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PREM 19 / 1147

British Rail Fares.
 Industrial Action by NUR & ASLEF.
 Possible Line Closures.
 British Rail Finances
 Policy and Pay Negotiations
 Serpell Report.

TRANSPORT

Part 1: September 1979

Part 7: May 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
19.5.83		20.5.83					
27.5.83		26.10.83					
15.6.83							
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28.10.83							
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PREM 19/1147

● PART 7 ends:-

S/S Transport to PM 26.10.83

PART 8 begins:-

CRD Briefing 20.1.84

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
MISC 94 (83) 12	9.5.83
MISC 94 (83) 7th Meeting, Minutes	19.5.83
MISC 94 (83) 8th Meeting, Minutes	26.5.83
MISC 94 (83) 22	15.6.83
MISC 94 (83) 23	15.6.83
MISC 94 (83) 24	17.6.83
MISC 94 (83) 25	20.6.83
MISC 94 (83) 26	20.6.83
MISC 94 (83) 28	28.6.83
MISC 94 (83) 29	29.6.83
MISC 94 (83) 31	30.6.83
MISC 94 (83) 32	4.7.83
MISC 94 (83) 36	12.7.83
MISC 94 (83) 38 and corrigendum	15.7.83
MISC 94 (83) 39	25.7.83
MISC 94 (83) 40	26.7.83
E(NI) (83) 17	5.9.83
E(NI) (83) 18 and Addendum	6.9.83
E(NI) (83) 8th Meeting, Minutes, LCA	14.9.83

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 Wayland

Date 25 April 2013

PREM Records Team

CONFIDENTIAL

Prime Minister ^{of No}

To note

BT
27/10

Prime Minister

cc Press Office

BR FARES

Tom King wrote to you on 3 October about BR's initial proposals for a fares increase in January. You and he were agreed that a general increase closer to 5.5% than the 6.5%, plus 1% for London and the South East, should be the aim.

Tom King put this view to Mr Reid before the Board's meeting on 6 October and Mr Reid has now written to me to say that he has been able to guide the Board to the decision that there should be a general increase of 5.5% with an additional 1% increase in London and the South East fares. He was able to do this without revealing the Government's views on the original proposals.

I thought that you and colleagues would be glad to hear this news. My Department will keep in touch with BR about the timing of the public announcement of the increases.

I am sending copies of this minute to Nigel Lawson, John Biffen, Norman Tebbit and Peter Walker, and to Sir Robert Armstrong.

NICHOLAS RIDLEY

26 October 1983

CONFIDENTIAL



27 OCT 1952



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NBPM
HT 25/102 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/15536/83

Your ref:

25 October 1983

Dear Nick,

Tom King sent me a copy of his minute of 5 October to the Prime Minister covering the revised draft brief for the Chairman of BR.

The draft is quite acceptable to me. It is helpful to relate the objectives to the Board's corporate plans. I am also glad that you are asking the Board to work closely with London Regional Transport to provide a better deal for those travelling in and around London. This could help to improve conditions generally in the area.

Copies of this letter go to the other members of E(NI), John Biffen and Sir Robert Armstrong.

Yours
Patrick

PATRICK JENKIN

Transport: Bl faves de Pt 7

25 OCT 1983



PRIME MINISTER

BR Statement

Mr. Ridley's statement today met with a mixed reception, While opinion on its merits was divided along partisan lines for the most part (although Robert Adley attacked it strongly) most speakers on the Government's side welcomed specifically the fact that major route closures were ruled out. Terence Higgins, David Price and Brian Mawhinney all took such a line. The strongest support for Mr. Ridley came from Matthew Parris and Tim Eggar. The Opposition predictably enough demanded an increased subsidy and an end to privatisation schemes.

Overall, however, the substance of what Mr. Ridley had to say was more suitable for written answer than oral statement.

24 October 1983

British Rail

4.4 pm

The Secretary of State for Transport (Mr. Nicholas Ridley): With permission, Mr. Speaker, I should like to make a statement.

The Government have listened carefully to the wide public debate on the Serpell report and in particular to the views of the Select Committee on Transport. What emerges strongly from that debate is that it is for the Government to give the railways a clear framework and objectives, and for the British Railways Board to direct and manage its business in the light of them. Accordingly, I have today sent to the chairman of the board, Mr. Reid, a statement of the objectives which the Government wish him to pursue. Copies are available in the Vote Office and I will arrange for it to be published in *Hansard*.

An efficient railway has a vital part to play in the transport system, but it must give its customers value for money. By giving customers the services they want at a reasonable cost, the railway can secure its own future, and the people who work in the industry can feel pride in their work. British Rail has already begun to introduce really significant improvements, to which I want to pay a warm tribute. The firm objectives I am now setting are designed to further that process.

The board's latest corporate plan is clearly going in the right direction and the objectives I have set Mr. Reid build upon it. In its 1983 plan, the board envisages a requirement for central Government grant of about £635 million—in 1983 prices—by 1988. I am setting the chairman the objective of achieving that target—a grant requirement of £635 million in 1983 prices—two years sooner.

The objectives I have set for the chairman make it plain that it is not our intention that the board should embark on a programme of major route closures. This puts paid to the scare stories about the network, about which we heard so much following the publication of the Serpell report.

This does not rule out the board proposing changes locally, where they make sense. It is for the chairman to consider new forms of guaranteed and subsidised substitute bus services, where appropriate on local transport and value for money grounds.

The freight, parcels and inter-city businesses can and should work to a commercial objective. The Government believe that rail freight has strong environmental advantages over road freight, so we want as much freight as possible to go by rail, within the financial target for the business, which is to achieve a 5 per cent. return by 1988. The scheme of section 8 grants for rail freight facilities will continue.

The board's plan envisages an increase in investment from present levels. I shall support worthwhile investment which relates directly to the financial and business objectives that we have set.

The railway is operating in a highly competitive market, so it is to the board's advantage to obtain rolling stock wherever possible by competitive tendering and to rationalise excess capacity within BREL as soon as possible. I have asked the chairman to complete by the middle of next year a review of the options for the future of BREL, including the options for privatisation. All the options will be examined on their merits.

Greater private sector finance and involvement can help to improve services for customers and keep down costs. I have therefore called on the chairman to continue to seek greater private sector participation in the development of the railway.

The statement of objectives confirms the Government's intention to privatise Sealink, and also calls for improvements in the railway's industrial relations machinery.

With these objectives, the way is clear for the board to manage the railway so that it gives the country the good quality, efficient service which we all seek.

Mr. Robert Hughes (Aberdeen, North): The Secretary of State's statement and letter offer not a glimmer of hope or a scrap of encouragement to those who seek a decent service in British Rail, or to those who work in or manage British Rail. The statement makes no mention of investment money or investment objectives, and nothing is said about railway electrification, which has been shuttlecocked backwards and forwards between the Secretary of State's Department and British Rail. There can now be no possibility of a quick decision as, presumably, this statement will mean that all the sums will have to be redone. Rail investment was down to £269 million in 1982, when British Rail said that it required £500 million annually to prevent the crumbling edge of quality. Investment cannot be sustained because in recent years British Rail has been forced to cut its investment programme and to live within the harsh economic climate that the Government have created.

Earlier today, the Secretary of State announced that this year's public service obligation grant was to be £819 million, which is £40 million less than British Rail asked for in the corporate plan that it published in August this year. The Secretary of State's statement and letter speak of £635 million in 1986, which is £65 million less than the estimated 1988 requirement. Therefore, on British Rail claims alone, the Secretary of State is withdrawing from British Rail over £200 million of financial support in three years. More than that is being withdrawn when one balances this against the much reduced claims that the Government have forced on British Rail.

The withdrawal of this money can only be brought about by service cuts, line closures, fare rises and accelerated job losses, but the Secretary of State has the cheek to say that he wants British Rail to try to foster a better industrial relations climate. Some 30,000 rail jobs were lost between 1970 and 1979 and a further 42,500 will go between 1981 and 1985.

In his letter, the Secretary of State says that he wants substitute bus services guaranteed. We know that these guarantees did not last for long after the Beeching report. We need to ask the Secretary of State what he means by no "major route closures". Does he mean a 10 per cent. cut in the rail network, a 20 per cent. cut, a 30 per cent. cut or more?

In answer to the Serpell committee report, British Rail made it clear that it was opposed to the privatisation of BREL. It is clear that British Rail must have the full in-house capacity to provide its modern rolling stock. An in-house rail capacity provides a basis for exports that can greatly benefit us. Undoubtedly, further closures of this capacity within British Rail would be to the detriment of British Rail services.

The Secretary of State has not grasped the fact that, compared with other railway systems in Europe, British Rail operates on a much lower subsidy. The Secretary of State would have been far better off if he had taken a little more time over his assessment than the five or six days that he has had since he has been in office. It is clear that the Secretary of State has not changed jobs but merely changed the office in which he works. He will have to do better than this if he is to live down his tag of "Lawson's office boy".

Paragraph 5 of the Serpell committee report said:

"our review has been concerned with the railway's finances, not transport policy."

That is why the report was hopelessly inadequate. The Secretary of State has made the same fundamental error, and that is why his statement and letter are so hopelessly inadequate. If this is what the Secretary of State has delivered to British Rail, to those who work in it and to those who are served by it in his five days of office, I hope that he does not last as long as his predecessor, who lasted five short months.

Mr. Ridley: On the contrary, this is a document of hope for those who travel on the railway and those who work in it. If the improvement in performance can be maintained there is a secure and commercial future for the railways which will be to the benefit of both groups. The hon. Member for Aberdeen, North (Mr. Hughes) is wrong in his rather grudging welcome to the statement.

The hon. Gentleman spoke of investment, but last year British Rail implemented only 75 per cent. of its investment programme. It is up to British Rail to suggest worthwhile investment proposals for the future. Its plans include significantly higher levels of investment and I shall be glad to support worthwhile projects related to the objectives that we have set the board for investment.

The hon. Gentleman spoke of the level of grants, and I should have thought that he would have been delighted to see the need for public money being reduced by efficiency and railway improvement, because he must not forget to add the passenger transport executive grants, which could amount to about £70 million a year, and which have to be added to the figures in the letter that I sent to the chairman. It is for the very reason that he mentioned in connection with substitute bus services that the word "guaranteed" is included in the objectives. Of course they have to be guaranteed if they are to replace a railway line, but I should have thought that he would agree with the Select Committee on Transport and also with the House, when it debated these matters in February, that this was a worthwhile way of seeking to improve transport facilities.

