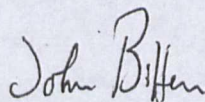
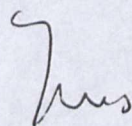


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I am copying this letter to the Prime Minister and Sir Robert Armstrong.



JOHN BIFFEN



CONFIDENTIAL

*Transport* 2



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

*John Biffen*

*Prin... ..*

The Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Parliament Street  
LONDON SW1

To note at this stage: Mr Fowler  
wants an extra £20 million for  
BR to avoid their having to

bring their next fares increase  
(18.4%) forward from end-  
November to early October.

*John Biffen*

RAILWAY FARES AND FINANCES

*ML*

*R*

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*2/7*

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# CONFIDENTIAL

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The Board have pointed out to me that the discussions between the Chairmen's Group and the Treasury, not yet completed, have led them to believe that there may be some greater readiness by the Government to review EFLs in circumstances where agreed economic assumptions have been shown to be very different from the reality. They believe that we should at least consider making some additional provision to take account of the effect of the recession on their freight traffics (at least £20m) and the results of the steel strike (up to £30m). It is not feasible for them to reduce costs quickly in response to these changes.

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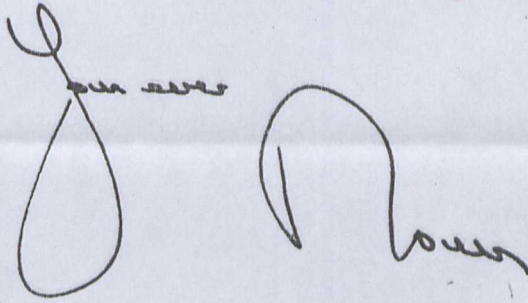


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I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

*55-147-100*

A handwritten signature in black ink, appearing to be 'Norman Fowler', written in a cursive style. The signature is positioned above the typed name 'NORMAN FOWLER'.

NORMAN FOWLER

CONFIDENTIAL



*Handwritten signature*



*Handwritten signature*

2

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

7

PRIME MINISTER

815

*Handwritten initials*

RAIL PAY

I have seen Norman Fowler's further minute of 24 April about rail pay. Since then I understand there have been further negotiations, following the NUR's rejection of the original deal, leading to a final settlement providing for a single stage increase of 20 per cent with still more limited commitments to productivity improvements.

2. A settlement of this size and the weakening of the link with productivity is unwelcome, particularly in the light of the steel dispute, and I must reiterate my view that it would be highly undesirable for the cost of the settlement to be passed on in higher fares if the productivity element is not forthcoming. In this respect I welcome the assurance in the last paragraph of Norman's minute that the Chairman realises he must look first to cost reductions. I am sure we should maintain this line. Certainly, there can be no question of the taxpayer meeting any part of the cost through additional financial assistance to British Rail.

*Handwritten signature*

(G.H.)

7 May 1980



Not Inds, 2  
Prime Minister

Mr. Hoshorn  
Mr. Holt



**CONFIDENTIAL**

cc Transport  
Rail fares Sept 73

24/4

Prime Minister

RAIL PAY

My Private Secretary wrote to yours on 18 April about the quick assessment for which you had asked of the likely implications for rail passenger fares of the wages agreement announced the previous day. I think I should now send you a further comment in the light of the discussions I have had with Sir Peter Parker, and bearing in mind the points which you and the Chancellor made at earlier stages.

I entirely agree with the Chancellor about the importance of British Rail confining their increase to what they can afford in the present financial circumstances. This was emphasised to the Chairman in two preliminary meetings I had with him at which Treasury Ministers and officials were present.

?

As you will know, BR have now reached agreement on the basis of a 16% increase, with a further 4% from 30 June, which is conditional on trade union agreement to a detailed timetable for productivity improvements. These include specific and detailed proposals for reshaping the freight and parcels businesses and will involve reducing the number of parcels depots from 220 to 41 and of marshalling yards from 30-40 yards of varying size and importance to 3 major yards and 8 minor ones. There will also be changes in the

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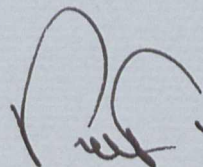
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administration, with for example, a slimming down of divisional management and staff economies in areas like train planning and scheduling as well as in back up services. The Board think that this is a good settlement; they see the unions' acceptance of the necessary changes as a major productivity breakthrough, which will have important implications for the future of the business. It is certainly a step forward in the direction we want, provided the unions deliver.

My Private Secretary's letter explained that the Board have now to review their financial situation in the light of this settlement, the overriding requirement to keep within the external finance limit, and other developments, particularly on the freight side, since the beginning of 1980. The Chairman assures me that the Board will seek to avoid a further fares increase this year if at all possible. They understand the importance I attach to preserving 12-month intervals between fare increases.

Clearly I will continue to emphasise, both to the Chairman and in public statements, that the Government would regard it as entirely unacceptable for the gains from a productivity deal to be foregone and the costs simply loaded on to passenger fares. I am satisfied that the Chairman realises that in the event he would have to find other ways of cutting costs acceptable to us but even more uncomfortable for him.

I am sending copies of this to Cabinet colleagues and Sir Robert Armstrong.



~~NORMAN FOWLER~~

24 April 1980

**CONFIDENTIAL**



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Not Ind



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

TR 2  
to call off  
PRIME MINISTER

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

No firm news, but  
some hopes. MS  
18 April 1980 18/4

cc Transport Dept 79  
Rail fares.

Dear Tim

BR WAGES AND FARES

You asked for a quick assessment of the likely implications for rail passenger fares of the wages agreement announced yesterday.

The Board's earlier assessment had been that any increase in the wage bill exceeding about 15% was likely to require a fares increase in the Autumn. But the Board will have had very much in mind the line taken by the Prime Minister in dealing with Supplementary Questions in the House on April 3 - that British Rail should not automatically assume the public will go on paying ever higher fares, because they cannot do that. The Minister has continued to impress this point on the Board.

The Board have now to review their financial situation in the light of the pay settlement and of the over-riding requirement to keep within the external finance limit. For this they have to take account also of the effects of the steel strike - which has caused them substantial loss of revenue, the general drop in freight traffic and the substantial increase in oil prices. The Department would not expect the Board to reach any firm decision for some weeks at least.

The Board have assured the Minister that they attach great importance to their policy of trying to restrict increases in fares to annual intervals. It is soon to know whether they will be able to do so on this occasion. But the Minister has left the Board in no doubt of the need to do everything they can to ensure that, as a minimum, any necessary increases in the Autumn do not apply to regular travellers (ie season ticket holders). But they will not be able to take any firm decision for some time.

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I am sending copies of this to the Private Secretaries to all Cabinet Colleagues, and to David Wright.

*Jones*

*Genie*

MRS E C FLANAGAN  
Private Secretary

CONFIDENTIAL





Not Ind  
Subject file  
Econ Ps - Inflation Proof  
Kensw  
Jan 80

## 10 DOWNING STREET

From the Principal Private Secretary

17 April 1980

When the Chancellor of the Exchequer called upon the Prime Minister at 0900 this morning the following were the main points which arose in discussion.

### IRAN

The Chancellor of the Exchequer said that he had let the Governor of the Bank of England know the conclusions which OD had reached at its meeting on 15 April. The Governor was very concerned that there should be no discussion at the forthcoming meeting of the Foreign Affairs Council of the possibility of taking legislation to provide for mandatory action on Iranian loans, deposits and credits.

The Prime Minister said that OD had agreed that it would be preferable to take action on this point by means of persuasion rather than by legislation. The Chancellor should minute other members of OD explaining the Governor's concern and asking for their agreement that the Foreign and Commonwealth Secretary should not mention the possibility of legislation for this purpose at next week's meeting with the other Foreign Ministers of the Nine.

### PUBLIC SECTOR PENSIONS

The Prime Minister said that she remained of the view that Mr. Drain should not be invited to become a member of Sir Bernard Scott's group on index linked pensions in the public sector. Mr. Drain was the leader of a union whose members now enjoyed inflation proof pensions and as such he would find it impossible to make a proper contribution to the enquiry.

The Chancellor of the Exchequer said that he would arrange for Mr. Leif Mills to be invited instead.