On the subject of BREL, the engineering workshops, the hon. Gentleman seemed to think that a large in-house capacity was needed to help to secure exports as well as to refurbish British Rail. The hon. Gentleman must realise that if rolling stock is to be exported it has to be competitive. The chairman is asked to make sure that BREL becomes highly competitive so that it will win orders from both British Rail and from overseas. Again, I should have thought that the Opposition shared that objective.

Finally, the hon. Gentleman talked about the subsidies that other railways receive. Rather than thinking that the bigger the subsidy that we can give British Rail the better,

he should recognise that the smaller the subsidy that we give British Rail, because it is more efficient, the greater the national achievement would be.

Mr. Terence Higgins (Worthing): I welcome my right hon. Friend's statement, which makes it clear that the scare stories put about, particularly by the Liberal party on the south coast during the general election, were false and the fears that they sought to stimulate in the light of the Serpell report were ill founded. Does not my right hon. Friend agree that it is extraordinary that the Opposition Front Bench still will not take yes for an answer on that matter? Is it not true that further investment must depend on the removal also of restrictive trade practices in the railways, and that the experience we had with the massive investment on the St. Pancras line, which lay wasted for so long, must not be repeated?

Mr. Ridley: I entirely agree with my right hon. Friend. I repeat that we envisage no major change in the size of the network. My hon. Friend the Under-Secretary quoted the Labour party's manifesto on transport policy for the election, which clearly did not insist that every line should be maintained. Of course we must be flexible in these matters. I have said what our intention is for the network, and I hope that that lays to rest the scare stories that have been circulating. I entirely agree that productivity is the key to the future of the network. I congratulate the railways on what they have already done and I urge them to do more.

Mr. Ron Lewis (Carlisle): Will the Minister be a little more explicit on what he said about no major rail closures? Does he consider that the 70-mile stretch of railway from Settle to Carlisle is a major bit of railway? Will he give an assurance that, if he is asked by the British Railways Board to close that line, he will, in view of the outcry from all parts of the country, see that the proposal is blocked?

Mr. Ridley: If and when the British Rail proposal to withdraw passenger services on the Settle to Carlisle route come to me, I shall consider it on its merits. In the meantime, I must not do or say anything that would or might appear to prejudice my position, because I have to take the eventual decision.

Sir David Price (Eastleigh): Will my right hon. Friend accept that Conservative Members very much welcome his clear statement that he sees no need for any major reduction in the network? Secondly, on his important point about the key to the future of British Rail being improved productivity, with which certainly all Conservative Members agree, does he accept that to reduce the need for continuing subsidies it is important to get an increase in the capital infrastructure of the railways? One can see clearly in BREL that to reduce the need for maintenance we need new stock. Will my right hon. Friend therefore distinguish between current expenditure and capital investment?

Mr. Ridley: I repeat that it is not our intention that the board should embark on a programme of major route closures. I agree with my hon. Friend that investment is vital to the future efficiency of the railways. As I said, we shall look with favour upon proposals for investment, even if they show an expanding total in the future, provided that they are properly costed and are investments that will yield a reasonable rate of return.

Mr. Ian Wrigglesworth (Stockton, South): If that is the case, does the Secretary of State accept that an overwhelming case has already been made for such investment in rail electrification? Will he therefore stop giving evasive answers such as those that were given by his colleague at Question Time today about electrification, particularly in connection with the east coast route? As it will help to improve the efficiency and performance of British Rail in the future, will he make it clear to the House and to British Rail that that is the direction that he wants to take?

Mr. Ridley: I have already been chided for coming to a decision within five days about this matter. I cannot reach a decision about the electrification of the east coast route in that short time. However, I can tell the hon. Gentleman that we are awaiting the inter-city strategy from British Rail. When it puts forward plans for inter-city business to achieve its expected rate of return, that will be the time to consider major investments of that nature, and we shall consider them in the light of whether they are proper commercial investments.

Mr. Derek Foster (Bishop Auckland): In the light of the Minister's statement this afternoon, what glimmer of hope can he give the people of Shildon, where 2,500 jobs are to go in a town of only 14,000 people? Will not further privatisation of British Rail engineering works involve further closures of that nature, further job losses, and further destruction of rail communities? Will the Secretary of State answer that?

Mr. Ridley: I understand that the British Railways Board has already confirmed the closure of Shildon and two other works. It is not for me to say which works should or should not be closed. It is for me to set out the Government's objectives to the railways, and it is for the British Railways Board to run the railways and take the management decisions. I am sure that the hon. Gentleman understands that that relationship must be preserved if the railways are to have a real chance to improve their position in the future.

Mr. Robert Adley (Christchurch): My right hon. Friend has told us what he wrote to the chairman, but is he aware that if I were the chairman I would write back to him and say: "Dear Minister, Thank you for your charming letter which, in elegant phrases such as 'value for money' and 'highly competitive market', does not tell me anything at all. Can you please tell me whether you will provide the funds to electrify the railway and to provide this country with the modern railway that we need?" The chairman would also ask: "Are you aware, Minister, that British Rail covers a higher percentage of its fares than almost any other railway in the world from its own revenue? Are you also aware, Minister, that I am constantly asked to produce my accounts for the railways, showing track costs, and so forth, while my competitors on the roads have all their costs paid under general taxation? Can you please give me answers to these questions, Minister?"

Mr. Ridley: My hon. Friend's letter to me was a little long and I should like to read it in *Hansard* to make sure that I pick up all the points that he made. What am I doing for the railways? I have offered to provide £819 million this year and £635 million in 1986. By any standards, those are sizeable sums, and within those sums will be

ample funds for the investment programme which all hon. Members who have spoken so far have stressed and which the Government accept as important. I think, too, that all hon. Gentlemen accept that investment should be directed towards improving the performance and quality of the railway, and not just be investment for investment's sake.

Mr. Harry Cowans (Tyne Bridge): Is the Minister aware that he has just delivered a demoralising body blow not only to the people who work in the industry but to the customers? If one reads between the gobbledegook that has just come from the Dispatch Box, one sees that it really says: "For your efforts in the past"—on which the right hon. Gentleman congratulated the British Railways Board—"you have to accelerate that programme by two years." On the other hand, the statement says further on: "You shall not increase your fares unreasonably." No firm in the private sector could possibly operate in that way. Is not the Minister aware of what that would do? How can he possibly go on saying, as he does, time after time, that there will be no major closures, given the criteria that he has just laid down? Will he please desist from misleading the House by quoting only those parts of the Select Committee report which supports his case? If he will not deal with the report in its entirety, may we debate it in the House?

Mr. Ridley: As the hon. Gentleman knows, both the Serpell report and the British Rail Board's plan showed that major savings could be made partly through investment and partly through improved working practices. The Government have merely said that if those major savings can be made they should be made as quickly as possible, because the sooner they are made the sooner the railways will be modern and efficient. That is not a body blow to the railway industry but an encouragement to it to bring itself to a position in which it can secure its future by attracting customers. If the hon. Gentleman would see the matter in that light, he would realise what an opportunity this is for the railways to establish themselves, not so much at the taxpayers' expense, I hope, but to the benefit of the customers who should be paying the fares.

Mr. Matthew Parris (Derbyshire, West): Has my right hon. Friend noticed the financial mess into which unlimited subsidy has led the German state railway system? May I wish him all strength in resisting pressure to go down that track?

Mr. Ridley: I need no encouragement to avoid that track. British railways might well begin to be among the most efficient in the world if they can meet the requirements and the objectives that I have set out. The greatest error of all is to fall into the trap of thinking that the more money one throws at the railways, the better the railways will be. I suspect the reverse to be the case.

Mr. Stephen Ross (Isle of Wight): We congratulate the right hon. Gentleman on the speed with which he has reached his decision as to the future guidelines for the railways, but we wish that he had taken longer to consider the implications. We suspect that the information and advice given to him by the Department is anti-rail. I suggest that his contribution today has done nothing to improve the morale of the railways.

If the right hon. Member for Worthing (Mr. Higgins) is satisfied with the rolling stock in the south of England, I am certainly not, and I am sure that a great many people agree with me.

As to the future privatisation of Sealink, can the Secretary of State give a time scale for that? Does he intend British Rail to retain a substantial shareholding—below 50 per cent.—in a future company that will operate those services?

Mr. Ridley: With regard to rolling stock, I appreciate that there is a particular problem in the Isle of Wight, which has special requirements due to the gauge and track. We are not interfering with sound investment decisions by British Rail for the future. They will be enabled to go ahead. The Department is not anti-rail, and nor am I. I reinforce that by saying that the objectives have been discussed with the chairman of British Rail and I sincerely believe that he will find them helpful and will be able to live with them. Far from being anti-rail, I believe that the proposals will be welcomed by the railways.

The objectives require the chairman to have Sealink ready for privatisation as soon as possible, but I can tell the House neither when that will be nor the exact method of privatisation and eventual shareholding afterwards.

Mr. Rob Hayward (Kingswood): Does the Secretary of State not agree that the prime responsibility of the railway is to serve its customers who require a clean and reliable service at reasonable cost?

Mr. Ridley: My hon. Friend could not have put it better. That is exactly what we should be looking to. Those who work on the railways should ensure that their service appeals to travellers so as to attract extra custom and thus ensure a flourishing railway.

Mr. Martin Flannery (Sheffield, Hillsborough): The cuts in the railways are responsible for the great lack of staff to clean and maintain them. Are not the Government going headlong down the path of privatisation without any proof that the result will not be chaos on the railways which we shall later have to clear up? The railways were originally nationalised because of their inefficiency.

The Secretary of State asked where he would find the taxpayers' money to put into the railways. Has he considered that the throwing of taxpayers' money, as the saying now goes, has resulted in more than £3,000 million going to the farmers? I suggest that he takes some of that away from his pals and puts it into the railways as they urgently need it. According to his argument, the farmers will become more and more inefficient if more money is thrown at them, but they seem to be making millions for themselves while somehow maintaining a certain amount of efficiency. Will the Secretary of State explain that?

Mr. Ridley: There is a lot to explain.

Mr. Flannery: Is the right hon. Gentleman a farmer by any chance?

Mr. Ridley: Alas, I am not. There are no cuts in the statement. There is a reduction of subsidy to meet increased efficiency. I do not regard that as a cut. There are no grounds for believing that we can privatise the railways in the near future. That is not in the objectives that I have set for the chairman and I do not believe that it would be possible within that timescale, but it would

clearly be most undesirable if the hon. Gentleman were ever allowed to clear up the mess in this or in any other area.

I refer the hon. Gentleman to my right hon. Friend the Minister of Agriculture, Fisheries and Food if he wishes to discuss farming.