### PUBLIC SECTOR PAY

The Chancellor said that he hoped to bring forward quickly the work which he already had in hand on public sector pay. In the meantime it was important to correct the wrong impressions which had resulted from his appearance before the Select Committee on the Treasury and Civil Service earlier in the week. There was now a belief

/that the

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that the going rate for public sector pay in the present year was 25%. He was proposing to issue a statement either today or tomorrow which would make clear that the figures which he had quoted to the Select Committee embraced a good deal of catching up pay awards of the Clegg kind and that they were fully consistent with approved cash limits.

More generally, the future level of pay settlements was critical to the attempt to reduce the money supply. It looked as though the money supply figures for this month would come out satisfactorily though inter bank lending was still running at too high a level. The new tap stock looked as though it would go well. But the fact was that because pay settlements were still at very high levels, they were putting up borrowing and helping to keep up interest rates.

The Prime Minister said that she would consider including something about the level of public sector pay increases in the speech she was due to give in Birmingham on Monday of next week. Looking further ahead to the next pay round, she believed that it was important to have an assessment of our ability to withstand a national rail strike. This meant essentially forming a view on whether the power stations could keep going during such a strike. She proposed to have a meeting with the Home Secretary, the Chancellor, the Secretary of State for Energy and the Minister of Transport to consider what work needed to be set in hand on this.

SELECT COMMITTEE ON THE TREASURY AND CIVIL SERVICE

The Chancellor said that his appearance before the Select Committee had shown that its members were determined, regardless of Party, to attack the Government wherever they could. Mr. du Cann wanted to maintain the unity of his Committee and not to let it divide on Party lines. The Chancellor added that he was due to appear before the Select Committee again in the near future and he expected that one of the principal areas of questioning would be unemployment. The Committee would be bound to press him for the Government's assumptions and predictions for future trends in unemployment, but he proposed to tell them that there were many areas where the Government could not hazard forecasts.

C. A. WHITMORE

A.J. Wiggins, Esq.,  
HM Treasury.

*for J. Hoskyns*

SECRET

GB



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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

cc Mr Hoskyns  
Mr Wolfson

2

PRIME MINISTER

I have no information on  
the consequences for fares, but  
we will ask D/Transport to  
let us know tomorrow.

Tim Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

17 April 1980

M/S

17/4

Dear Tim

BRITISH RAIL PAY SETTLEMENT 1980

I have just received the details of the pay settlement agreed at today's meeting between the British Rail Board and the Rail Unions.

In essence the unions will be recommending to their Executives acceptance of a 16% increase in basic rates of pay as from 21 April - the normal annual settlement date. Additionally, they will be seeking endorsement to a further 4% increase from 30 June. This last amount however is conditional on agreement by that date to a firm three year programme of changes in working practices designed to make substantial improvements in productivity in freight, parcels and divisional organisation. The Board believe that the change will open the way to longer term developments which are vital to their future success.

It has been estimated that the flow-through effect of these awards on British Rail's annual pay bill will be around 19%. But the actual figure could be somewhat lower if some productivity improvements can be achieved during the current year.

The unions not surprisingly have announced the settlement as a "20% award". But the fact that they have made such an announcement suggests that they anticipate agreement by their Executive Committees.

Yours

Genie

MRS E C FLANAGAN  
Private Secretary

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Next Inds  
DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

*gc Mr Donald*  
N J Sanders Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

*Ann Smith*  
R  
1074  
10 April 1980

*Dear Nick*

RAIL PAY

*MS,*

As I mentioned on the 'phone yesterday, the negotiations between the British Railways Board and the Unions, which took place yesterday, have now been adjourned until Thursday 17 April.

While the Unions put forward their own suggestions as to figures yesterday (17½% increase on the basic rate, plus 2½% for productivity improvements) these were not discussed as such, since the Board were determined to postpone discussion of figures until next week. They have as you know assured us that they have no intention of agreeing to the Unions figures. They are well aware of the need to stay within their existing financing limits and of the Government's views on the implications for fares of too large a settlement.

In the meantime, the encouraging aspect of yesterday's discussions was that the Unions now seem to accept that some productivity improvements will be essential.

I am copying this letter to Martin Hall, Richard Dykes, and David Wright.