Mr. Tim Eggar (Enfield, North): Is my right hon. Friend aware that a very warm welcome will be given to his statement, especially the emphasis on the introduction of private capital into all aspects of the railway's activities? Can he assure the House that higher priority will be given to the sale of redundant property, of which there is a great deal, especially in the inner cities?

Mr. Ridley: BRIL, the investment subsidiary of the railways, has already sold a great deal of property. The objectives expressly require the chairman to press on to ensure that the sale of surplus property is increased. That has already made a great difference to the funds available to the railways for investment.

Mr. Frank Dobson (Holborn and St. Pancras): Will the Secretary of State confirm that his statement represents a move towards the introduction of full economic fares for commuters in the south-east?

Mr. Ridley: No, sir.

Dr. Brian Mawhinney (Peterborough): Given my right hon. Friend's welcome remarks about investment, may we assume that if the British Railways Board meets the commercial criteria laid down by the Government for the electrification of the east coast line, the Government will respond quickly by giving approval for that to go ahead?

Mr. Ridley: Yes, but there is one qualification. We wish to see the plan for the development of the inter-city service as a whole rather than take one bit in advance. We want to see the inter-city services operating on a plan which will bring a return on capital. That is the background against which we shall judge each electrification application.

Mr. Geoffrey Lofthouse (Pontefract and Castleford): I welcome some of the right hon. Gentleman's comments if he really means them. He said that he would support local changes where they made sense and that he supported the movement of freight by rail. Is he aware that most of the north Yorkshire coalfield product travels by rail through the centre of Knottingley in my constituency? Is he further aware that in the near future the vast bulk of the product from the new Selby coalfield will travel the same way? Does he appreciate that at that point the town's transport system will collapse and the environmental conditions involved will make many residential areas uninhabitable? In view of that, and bearing in mind his comments today, will the Secretary of State support the provision of a rail by-pass for the southern part of Knottingley?

Mr. Ridley: I cannot be asked to do the Chairman's job and make decisions on where lines should be. If the hon. Gentleman's question relates to the south Yorkshire passenger transport executive he may be able to get help from that source. When management decisions are before the board I want to ensure that the Government's objectives are clearly set out.

Following is the statement of objectives—

[Mr. Ridley]

R. B. Reid Esq. CBE
The Chairman
British Railways Board
Rail House
Euston Square
LONDON NW1

24 October 1983

Dear Chairman

This letter sets out the objectives the Government wishes you to pursue. It supplements the statutory and financial duties of the Board.

Your guiding objective should be to run an efficient railway, providing good value for money. Services to your customers should be reliable, attractive and punctual, at acceptable fares and charges; and the cost to the taxpayer should be reduced. That is the way to achieve a secure future for the railway, enable worthwhile investment to go ahead and give your employees satisfaction and pride in their work.

The Board's current Plan shows the requirement for PSO grant from central government falling to about £700m (in 1983 prices) in 1986 and to about £635m in 1988. The Government wants you to go faster than this so as to reduce the requirement for central government grant to £635m (in 1983 prices) in 1986. Your 1984 Plan should show the profile of expenditure and the measures required to achieve this.

It is not our intention that you should embark on a programme of major route closures. At the same time I should welcome your early views, following the endorsement of the case by the Select Committee on Transport, on the practicability of introducing some guaranteed and subsidised substitute bus services, where they would be appropriate on local transport and value for money grounds.

I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to avoid wasteful duplication.

It is the Board's responsibility to determine fares. But improved efficiency must make a full contribution to keeping down fares. The railway must not use its market position to raise fares unreasonably.

The Board's 1983 Corporate Plan shows the Freight Business coming into profit by 1986. You should take the necessary action

to ensure that it achieves a current cost operating profit of 5% in 1988. Within the financial targets set out above, I want you to win as much freight business from road as possible. The objective for the Parcels business should be to continue to earn a proper commercial return. I look forward to receiving the Board's review of the Inter-City business against its commercial target.

The Government wants you to secure improvements to the railways' present industrial relations machinery, which has hampered good communications and slowed down the necessary pace of change.

Sealink must be made ready for privatisation as soon as possible. The Government looks to you to obtain from the private sector more supply and support services, including rail and station catering. I shall welcome proposals from you for more private sector finance and participation in the development of stations and railway services. The Board should continue to pursue a vigorous policy of property development and disposal.

Rationalisation of British Rail Engineering Limited's excess capacity should be completed as soon as possible. You should complete your review by the middle of next year of the options for the future of BREL, including the options for privatisation. Railway rolling stock should be procured wherever possible by competitive tendering; and the railway equipment industry should continue to be allowed the opportunity to offer design solutions to meet BR's requirements.

Your investment programmes should relate directly to the financial and business objectives set out above. You will clearly wish to give proper priority to cost saving investment which gives an early return; and to carrying forward the improvements which the Board has introduced in management accounting and control.

I look forward to working with you and your Board to achieve the good quality, efficient railway services which are our common goal and to seeing these objectives reflected in your 1984 Plan.

Yours sincerely
Nicholas Ridley

NEW MEMBER

The following Member took and subscribed the Oath:
David John Maclean, Esq., Penrith and The Border.

BF for statement in Hansard

OBJECTIVES FOR THE CHAIRMAN OF BRITISH RAIL

With permission Mr Speaker I would like to make the following Statement:

1. The Government has listened carefully to the wide public debate on the Serpell Report and in particular to the views of the Select Committee on Transport. What emerges strongly from that debate is that it is for the Government to give the railways a clear framework and objectives, and for the British Railway Board to direct and manage its business in the light of them. Accordingly I have today sent to the Chairman of the Board, Mr Reid, a statement of the objectives which the Government wishes him to pursue. Copies are available in the Vote Office and I will arrange for it to be published in Hansard.

2. An efficient railway has a vital part to play in the transport system, but it must give its customers value for money. By giving customers the services they want at a reasonable cost, the railway can secure its own future, and the people who work in the industry can feel pride in their work. British Rail has already begun to introduce really significant improvements, to which I want to pay a warm tribute. The firm objectives I am now setting are designed to further that process.

3. The Board's latest Corporate Plan is clearly going in the right direction and the objectives I have set Mr Reid build on it. In its 1983 Plan, the Board envisages a requirement for central government grant of about £635m (in 1983 prices) by 1988. I am setting the Chairman the objective of achieving that target - a grant requirement of £635m in 1983 prices - two years sooner.

4. The objectives I have set for the Chairman make plain that it is not our intention that the Board should embark on a programme of major route closures. This puts paid to the scare stories about the network about which we heard to so much following the publication of the Serpell Report.

5. This does not rule out the Board proposing changes locally, where they make sense. It is for the Chairman to consider new forms of guaranteed and subsidised substitute bus services, where appropriate on local transport and value for money grounds.

6. The freight, parcels and inter-city businesses can and should work to a commercial objective. The Government believes that rail freight has strong environmental advantages over road freight. So we want as much freight as possible to go by rail, within the financial target for the business, which is to achieve a 5% return by 1988. The scheme of section 8 grants for rail freight facilities will continue.

7. The Board's Plan envisages an increase in investment from present levels. I shall support worthwhile investment which relates directly to the financial and business objectives we have set.

8. The railway is operating in a highly competitive market. So it is to the Board's advantage to obtain rolling stock wherever possible by competitive tendering and to rationalise excess capacity within BREL as soon as possible. I have asked the Chairman to complete by the middle of next year a review of the options for the future of BREL, including the options for privatisation. All the options will be examined on their merits.

9. Greater private sector finance and involvement can help to improve services for customers and keep down costs. I have therefore called on the Chairman to continue to seek greater private sector participation in the development of the railway.

10. The statement of objectives confirms the Government's intention to privatise Sealink. And it also calls for improvements in the railway's industrial relations machinery.

11. With these objectives, the way is clear for the Board to manage the railway so that it gives the country the good quality, efficient service which we all want.

Monday 24 October 1983





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

R B Reid Esq CBE
The Chairman
British Railways Board
Rail House
Euston Square
LONDON NW1

24 October 1983

Dear Chairman

This letter sets out the objectives the Government wishes you to pursue. It supplements the statutory and financial duties of the Board.

Your guiding objective should be to run an efficient railway, providing good value for money. Services to your customers should be reliable, attractive and punctual, at acceptable fares and charges; and the cost to the taxpayer should be reduced. That is the way to achieve a secure future for the railway, enable worthwhile investment to go ahead and give your employees satisfaction and pride in their work.

The Board's current Plan shows the requirement for PSO grant from central government falling to about £700m (in 1983 prices) in 1986 and to about £635m in 1988. The Government wants you to go faster than this so as to reduce the requirement for central government grant to £635m (in 1983 prices) in 1986. Your 1984 Plan should show the profile of expenditure and the measures required to achieve this.

It is not our intention that you should embark on a programme of major route closures. At the same time I should welcome your early views, following the endorsement of the case by the Select Committee on Transport, on the practicability of introducing some guaranteed and subsidised substitute bus services, where they would be appropriate on local transport and value for money grounds.

I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to avoid wasteful duplication.

It is the Board's responsibility to determine fares. But improved efficiency must make a full contribution to keeping down fares. The railway must not use its market position to raise fares unreasonably.

The Board's 1983 Corporate Plan shows the Freight Business coming into profit by 1986. You should take the necessary action to ensure that it achieves a current cost operating profit of 5% in 1988. Within the financial targets set out above, I want you to win as much freight business from road as possible. The objective for the Parcels business should be to continue to earn a proper commercial return. I look forward to receiving the Board's review of the Inter-City business against its commercial target.

The Government wants you to secure improvements to the railways' present industrial relations machinery, which has hampered good communications and slowed down the necessary pace of change.

Sealink must be made ready for privatisation as soon as possible. The Government looks to you to obtain from the private sector more supply and support services, including rail and station catering. I shall welcome proposals from you for more private sector finance and participation in the development of stations and railway services. The Board should continue to pursue a vigorous policy of property development and disposal.

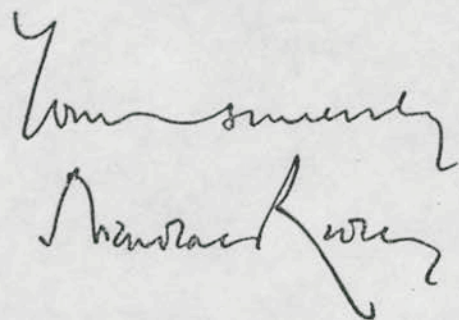
Rationalisation of British Rail Engineering Limited's excess capacity should be completed as soon as possible. You should complete your review by the middle of next year of the options for the future of BREL, including the options

for privatisation. Railway rolling stock should be procured wherever possible by competitive tendering; and the railway equipment industry should continue to be allowed the opportunity to offer design solutions to meet BR's requirements.


Your investment programmes should relate directly to the financial and business objectives set out above. You will clearly wish to give proper priority to cost saving investment which gives an early return; and to carrying forward the improvements which the Board has introduced in management accounting and control.

I look forward to working with you and your Board to achieve the good quality, efficient railway services which are our common goal and to seeing these objectives reflected in your 1984 Plan.

NICHOLAS RIDLEY

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style. The signature is positioned to the right of the typed name 'NICHOLAS RIDLEY'.

2 6/11/83



A circular red stamp with numbers 1 through 12 arranged in a circle around a central design. The numbers are: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12. The central design is a stylized figure or symbol.



CC	HMT	D/N	LPO
	DOE	D/M	LPSO
	SD	CO	CWO
	DTI	CAZ	CWO (Lords)
	CDO		

10 DOWNING STREET

From the Private Secretary

24 October 1983

Dear Dinah,

Objectives for the Chairman of British Rail

The Prime Minister has seen your letter of 21 October and the draft of your Secretary of State's statement. She has noted that your Secretary of State is now prepared to omit the reference to transitional costs in the brief, though it is accepted that your Secretary of State may want to write privately to Mr. Reid to give him assurances along the lines of those contained in the original draft.

The Prime Minister has also agreed with your Secretary of State's view that there is no need at this stage to announce his intention to produce a revised PSO Direction.

The Prime Minister was content with the wording of the draft statement though she queried the reference in paragraph 2 to "pride in their work".

I am copying this letter to the Private Secretaries to members of E(NI), the Lord President, the Lord Privy Seal, the Chief Whip, the Chief Whip Lords and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Miss Dinah Nichols,
Department of Transport.



10 DOWNING STREET

Prime Minister ①

- (i) Mr Ridley has agreed to drop the reference to "transitional costs" in the brief. Agree revised wording at X?
- (ii) Mr Ridley has, as requested, considered timing of statement on Passenger Service Obligations Directive. Agree we accept his Judgement at Y?
- (iii) Agree text of Mr Ridley's statement?

AT

21/10

Yes no

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cc BT
For today Monday



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

21 October 1983

Dear Andrew,

OBJECTIVES FOR THE CHAIRMAN OF BR

Thank you for your letter of 20 October.

On the Secretary of State's instructions, we have spoken to Mr Reid about the reference in the brief to transitional costs. He recognises the risk of encouraging demands for higher redundancy payments. But he believes his position with his Board and his managers will be seriously weakened if the brief contains no words to which he can point as an indication of the Government's recognition that achieving the grant target will involve additional transitional costs. The bulk of these costs will, however, arise over the next two years. So the Secretary thinks that he might be able to signal the recognition for which Mr Reid is looking if he were to delete the last two sentences of paragraph 3 of the brief and insert:

X / "Your 1984 Plan should show the profile of expenditure and the measures required to achieve this" (ie the 1986 grant target).

Y S MB The Secretary of State would be grateful to know urgently if this form of words, which would be supplemented by a separate assurance to Mr Reid, would be agreeable to the Prime Minister.

The Secretary of State agrees that the paragraph on BREL should refer simply to "options for privatisation" as the Prime Minister would prefer.

The objectives in no way supersede or conflict with the very broad terms of the 1974 PSO Direction. And there is no likelihood of Mr Reid saying that they do. It is the Secretary of State's intention to revise the Direction. But the right time to do that is when the statement of objectives for London Regional Transport is being settled and when the Inter-City

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Y Strategy Study has been completed. Moreover, it was agreed at E(NI) on 13 September that the brief should concentrate on the objectives the Government wished the Chairman to pursue, not the means for achieving them. Revision of the PSO Direction is a matter for the Secretary of State, not an objective to be set for Mr Reid. Mr Ridley has, therefore, concluded that the right course is not to include a reference to the Direction in the brief but to deal with the matter if it is raised in questions on his statement.

I attach the draft of the Statement the Secretary of State proposes to make on Monday afternoon.

I am copying this letter to the Private Secretaries to members of E(NI), the Lord President, the Lord Privy Seal, the Chief Whip, the Chief Whip Lords and to Richard Hatfield (Cabinet Office).

Yours,

Dinah.

DINAH NICHOLS
Private Secretary

CONFIDENTIAL

CONFIDENTIAL

DRAFT STATEMENT

1. The Government has listened carefully to the wide public debate on the Serpell Report and in particular to the views of the Select Committee on Transport. What emerges strongly from that debate is that it is for the Government to give the railways a clear framework and objectives, and for the British Railways Board to direct and manage its business in the light of them. Accordingly I have today sent to the new Chairman of the Board, Mr Reid, a statement of the objectives which the Government wishes him to pursue. Copies are available in the Vote Office and I will arrange for it to be published in Hansard.

2. An efficient railway has a vital part to play in the transport system, but it must give its customers value for money. By giving customers the services they want at a reasonable cost, the railway can secure its own future, and the people who work in the industry can feel pride in their work. → a little patronising?
BR has already begun to introduce really significant improvements, to which I want to pay a warm tribute. The firm objectives I am now setting are designed to further that process.

3. The Board's latest Corporate Plan is clearly going in the right direction and the objectives I have set Mr Reid build on it. In its 1983 Plan, the Board envisages a requirement for central government grant of about £635m (in 1983 prices) by 1988. I am setting the Chairman the objective of achieving that target - a grant requirement of £635m in 1983 prices - two years sooner.

4. The objectives I have set for the Chairman make plain that it is not our intention that the Board should embark on a programme of major route closures. This puts paid to the scare stories about the network about which we heard so much following the publication of the Serpell Report.

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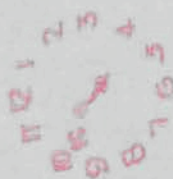
CONFIDENTIAL

5. This does not rule out the Board proposing changes locally, where they make sense. It is for the Chairman to consider new forms of guaranteed and subsidised substitute bus services, where appropriate on local transport and value for money grounds.
6. The freight, parcels and inter-city businesses can and should work to a commercial objective. The Government believes that rail freight has strong environmental advantages over road freight. So we want as much freight as possible to go by rail, within the financial target for the business, which is to achieve a 5% return by 1988. The scheme of section 8 grants for rail freight facilities will continue.
7. The Board's Plan envisages an increase in investment from present levels. I shall support worthwhile investment which relates directly to the financial and business objectives we have set.
8. The railway is operating in a highly competitive market. So it is to the Board's advantage to obtain rolling stock wherever possible by competitive tendering and to rationalise excess capacity within BREL as soon as possible. I have asked the Chairman to complete by the middle of next year a review of the options for the future of BREL, including the options for privatisation. All the options will be examined on their merits.
9. Greater private sector finance and involvement can help to improve services for customers and keep down costs. I have therefore called on the Chairman to ^{continue to} seek greater private sector participation in the development of the railway.
10. The statement of objectives confirms the Government's intention to privatise Sealink. And it also calls for improvements in the railway's industrial relations machinery.
11. With these objectives, the way is clear for the Board to manage the railway so that it gives the country the good quality, efficient service which we all want.

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TRANSPORT : BR FACES : Pt 7

21 OCT 1988



CONFIDENTIAL

OBJECTIVES FOR THE NEW CHAIRMAN OF BR

1. This letter sets out the objectives the Government wishes you to pursue. It supplements the statutory and financial duties of the Board.

2. Your guiding objective should be to run an efficient railway, providing good value for money within the financial objectives set out below. Services to your customers should be reliable, attractive and punctual, at acceptable fares and charges; and the cost to the taxpayer should be reduced. That is the way to achieve a secure future for the railway, enable worth-while investment to go ahead and give your employees satisfaction and pride in their work.

3. The Board's current Plan shows the requirement for PSO grant from central government falling to about £700 million (in 1983 prices) in 1986 and to about £635 million in 1988. The Government wants you to go faster than this so as to reduce the requirement for central government grant to £635 million (in 1983 prices) in 1986. Your 1984 Plan should show the profile of expenditure and the measures required to achieve this.

4. It is not our intention that you should embark on a programme of major route closures. I should welcome your early views, following the endorsement of the case by the Select Committee on Transport, on the practicability of introducing some guaranteed and subsidised substitute bus services, where they would be appropriate on local transport and value for money grounds.

5. I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to avoid wasteful duplication.

6. It is the Board's responsibility to determine fares. But improved efficiency must make a full contribution to keeping down fares. The railway must not use its market position to raise fares unreasonably.

7. The Board's 1983 Corporate Plan shows the freight business coming into profit by 1986. You should take the necessary action to ensure that it achieves a current cost operating profit of 5 per cent in 1988. Within the financial targets set out above, I want you to win as much freight business from road as possible. The objective for the parcels business should be to continue to earn a proper commercial return. I look forward to receiving the Board's review of the Inter-City business against its commercial target.

8. The Government wants you to secure improvements to the railways' present industrial relations machinery, which has hampered good communications and slowed down the necessary pace of change.

9. The Board should make Sealink ready for privatisation as soon as possible. The Government looks to you to obtain from the private sector more supply and support services, including rail and station catering. I shall welcome proposals from you for more private sector finance and participation in the development of stations and railway services. It should ^{continue to} pursue a vigorous policy of property development and disposal, involving private capital.

10. Rationalisation of British Rail Engineering Limited's excess capacity should be completed as soon as possible. You should complete your review, by the middle of 1984, of the options for the future of BREL, including the options for privatisation. Railway rolling stock should be procured wherever possible by competitive tendering; and the railway equipment industry should ^{continue to} be allowed the opportunity to offer design solutions to meet BR's requirements.

11. Your investment programmes should relate directly to the financial and business objectives set out above. You will clearly wish to give proper priority to cost saving investment which gives an early return; and to carrying forward the improvements which the Board has introduced in management accounting and control.

12. I look forward to working with you and your Board to achieve the good quality, efficient railway services which are our common goal and to seeing these objectives reflected in your 1984 Plan.

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HU
RF

10 DOWNING STREET

From the Private Secretary

20 October 1983

Objectives for the Chairman of British Rail

The Prime Minister has seen your Secretary of State's minute of 18 October. In the light of his further explanation she accepts his original wording on closures at the opening of paragraph 4.

On transitional costs the Prime Minister thinks that it is unwise to advertise this problem in the brief. She accepts that the Government should assure Mr. Reid that it will look sympathetically on any proposals he puts forward but it would be unwise to create an open invitation to BR employees to press for generous redundancy payments.

On BREL your restructuring of the paragraph is helpful though the Prime Minister feels that the phrase "options for privatisation of parts of its activities" tends to dilute the effect. She would prefer to say simply "options for privatisation".