*Yours sincerely*

*Barbara Riddell*

MRS B E RIDDELL  
Private Secretary



*✓* Mr Hopkins



*Nationalised  
Industries*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

*PM*

PRIME MINISTER

BRITISH RAIL PAY NEGOTIATIONS

I have seen Norman Fowler's minute of 2nd April about rail pay negotiations. In the light of the recent steel settlement, I hope the British Railways Board can settle at considerably less than the 20 per cent demanded by the unions and so avert the need for any price increases at all.

2. However, if the outcome is higher than British Rail can finance on present plans, there can be no question of additional subsidies. I am glad to see that Sir Peter Parker has confirmed that the Board are committed to staying within their 1980-81 external financing limit. I am less happy with the assumption if the cost of the pay settlement is greater than can be accommodated within that constraint, it will automatically be financed through fare increases. The Board's aim ought surely to be a basic increase which they can afford in their present financial circumstances, with any additional increase being financed by improvements in productivity. I would not like the Board to believe that we would view with equanimity a second round of fare increases, however weighted, simply to meet the cost of an excessive pay settlement.

3. I am sending a copy of this to Norman Fowler and Jim Prior.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

8 April, 1980



PRIME MINISTER

BRITISH RAIL

*Pam Smith*  
 would you like me to write  
 as in para 2.2?  
 ii) set up a meeting - I  
 would suggest ECEA - to  
 discuss the Post Office position?  
 R

1. PRESENT SITUATION

1.1 Norman Fowler's minute to you appears to present a very soft line in hawkish terms. Parker appears to have opened the bidding with a 17.7% offer. We understand from Cabinet Office that the original allowance was for a 15% increase without productivity - not very tight compared with British Steel or British Leyland. Next in line will be the Post Office. Fowler says that if Parker's proposed management changes are successful, there will be a reduction in the (much over-manned) labour force of 11,000 jobs over the next 3 years - we calculate this as about 1½% of the work force per annum.

1.2 The one agreed fare increase of 19-20% was the basis for the original cash limit. Fowler says that he thinks it would be very difficult to justify further commuter increases, but is apparently now prepared to consider increases in freight and Inter-City charges.

1.3 We asked Cabinet Office on 12 March whether any collective thinking was going on in anticipation of the British Rail negotiations, but nothing was happening outside Transport. We now have what looks close to a fait accompli, on British Steel lines, but with a much higher opening offer.

2. SUGGESTED ACTION

2.1 It seems important to cry halt before Parker rejigs the package to give the rail unions whatever they want in order that he and they should have a peaceful life.

2.2 You might therefore like to consider asking Fowler:

*We have no power of specific direction:*  
 (a) To [instruct] Parker to "stick" at 13% (apparently the offer is in two parts, 13% now and 4% at some stage in the future) without strings and no further increases without productivity.  
*Mr Fowler would at most "suggest".*

*Th.*



(b) To report to you on the impact and "winnability" of a strike, together with any information he or British Rail have on the mood amongst rail workers, especially just after the result of the steel strike.

(c) To tell him that there should be no further fare rises in any area of British Rail's operation this year.

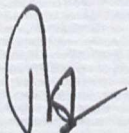
(d) To justify a reduction of 11,000 jobs in a work force of nearly a quarter of a million, over 3 years and relate it to natural wastage. Is this a gross reduction over and above natural wastage or a net reduction (which probably means an increase)?

(e) To report to you on the staff shortage situation. Apparently Weighell has been saying that there is a staff shortage of 12,000 (how distributed geographically and by grade?) and that this shows that pay scales are too low. Is there a staff shortage against what is really needed to operate the railways, or simply against an over-manned staffing level?

### 3. LESSONS FOR THE FUTURE

3.1 The similarity of this situation to British Steel, as a fait accompli with virtually no warning to you or other colleagues, and no preliminary thinking by officials, shows the danger of the arm's length relationship with nationalised industries. On 20 September 1979, E Committee decided "that the nationalised industry chairmen should be asked to ensure that sponsoring Departments were consulted before commitments were entered into in any major pay negotiations". The missing link is that no consultations are required between the Ministers concerned and their Cabinet colleagues. We have to get the rules right for the next pay round and that means close involvement in preparing negotiating positions with nationalised industry chairmen and contingency thinking about when and where we should be prepared to face strikes.