Finally the Prime Minister has asked your Secretary of State to consider how he would react if asked whether these objectives supersede the passenger service Direction given to BR on 19 December 1974, under Section 3(i) of the Railway Act, 1974 to "provide a public service which is generally comparable with that provided by the Board at present". If it is his intention to issue a revised Direction later, after the new arrangements for transport in London have come into force, there might be merit in making this announcement now. This might be better than having his intention dragged out of him by an Opposition spokesman who might claim that this was part of the "Hidden Manifesto". Could the relative merits of this be looked at?

The Prime Minister looks forward to seeing a copy of your Secretary of State's statement.

I am copying this letter to the Private Secretaries to members of E(NI), David Heyhoe (Lord Privy Seal's Office) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols, **CONFIDENTIAL**
Department of Transport

SH



*With the Compliments
of the
Lord Privy Seal*

CONFIDENTIAL

PC NO



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

20 October 1983

How Dinah,

STATEMENT ON BRITISH RAIL: 24 OCTOBER

*RT
20/10*

Thank you for your letter of 11 October.

As I explained when we discussed this on the telephone, the Leader of the House and the Chief Whip are both concerned that your Secretary of State's proposed statement should not set a precedent which would weaken our ability to resist pressure for oral statements, in future, when new Chairmen of Nationalised Industries are appointed. They very much hope therefore that it will be possible, on this occasion, to avoid linking the Statement directly with Mr Reid's appointment. When we spoke, you indicated that this should not be a problem.

I am copying this to Tim Flesher (No 10) and Murdo Maclean in the Chief Whip's Office.

*Yours ever,
D.C.R.*

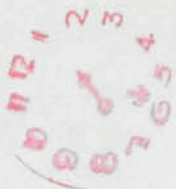
D C R HEYHOE
Private Secretary

Miss Dinah Nichols
PS/Secretary of State for Transport
2 Marsham Street

CONFIDENTIAL

Transport,
BR Fares,
P77

20 OCT 1957





10 DOWNING STREET

Prime Minister

Agree

- (i) Accept original wording on closures
- (ii) Continue to insist on no reference to transitional cost in published brief but same understandings with N Reid
- (iii) Policy Unit wording on privatization of BR&E
- (iv) PU suggestion on Direction to BR

AT

19/10

Y

is

no

PRIME MINISTER

OBJECTIVES FOR THE CHAIRMAN OF BRITISH RAIL

Nick Ridley has accepted some of the points made in the Private Office note on Tom King's draft objectives, but resists three:

1. Manifesto. He does not accept the No.10 phrasing "although I do not anticipate a programme of major route closures, I should welcome . . .",

and prefer the original: "it is not our intention that you should embark upon a programme of major route closures".

This ultimately is not a crucial difference, since Nick would in any case be forced in the House to repeat the Manifesto commitment. We accept his phrasing.

2. Transitional Costs. The removal of the sentence offering assistance for "transitional costs". We suspect that Transport are over-estimating the difficulties of carrying Mr Reid on this point. By all means let us assure him that the Government would look sympathetically on transitional costs, but we should not advertise this in advance. It would be an open invitation to BR employees to press for generous redundancy payments. In BR, as in other nationalised industries, we ought to try to contain these payments, which currently run at a level around three times the private sector average.
3. BREL. Nick has accepted the suggestion that privatisation should be included here, but has diluted it to "options for privatisation of parts of its activities". We would prefer that the statement left it open that privatisation could apply to all of BREL's activities. Why don't we just say "options for privatisation"?

Finally, Nick is likely to be asked whether these objectives supersede the passenger service Direction given to BR on 19 December 1974, under Section 3(i) of the Railway Act, 1974, to "provide a public service which is generally comparable with that provided by the Board at present".

CONFIDENTIAL

- 2 -

At present, it seems to be the Department of Transport's intention to issue a revised Direction later, after the new arrangements for transport in London have come into force. We might invite Nick to consider whether it would be sensible to announce now his intention to do so in the light of the new objectives, rather than have it dragged out of him by a sharp Labour spokesman claiming that this was part of the "Hidden Manifesto".

FERDINAND MOUNT

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CONFIDENTIAL

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REC NO
Prime Minister

OBJECTIVES FOR THE CHAIRMAN OF BRITISH RAIL

Tom King sent you and colleagues the revised draft objectives for the new Chairman on 5 October. I have considered it in the light of your comments, which were set out in your Private Secretary's letter of 10 October, and of those that Nigel Lawson sent you on 7 October.

I am sure that the objectives need to include a reference to our Manifesto statement about closures. Our supporters welcomed what was said in the Manifesto and the Opposition and the unions will be on the lookout for anything they can portray as a retreat from what we said during the Election campaign. The words in the Manifesto leave ample scope to press ahead with the closure of grossly uneconomic minor services, and would even allow the closure of one or more major routes.

The redraft suggested in your Private Secretary's letter would appear to water down what we said in the Manifesto. The word "although" suggests we are trying to disown it. And bus substitution would then be made to look like a back-door way of implementing the extreme Serpell options. This would be a sure way to kill off bus substitution. I hope, therefore, that you and our colleagues will agree that we should retain the opening words of paragraph 4 unchanged.

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Mr Reid's Corporate Plan does already include some transitional finance. But we are asking him to achieve the grant target two years earlier than he had been planning. Our demand that he should go faster may entail some additional transitional costs. Understandably, Mr Reid does not yet know quite how he is to achieve the target, so he cannot say what additional transitional costs it may be necessary to incur and in what year. He has made it plain to Tom King and me that he would not be able to accept the target himself, or carry his Board with him, if he were precluded from putting to us well-justified proposals for assistance with the transitional costs of meeting our objective. My predecessors have throughout made it clear to the Board that we would sympathetically consider proposals for transitional assistance, and have repeated that in the House. It seems clear, therefore, that Mr Reid would not be willing to accept our objective if these words were omitted. It is also relevant that the Serpell Report - which has been so important in establishing the scale of potential savings - said that the savings it identified did not include any transitional costs.

As to redundancy payments, I understand that the scheme operated by the Railways Board is less generous than that operated in some other nationalised industries. Again, I hope that in the light of this explanation, you and colleagues will agree that we should retain the last sentence of paragraph 3.

Having talked to Mr Reid, I am satisfied that he could not complete a thorough and radical review of BREL by the end of this year. I have, therefore, agreed with him that the review should be completed by the middle of next year and that this date should be included in the brief. It would be mistaken,

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however, to associate rationalisation of BREL's surplus capacity with that review. The Board are already committed to the closure of three workshops and we must avoid giving the unions any chance to say that that decision should be made subject to review. Equally, we must avoid getting into the position where the decision on the closure of these workshops appears to be the Government's, rather than the Board's. But I agree that the brief should point the way to privatisation while not implying that it is the only option for all BREL's activities. I propose, therefore, the following redraft of paragraph 10, which would, I know, be accepted by Mr Reid as his objective:

"Rationalisation of British Rail Engineering Limited's excess capacity should be completed as soon as possible. You should complete your review, by the middle of 1984, of the options for the future of BREL, including the options for privatisation ~~of parts of its activities~~. Railway rolling stock should be procured wherever possible by competitive tendering; and the railway equipment industry should be allowed the opportunity to offer design solutions to meet BR's requirements."



I think that dealing with privatisation in this way would accord with the treatment that Nigel Lawson had in mind in paragraph 4 of his minute to you of 7 October.

Paragraphs 7 and 9 of the draft will be amended as you suggest.

I welcome Nigel Lawson's support for the proposal that the brief should be published and I can give him an immediate assurance that Mr Reid will be coming to me by the end of the

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year with proposals to strengthen and restructure his Board. The new Chairman has also been told that he should come forward as quickly as possible with his proposals for the closure of some of the worst loss-making lines. Finally, I can assure Nigel Lawson that the reference in paragraph 3 to transitional costs is in no way an attempt to reopen the EFL for 1986/87 that has already been agreed with the Chief Secretary.

I am copying this minute to other members of E(NI), to John Biffen and to Sir Robert Armstrong.

NICHOLAS RIDLEY
18 October 1983

CONFIDENTIAL

Transport BR A 7

178 OCT 1983

11 17 23



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

MA 13 October 1983

The Rt Hon Tom King MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1

ZPH

Prime Minister (4)

Mr Parkinson supports Mr King's proposal to omit reference to privatisation of BREL. I have minuted that you favour including it.

AT 13/10

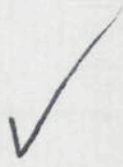
Dear Sir,

BRIEF FOR CHAIRMAN OF BR

Thank you for copying to me your minute of 6 October to the Prime Minister on this. I agree to the Brief in the form you propose having noted your view that an explicit commitment to privatisation of British Rail Engineering Ltd, might jeopardise the rationalisation of its capacity that is so urgently required. No doubt you will ensure that the privatisation option is fully explored by Mr Reid in his review of the future of BREL.

2 I am copying this letter to other members of E(NI), to John Biffen and to Sir Robert Armstrong.

James Earl,
Lead



10 DOWNING STREET

~~Andrew~~ -

Dept. of Transport rang up to forewarn us about a Press notice they are issuing concerning a review paper on the conversion of the Woodside to Selston railway line to a road.

They wish to make it clear, to prevent any queries, that the review paper is a "one-off" and by no means represents a Policy review.

Cameron 11/10.
Have requested 1.50 pm 11/10.
A on the 6 send us a
copy of the Press Release

A.

Mitdell's Office 212 11/10
— 5131



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Duty Clerk
10 Downing Street
LONDON
SW1

11 October 1983

Dear Sir,

I mentioned to you yesterday that the Department would be publishing a report on the railway line between Woodside and Selsdon in Croydon, dealing with the feasibility of converting it into a road. I said that it was a study limited to this one case, but that it indicated the possible value of road conversion if a local authority wanted to consider it.

You asked if you could see a copy of the Department's press notice, and I am now enclosing one.

Yours faithfully,
A J Poulter

A J POULTER
Private Secretary

Press Notice No:

359

10 October 1983

WOODSIDE TO SELSDON RAIL TO ROAD STUDY PUBLISHED

The Department of Transport has today published a report on the former Woodside to Selsdon railway line, Croydon, dealing with the finances and engineering factors concerned in converting it into a road. The report, prepared by Brian Colquhoun and Partners, was commissioned by the Secretary of State for Transport last autumn.

Commenting on the report, David Mitchell, Parliamentary Under-Secretary of State at the Department of Transport said:

"I welcome this study. The debate about the conversion of disused railway lines into roads has been characterised by a marked absence of clear facts about costs and engineering problems. I hope this report will be studied carefully by all those who argue either way on the issue of conversion.

"The study shows that conversion is often technically feasible, but also that engineering constraints can seriously diminish the value of the resulting roads. Every case is likely to be different, but the possible value of using closed railway lines in this way should not be ignored. Where there is a local road traffic problem, and where a railway line does close for any reason, the local authority may well wish to undertake a study of this kind."

NOTES TO EDITORS

1. "The Woodside Study" is available from Room S13/11, 2 Marsham Street, SW1 at a price of £10.30 plus 74 pence postage.

2. Although this study focussed on the Woodside-Selsdon line, this line was chosen simply because it provided a convenient opportunity to illustrate the various cost and engineering constraints of railway conversion generally.

Press Enquiries: 01-212 0431
Night Calls (6.00pm to 8.00am)
Weekends and Holidays: 01-212 7071

Public Enquiries: 01-212 3434
ask for Public Enquiry Unit

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120



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Charles Marshall Esq
Private Secretary
The Rt Hon John Biffen MP
Lord Privy Seal
Privy Council Office
68 Whitehall
LONDON SW1A 2HB

The PMS views conveyed by phone

couldn't - the same information contained in written letter. Indeed it could be fuller than or just identical.

17/10 but 11 October 1983

Prime Minister

Dear Charles,

Do you agree that Mr King should make the proposed statement, subject to Mr Biffen's views?

STATEMENT ON BRITISH RAIL: 24 OCTOBER 1983

Henry Derwent had a word with you on the telephone yesterday. My Secretary of State wishes to make a statement in the House on Parliament's first day back - 24 October - about the brief he proposes to give to the Chairman of British Rail.

The brief has been discussed in E(NI) - 8th meeting, 13 September. More recently it was the subject of a minute of 5 October from my Secretary of State to the Prime Minister, copied to Mr Biffen.

There are strong arguments for making a statement at the earliest opportunity. My Secretary of State wishes to prevent any more of the damaging and persistent criticisms to which the Government has been subjected since publication of Serpell by making a definitive statement of policy through the publication of the new Chairman's brief. In addition, the Select Committee on Transport recommended (2nd report 82/83 session) that a comprehensive statement of rail policy be published by the Government before the appointment of the new Chairman, and this statement in Parliament would provide a response to that. An announcement by means of a written or oral P.Q. would provide nothing like the same opportunity for getting the Government's message across and allaying unjustified fears about railway policy post-Serpell. And in our view the House might expect a statement to be made on this subject.

The Secretary of State of course recognises that other Chairmen's briefs have not been launched in this way, but in his view none of them is of such public interest, or has amounted to such a major statement of policy.

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My Secretary of State is, as you know, First Order for Questions on 24 October; there are a number of questions about British Rail, the BR Chairman and Serpell, and it would be very difficult to answer them by reference to a statement to be made later than that very day.

The draft of the statement itself will depend on Ministers' agreement to the terms of the brief. It is not his intention to read out the brief (a copy of which is attached for reference), but to pick out the salient points.

I would be very grateful if you, Tim Flesher at No 10 and Murdo Maclean in the Government Whip's Office (to whom I am copying this letter), could let me know whether it would be possible for us to make the statement on that day.

*Yours sincerely,
Dinah Nichols*

MISS D A NICHOLS
Private Secretary

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OBJECTIVES FOR THE NEW CHAIRMAN OF BR

1. This letter sets out the objectives the Government wishes you to pursue. It supplements the statutory and financial duties of the Board.
2. Your guiding objective should be to run an efficient railway, providing good value for money. Services to your customers should be reliable, attractive and punctual, at acceptable fares and charges; and the cost to the taxpayer should be reduced. That is the way to achieve a secure future for the railway, enable worthwhile investment to go ahead and give your employees satisfaction and pride in their work.
3. The Board's current Plan shows the requirement for PSO grant from central government falling to about £700m (in 1983 prices) in 1986 and to about £635m in 1988. The Government wants you to go faster than this so as to reduce the requirement for central government grant to £635m (in 1983 prices) in 1986. Your 1984 Plan should show the measures required to achieve this. The Board will incur transitional costs in meeting this objective and I shall be willing to consider what additional financial assistance may be needed to help meet these costs.
4. It is not our intention that you should embark on a programme of major route closures. At the same time I should welcome your early views, following the endorsement of the case by the Select Committee on Transport, on the practicability of introducing some guaranteed and subsidised substitute bus services, where they would be appropriate on local transport and value for money grounds.
5. I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to avoid wasteful duplication.
6. It is the Board's responsibility to determine fares. But improved efficiency must make a full contribution to keeping down fares. The railway must not use its market position to raise fares unreasonably.
7. The Board's 1983 Corporate Plan shows the Freight Business coming into profit by 1986. You should take the necessary action to ensure that it achieves a current cost operating profit of 5% in 1988. Within that financial target I want as much freight as possible to go by rail, rather than by road. The objective for the Parcels business should be to continue to earn a proper commercial return. I look forward to receiving the Board's review of the Inter-City business against its commercial target.

8. The Government wants you to secure improvements to the railways' present industrial relations machinery, which has hampered good communications and slowed down the necessary pace of change.
9. Sealink must be made ready for privatisation as soon as possible and I shall wish to discuss with you the best time to secure its transfer to the private sector. The Government looks to you to obtain from the private sector more supply and support services, including rail and station catering. I shall welcome proposals from you for more private sector finance and participation in the development of stations and railway services.
10. Rationalisation of British Rail Engineering Ltd's excess capacity should be completed as soon as possible. Railway rolling stock should be procured wherever possible by competitive tendering. In addition, you should complete an urgent review of the options for the future of BREL.
11. Your investment programmes should relate directly to the financial and business objectives set out above. You will clearly wish to give proper priority to cost saving investment which gives an early return; and to carrying forward the improvements which the Board has introduced in management accounting and control.
12. I look forward to working with you and your Board to achieve the good quality, efficient railway services which are our common goal and to seeing these objectives reflected in your 1984 Plan.

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10 DOWNING STREET

cc: HMT
D/ENV
SO
IND
TRADE
CH SEC HMT
D/EN
D/EMP
NIO
LPS
CO

10 October 1983

From the Private Secretary

Brief for Chairman of BR

The Prime Minister has seen your Secretary of State's minute of 5 October to which was attached a draft brief for the new Chairman of BR.

She recognises that although ENI decided to include no reference to closures it would be difficult to make no mention of this whatsoever, particularly given the statement in the manifesto. She feels however that the opening sentence of paragraph 4 commits the Government too tightly and she would prefer:

"Although I do not anticipate a programme of major route closures, I should welcome"

She feels the last sentence of paragraph 3 should be omitted as it is likely to arouse excessive expectations about finance for redundancy payments.

The Prime Minister has commented that paragraph 10 should include a reference to the privatisation of BREL and has suggested the following re-draft:

"The Board should complete its review of BREL by the end of the year and bring forward proposals soon afterwards for further rationalisation of its capacity and for privatisation. It should introduce competitive tendering; the railway equipment industry should be allowed the opportunity to offer its own design solutions to meet BR's requirements."

In paragraph 9 the Prime Minister feels that the phrase "I shall wish to the private sector", tends to blunt the impact of the sentence and should be deleted. She considers it would be helpful to add a sentence to this paragraph along the following lines:

"The Board should pursue a vigorous policy of property development and disposal."

/ She considers

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VC

She considers that the third sentence in paragraph 7 would have greater impact if it read:

"Within the financial targets set out above, I want you to win as much freight business from road as possible."

I am copying this letter to the Private Secretaries to members of E(NI), David Heyhoe (Lord Privy Seal's Office) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss Dinah Nichols,
Department of Transport

LEC NO



Prime Minister ②

You agreed to 5 1/2%
provided it did not
add to EFL. This condition 10/10
appears to be satisfied. AT

Treasury Chambers, Parliament Street, SW1P 3AG

Derek Nicholls
PS/Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

7 October 1983

Dear Derek

BRITISH RAIL FARES

Secretary
of State's

The Chief Secretary agrees with the Prime Minister that it would be sensible to limit the proposed increases in BR fares on the lines indicated in your minute of 3 October. I understand that our officials have been in touch with yours to confirm that this can be financed within the EFLs that were agreed at our Ministers' recent bilateral.

The Chief Secretary hopes however that BR will not attempt in any public announcement to justify the increases as necessary to keep fares in line with inflation. That would give a misleading impression about the underlying strategy in the BR corporate plan to reduce costs through increased efficiency.

Copies of this go to the private secretaries of the PM, the Lord Privy Seal, the Secretary of State for Trade and Industry, the Secretary of State for Energy and Sir Robert Armstrong.

Yours sincerely

J. Gieve

JOHN GIEVE

Tran BR P+7

7 OCT 1983
12 1
10 2
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9 OCT 1983

11 12 1
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10 DOWNING STREET

From the Private Secretary

Prime Minister

Brief for Chairman of BR

You asked for the brief to be revised incorporating Policy Unit amendments. This has been done at Flag A, with the points of change indicated. The original is at Flag B. Flag C is the Chancellor's minute.

Before I put this back to Mr King there are ~~two~~^{three} points on which your views are sought.

- (i) Agree delete reference to no major closures or accept Mr King's wish to stick to manifesto?
- Yes
- (ii) Agree include reference to privatization of BREL?
- Yes.
- (iii) Agree delete reference to assistance for transitional costs?

AT 7/10



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

PRIME MINISTER

BRIEF FOR CHAIRMAN OF BRITISH RAIL

I have seen a copy of the Secretary of State for Transport's minute to you of 5 October, covering his revised draft brief to the new Chairman of British Rail.

2. In general, I am content with the presentation of the financial issues. The PSO target of £635 million by 1986 is plainly stated. But we need a greater sense of urgency from the Board on the review of Inter-City which is still awaited. Inter-City revenue is crucial to the overall financial target, and the indications so far about the outcome of the review are not encouraging.
3. I note that the draft brief departs in some important respects from our conclusions at E(NI) on 13 September. We specifically agreed that the sentence ruling out major route closures should be deleted. This has not happened, but I think the deletion is important, for we must avoid any unnecessary public commitments of this kind. Once the sentence has been removed the following one will also require amendment, for it could be misinterpreted as signalling an end to all closures under present procedures. It would not be inconsistent with our Manifesto if we were to tell the Board that closure of some of the worst loss making lines is not ruled out.
4. We also agreed that it would be right to press for the privatisation of BREL. Given the extent to which surplus capacity in BREL is already being publicly run down by redundancies and work shop closures, I do not see that an urgent review by the Board with privatisation as a specific option would be impossible to handle with employees and their unions.
5. Like Tom King, I believe that the brief should be published. But with this in mind, the reference in paragraph 3 to financial assistance for transitional costs should come out: it is too generous a hint to the unions. I understand that the agreed EFL figures for British Rail which the Chief Secretary will be reporting to Cabinet already include the transitional costs necessary to meet the PSO target.