3.2 In the present round, the Post Office is next in line and we should have an early meeting of the appropriate people on that so that it, too, does not bolt before we can close the door.



JOHN HOSKYNs

Again, no powers.  
Mr Forster could  
"indicate concern  
at the prospect  
of ---"  
H



cc Mr. Douglas  
Mr. Hughes

Prime Minister

2

12

2/4

**CONFIDENTIAL**

Prime Minister

mt

I mentioned to you the other week that this year's rail pay negotiations were likely to be difficult and could lead to a second round of fare increases. The settlement date is 21 April.

The rail unions are trying to get at least 20% without strings. They argue that they have lost ground as a result of last year's settlement which was considerably below the pay awards to their traditional counterparts. The Board think that they will need to pay something approaching this if they are to be able to continue to recruit and retain staff in some areas. But they want real changes to productivity in return. Sir Peter Parker therefore aims to make payment of an important part of any wage settlement totally dependent on the signature by the unions of an agreement setting out both specific changes to be made in various parts of the business over a three year period and - equally important - a clear timetable by which the necessary consultations are to be completed case by case. The importance of this is that the unions have so far been able to use the consultative machinery to obstruct almost any change independently. If successful this means a reduction of 11,000 jobs over the next three years.

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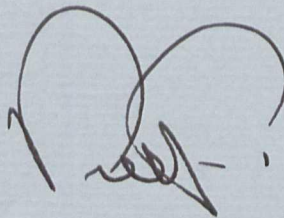
  
**CONFIDENTIAL**

The negotiations are likely to be tough and ASLEF particularly will strongly oppose the Board's plan to link productivity changes with pay. There may therefore be some disruption of rail services but I do not think this point will be reached before the third week in April.

I have told Peter Parker that the precise level of settlement is a matter for him, provided of course that he stays within his tight external finance limit for 1980/1 and he has reaffirmed his commitment to that.

But I also made it clear that, given the unhappy history of past attempts to get real productivity changes on the railway, I would not be happy with a high settlement that once more failed to achieve real change. I would in any case be reluctant to see the cost of a high settlement simply passed on to the railway passenger. I have therefore told him that I would accept, if necessary, further increases this year in the charges for the commercial businesses - freight and inter city. But I would think it very difficult for them to justify further increases for commuters before the end of the year. The Board are now looking at a number of options in this light and I shall talk to Peter Parker again before any decisions are taken.

I am sending copies of this to Geoffrey Howe and Jim Prior.



~~NORMAN FOWLER~~

2 April 1980

**CONFIDENTIAL**





10 DOWNING STREET

From the Private Secretary

13 March 1980

Dear Anne

Your Minister called on the Prime Minister yesterday for a general talk about matters for which he has responsibility.

There are no specific action points requiring follow up. As we have already discussed, the Prime Minister asked your Minister to let her have a note on the progress made in his field since the Government took office. No doubt this is now in hand.

There was some discussion on the Channel Tunnel, about which I will be writing to you separately. I should perhaps also mention that there was an exchange about commuter fares and the prospect of a further round of British Rail fare increases in the current year. The Prime Minister made clear her considerable concern at this prospect, and welcomed the revised licensing arrangements in the Transport Bill which will enable alternatives to rail transport to offer regular services to commuters.

Yours ever  
Mike Paterson

Mrs. E. C. Flanagan,  
Department of Transport.





10 DOWNING STREET

PRIME MINISTER

I attach a self-explanatory letter from Norman Fowler's Private Office and hope you have no objection to the fact that I have put Mr. Fowler in the diary tomorrow afternoon at 1600 hours.

*ES.*

*Need not.*

11 March 1980





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Mike Pattison Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW 1

10 March 1980

*Dear Mike*

I understand Mr Fowler mentioned to the Prime Minister after Cabinet the other day that he would very much welcome the chance of half an hour's talk with her some time soon. There is no special reason but he would like to tell her how his plans for bringing private sector disciplines and money into his nationalised industries are going and to talk generally about current issues within his field of responsibility.

Would there be any possibility of finding a time this week ?

*Yours*

*Genie*

MRS E.C.FLANAGAN

Private Secretary