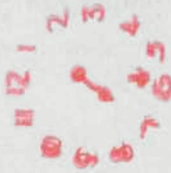
6. Two points which have disappeared from the brief are the need to update the PSO Direction, and - rather more important - the need to strengthen and restructure the British Rail Board. Provided that these points are plainly made to the Chairman in private, I am content however that they should not appear in a published document.

7. I am copying this minute to other members of E(NI), to John Biffen and to Sir Robert Armstrong.

N.L.

7 October 1983

7 OCT 1983



COLLEGE

Draft incorporating Policy Unit comments:
④ - para 7 - after change
⑤ - para 9 - please submit revised version to N.L. etc.

② Area deletion for para 3.
③ in para 4 - please submit copy to N.L. and for copy to

OBJECTIVES FOR THE NEW CHAIRMAN OF BR

1. This letter sets out the objectives the Government wishes you to pursue. It supplements the statutory and financial duties of the Board.

2. Your guiding objective should be to run an efficient railway, providing good value for money within the financial objectives set out below. Services to your customers should be reliable, attractive and punctual, at acceptable fares and charges; and the cost to the taxpayer should be reduced. That is the way to achieve a secure future for the railway, enable worthwhile investment to go ahead and give your employees satisfaction and pride in their work.

3. The Board's current Plan shows the requirement for PSO grant from central government falling to about £700m (in 1983 prices) in 1986 and to about £635m in 1988. The Government wants you to go faster than this so as to reduce the requirement for central government grant to £635m (in 1983 prices) in 1986. Your 1984 Plan should show the measures required to achieve this. ^{the profile of expenditure and}
(Sentence on transitional costs deleted)

4. ~~It is not our intention that you should embark on~~ a programme of major route closures, ~~(At the same time)~~ I should welcome your early views, following the endorsement of the case by the Select Committee on Transport, on the practicability of introducing some guaranteed and subsidised substitute bus services, where they would be appropriate on local transport and value for money grounds.

5. I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to avoid wasteful duplication.

6. It is the Board's responsibility to determine fares. But improved efficiency must make a full contribution to keeping down fares. The railway must not use its market position to raise fares unreasonably.

② Would you like to see on N.L. I think we have to say something about this but not with all possibility - what may be done

⑥ Area change para 13. not

7. The Board's 1983 Corporate Plan shows the freight business coming into profit by 1986. You should take the necessary action to ensure that it achieves a current cost operating profit of 5% in 1988. Within the financial targets set out above, I want you to win as much freight business from road as possible. The objective for the parcels business should be to continue to earn a proper commercial return. I look forward to receiving the Board's review of the Inter-City business against its commercial target.

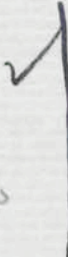
(Y)



8. The Government wants you to secure improvements to the railways' present industrial relations machinery, which has hampered good communications and slowed down the necessary pace of change.

9. The Board should make Sealink ready for privatisation as soon as possible. It should pursue a vigorous policy of property development and disposal, involving private capital. ~~The Board should be prepared to test its own efficiency wherever possible by inviting outside tenders for maintenance, cleaning, catering and other services.~~

(Y)
(S)



meet agenda

Produce Tom King's for maintenance of road & other services

~~10. The Board should complete its review of BREL by the end of the year and bring forward proposals soon afterwards for further rationalisation of its capacity and for privatisation. It should introduce competitive tendering; the railway equipment industry should be allowed the opportunity to offer its own design solutions to meet BR's requirements.~~

(S)
Meredith

11. Your investment programmes should relate directly to the financial and business objectives set out above. You will clearly wish to give proper priority to cost saving investment which gives an early return; and to carrying forward the improvements which the Board has introduced in management accounting and control.

/12. I look

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12. I look forward to working with you and your Board to achieve the good quality, efficient railway services which are our common goal and to seeing these objectives reflected in your 1984 Plan.

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10 DOWNING STREET

From the Private Secretary

Prime Minister

The draft brief for Mr Reid has been improved but questions remain. Most important are: (See Mr Gregson's note).

- (i) Should there be a reference to closures (as in Manifesto) or not (as agreed in E(W1))?
- (ii) Should para on BREL refer to privatization? Or not?

Policy Unit have suggested a number of drafting changes, which you may find attractive

AT

Could you put the

6/10

Policy Unit draft to Mr. King and ask for his comments?

May I see a revised draft. It is difficult to read in the amended or present one

~~CC NO~~

P.01116

MR TURNBULL

BRIEF FOR BR CHAIRMAN

File with
AT

The Prime Minister may find it helpful to have a note on how far the draft brief for the BR Chairman, attached to the Secretary of State for Transport's minute of 5 October, corresponds with the Prime Minister's summing up on 13 September (E(NI)(83)8th Meeting) when an earlier draft, attached to E(NI)(83)18 was discussed.

"Should be confined to objectives rather than methods and drafted more crisply"

2. The letter is about half as long as the original, mainly as a result of omitting redundant language, and leaving out the lengthy passage on relations with the Department (paragraph 16 in the earlier draft) which the Prime Minister particularly disliked.

"First and last sentences of paragraph 6 should be omitted"

3. The first sentence has gone but not the last: "It is not our intention that you should embark on a programme of major route closures." This reappears in the new draft as the first sentence of paragraph 4, where it has greater prominence than in the earlier version. It reflects what was said in the Manifesto: "nor does it mean embarking upon a programme of major route closures". E(NI) thought that it would be better to avoid reinforcing that pledge by repeating it in the objectives letter. The counter argument is that Mr King will almost certainly be asked in the House and at the Press Conference whether the Manifesto pledge holds good, so that nothing would be achieved by leaving it out of the letter. Mr King would probably also

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argue that a series of individual closures can be distinguished, in due course, from "a programme of major route closures". The Prime Minister will however wish to consider carefully whether the sentence should be included.

"Examine the drafting of paragraphs 8, 10, 13 and 16 in the light of discussion"

4. The only point of substance on which Mr King has differed from the E(NI) view about these paragraphs concerns the future of British Rail Engineering Ltd (BREL). The Prime Minister will wish to consider whether she is convinced by the arguments in Mr King's covering minute, ie that the BR Chairman is adequately committed to the possibility of privatisation but that it would be counter-productive to refer to it in the statement.

Publication

5. E(NI)'s preliminary view was that the letter should be published but that a final decision could be taken when the text was settled. No new point has emerged which would argue against publication.

*As Philip Jones,
Terms of reference of Sir Walter Marshall & Sir
Norman Siddall was published. ∴ precedents point
strongly in favour*

AT *PJG*
P L GREGSON

6 October 1983

CONFIDENTIAL

MR. TURNBULL

BRIEF FOR CHAIRMAN OF BR

Tom King's revised draft is an improvement on the draft presented to E(A): it reads more like a set of instructions and is more ambitious in respect to financial objectives. Two aspects of the draft still concern us:

- the scope it allows BR to delay privatising BREL and Sealink;
- a number of drafting defects which weaken the overall thrust of the brief.

BREL

Tom King is reluctant to mention privatising BREL: it has too much capacity and is dependent on BR's designs and orders. Paragraph 10 invites BR to carry out the rationalisation, but this leaves no role for the market, which has an expertise in using assets more effectively. Moreover, there is little point in asking BR to procure by competitive tendering when it has too much BREL capacity on its books.

We would prefer this paragraph to read:

"The Board should complete its review of BREL by the end of the year and bring forward proposals soon afterwards for further rationalisation of its capacity and for privatisation. It should introduce competitive tendering; the railway equipment industry should be allowed the opportunity to offer its own design solutions to meet BR's requirements."

Detailed Points

Paragraph 2: We suggest inserting the condition here in the first sentence:

- Ⓐ "within the financial objectives set out below".

Paragraph 3: Delete last sentence: "prospects of transitional costs" can only encourage expectations of high redundancy payments.

Paragraph 4: The discussion at E(NI) suggested deleting all reference to a "programme of major route closures". We suggest deleting the term "subsidised" in relation to the substitute bus services. This will only irritate the bus industry and adds nothing: the services are already "guaranteed".

Paragraph 5: We suggest deleting "wasteful duplication". It is the Socialist language of co-ordinated transport policy which we are trying to escape from.

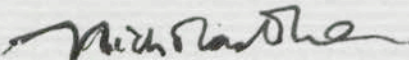
Paragraph 6: Delete the last sentence: why encourage BR and its employees to believe they have a "market position" to exploit?

Paragraph 7: We suggest that the third sentence needs a more commercial flavour:

ⓐ "within the financial targets set out above I want you to win as much freight business from road as possible".

Paragraph 9: We suggest rephrasing this paragraph to give a clearer sense of direction and urgency:

ⓐ "The Board should make Sealink ready for privatisation as soon as possible. It should pursue a vigorous policy of property development and disposal, involving private capital. The Board should be prepared to test its own efficiency wherever possible by inviting outside tenders for maintenance, cleaning, catering and other services."


NICHOLAS OWEN
6 October 1983



file NB
CT

10 DOWNING STREET

From the Private Secretary

5 October 1983

BR FARES

The Prime Minister has seen your Secretary of State's minute of 3 October. She agrees that it makes sense to prevent BR representing a 6.5 per cent increase as "in line with inflation" at a time when we are expecting inflation to be closer to 5.5 per cent. She agrees, therefore, that the basic increase in fares should be closer to 5.5 per cent with some addition for London and South East commuters, provided this can be financed within BR's agreed EFL.

I am sending copies of this letter to John Kerr (H.M. Treasury), David Heyhoe (Office of the Lord Privy Seal), Jonathan Spencer (Department of Trade and Industry), Michael Reidy (Department of Energy) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols,
Department of Transport.



Prime Minister

BRIEF FOR CHAIRMAN OF BR

I have revised the attached draft brief for the Chairman of BR in the light of points made at E(NI) on 13 September and after discussing it with Mr Reid.

In accordance with E(NI)'s conclusions, I have now made the brief much shorter and crisper. It concentrates on stating the Government's firm objectives rather than the methods which BR should adopt.

I should leave colleagues in no doubt that Mr Reid regards the brief - and particularly the grant target for 1986 - as being tough. He stressed that the tone of the original brief - as it would be read by his Board, managers and workforce - could affect his ability to achieve the objectives we are setting. We should also keep in mind the likely reaction of some of our own supporters. So, without changing the substance of the brief, I have revised the drafting in some places to meet this point.

Mr Reid's other main point was the importance of linking the objectives wherever possible to the Board's corporate plans. He is committed to using his new planning system - backed up by realistic action plans - to achieve the economies he knows must be made and to deliver our objectives. I have therefore in particular linked the achievement of the vital 1986 PSO target to

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the planning system, without in any way weakening the target. This also enables me to secure Mr Reid's commitment to eliminate losses on freight by 1986 and earn a 5% return in 1988.

The outstanding issue of substance is the treatment of BREL in the brief. I have considered whether it would be more effective simply to say that BREL should be privatised as soon as possible. I have discussed this with Mr Reid (who certainly sees scope for privatisation as part of the action required to deal with the BREL problem). We are agreed, however, that such a statement would probably be counter-productive. BREL faces great problems of over-capacity. There will be severe local and industrial relations problems in dealing with this, which must be the first step. In these circumstances, successful privatisation will need very careful consideration and handling. We should be seen to be considering the options on their merits. So I propose to keep to the original proposition on BREL (para 10). There is certainly no question of the Board coming forward with options for expanding BREL.

I propose to publish the brief, and Mr Reid agrees with this. There would be great advantages in having on the public record a clear statement of railway policy. It would also strengthen Mr Reid's hand in achieving our objectives. I have it in mind, therefore, that I should make a statement on the brief as soon as the House returns on 24 October. I am in any case First Order for questions that day, and I am therefore suggesting to the business managers that I should make a statement that day. I would then propose to follow it with a Press Conference, possibly accompanied by Bob Reid.

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I would be grateful for colleagues' agreement to the brief as soon as possible.

I am copying this minute to other members of E(NI), to John Biffen and to Sir Robert Armstrong.

Andrew Melville

for

TOM KING

5 October 1983

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

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OBJECTIVES FOR THE NEW CHAIRMAN OF BR

1. This letter sets out the objectives the Government wishes you to pursue. It supplements the statutory and financial duties of the Board.
2. Your guiding objective should be to run an efficient railway, providing good value for money. ^(A) Services to your customers should be reliable, attractive and punctual, at acceptable fares and charges; and the cost to the taxpayer should be reduced. That is the way to achieve a secure future for the railway, enable worthwhile investment to go ahead and give your employees satisfaction and pride in their work.
3. The Board's current Plan shows the requirement for PSO grant from central government falling to about £700m (in 1983 prices) in 1986 and to about £635m in 1988. The Government wants you to go faster than this so as to reduce the requirement for central government grant to £635m (in 1983 prices) in 1986. Your 1984 Plan should show the measures required to achieve this. ^(delete) [The Board will incur transitional costs in meeting this objective and I shall be willing to consider what additional financial assistance may be needed to help meet these costs.]
4. It is not our intention that you should embark on a programme of major route closures. At the same time I should welcome your early views, following the endorsement of the case by the Select Committee on Transport, on the practicability of introducing some guaranteed and subsidised substitute bus services, where they would be appropriate on local transport and value for money grounds.
5. I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to avoid wasteful duplication.
6. It is the Board's responsibility to determine fares. But improved efficiency must make a full contribution to keeping down fares. The railway must not use its market position to raise fares unreasonably.
7. The Board's 1983 Corporate Plan shows the Freight Business coming into profit by 1986. You should take the necessary action to ensure that it achieves a current cost operating profit of 5% in 1988. ^(replace by 13) [Within that financial target I want as much freight as possible to go by rail, rather than by road.] The objective for the Parcels business should be to continue to earn a proper commercial return. I look forward to receiving the Board's review of the Inter-City business against its commercial target.

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8. The Government wants you to secure improvements to the railways' present industrial relations machinery, which has hampered good communications and slowed down the necessary pace of change.

9. Sealink must be made ready for privatisation as soon as possible and I shall wish to discuss with you the best time to secure its transfer to the private sector. ^hThe Government looks to you to obtain from the private sector more supply and support services, including rail and station catering. ^hI shall welcome proposals from you for more private sector finance and participation in the development of stations and railway services.

Replains

Y

10. Rationalisation of British Rail Engineering Ltd's excess capacity should be completed as soon as possible. Railway rolling stock should be procured wherever possible by competitive tendering. In addition, you should complete an urgent review of the options for the future of BREL.

Replase

by

11. Your investment programmes should relate directly to the financial and business objectives set out above. You will clearly wish to give proper priority to cost saving investment which gives an early return; and to carrying forward the improvements which the Board has introduced in management accounting and control.

12. I look forward to working with you and your Board to achieve the good quality, efficient railway services which are our common goal and to seeing these objectives reflected in your 1984 Plan.

CONFIDENTIAL



C. 110
cc Person Office

Prime Minister

Prime Minister

It certainly makes sense to prevent BR representing $6\frac{1}{2}\%$ as "in line with inflation". Treasury are projecting $5\frac{1}{2}\%$. Agree subject to Treasury being satisfied that, as claimed, this does not add to BR; EPL?

BR FARES

Yes
ms

AT 4/10

The new Chairman of the Railways Board has discussed with me the Board's proposals for passenger fares next year.

The preliminary proposal is that in January 1984 all fares should be raised by $6\frac{1}{2}\%$ to keep them in line with BR's estimate of the change in the RPI since last January (when fares were last increased). In addition, it is proposed to increase fares in London and the South East by a further 1%; and to make a number of small selective real increases in Inter-City fares - mainly by reducing the discount on ordinary return tickets - amounting in total to 0.4%.

BR's economists estimate that the increase in the RPI between last January and next will be 6.5%. Clearly, this is too high. BR has to form its own commercial judgement about the rate of inflation - just as firms in the private sector must - but I have made it plain to Bob Reid that 6.5% is unrealistic and unacceptable, and that my first thoughts are that he should aim closer to $5\frac{1}{2}\%$, particularly if he wishes to add 1% for London and South East commuters.

As regards the latter, BR can point to the gain to passengers from the improvements over the last year at stations such as Waterloo, Charing Cross and elsewhere, new rolling stock on the Guildford and "Bed-Pan" lines, and improved cleanliness.



In considering this level of increases of fares, and not a lower level I have in mind the overriding importance of reducing public expenditure. BR's latest Rail Plan forecasts a major reduction in subsidies over the next five years. Most of this is to come from manpower reductions, changed working practices and the overdue efficiency measures which Serpell identified. I have told Bob Reid I want him to go further and faster than this and to achieve the very tough grant target for 1986 on which we agreed at E(NI). The overwhelming bulk of the reduction in subsidy must come from reduced costs; and the Board accept this. I want to ensure that the benefit of these economies goes mainly to reduce the burden on the taxpayer.

Accordingly, I propose to tell Bob Reid that we shall not object to his proposals provided the Board's estimate of the change in the RPI is reduced to a more realistic level and the fare increases are along the lines I have indicated. The Board plan to take their decision on these proposals at their next meeting on 6 October so it would be best if I could tell him this before then. Naturally I am sorry that I have not been able to give you and colleagues longer warning of this.

I am sending copies of this to Nigel Lawson, John Biffen, Cecil Parkinson and Peter Walker, and to Sir Robert Armstrong.

TOM KING
3 October 1983



Chancellor of the Duchy of Lancaster

Prime Minister

PRIME MINISTER

ms 12/9

RAILWAY POLICY

1. You may wish to have my main reaction to the papers in advance of tomorrow's E(NI) discussion.
2. One is bound to ask why the situation has deteriorated so much since 1978. Until then the situation was improving with the loss declining both in money and even more so in real terms. The increase in the loss in 1978 was probably due to accounting changes (adoption of replacement cost accounting). But between 1978 and 1982 the loss more than doubled in money terms and by not far short of 50% in real terms. Even if one discounts 1982 on the ground of industrial disruption one is left with an increase in the loss of 30% in real terms in the three years 1978 to 1981. During this period, most of the major items remained stable in real terms - passenger revenue hardly changed, wages and salaries showed a minor increase only, other operating costs were static and financing charges actually fell. The sole significant change was in revenue from freight and parcels which showed a fall in real terms of £132 m, accounting for two thirds of the total deterioration over the period. Nowhere in the papers is there an explanation or analysis of this. A lot is said in the Report by Officials about the future of the freight business but there is no analysis of the present position beyond the statement that the coal business is very profitable and the rest makes a loss.
3. There may be nothing in this point. It could be that the costs of the freight business have fallen in line with the decline in its revenue: and that the apparent stability of all the figures hides the fact that savings on freight have been outweighed by unjustified increases elsewhere. But we are not told and on the papers in front of us we have no means of finding out.
4. What this demonstrates is that, on the information at present before us, we have no proper analysis or explanation of why the railways are in the financial mess they are, where the specific problems lie and why. Above all it is essential to have disaggregated figures for the various operations of the railways. I am familiar with the argument that the railways do not keep proper accounts. But any competent management accountant could produce estimated figures of the kind needed. Without this information, it simply is not possible to take decisions which are underpinned by a proper knowledge of what is going on.

A.C.

A C

12 September 1983


CONFIDENTIAL

P.01092

PRIME MINISTER

Railway Policy
(E(NI)(83)17 and 18)

BACKGROUND

FLAGS' | The Report of the Official Group on Railway Policy (MISC 94) is circulated as E(NI)(83)17. In line with the conclusions of your ad hoc Ministerial meeting on 3 March (recorded in Mr Scholar's letter of 4 March) the Group explored a variety of ideas for promoting innovation and diversity, within a cost and manpower constraint but did not reach any conclusions on a preferred size of network. It will be producing a separate report in October on the shorter term and narrower issue of possible changes in systems for calculating grant.

2. In E(NI)(83)18 the Secretary of State for Transport puts forward his proposals for following up the MISC 94 Report and, in the light of that, attaches the draft of a letter to the new Chairman of British Rail (BR) setting out the objectives to be pursued. The main proposals are:

- that the Manifesto commitment makes anything more than limited closures not possible at present, but we should do nothing to increase the constraints on our discretion;
- that public debate should be stimulated on franchising, track authorities and private freight companies;

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- that MISC 94 should urgently produce specific proposals for an outside study on separating off the Southern Region of BR as a separate public sector railway;
- that the Secretary of State for Wales should, if he wishes, include in his consultation paper on transport in Wales a passage on local decisions by shire counties on whether to finance or close local rail services.

MAIN ISSUES

3. The main issues before the Sub-Committee are as follows.

- i. What approach should the Government adopt towards the size of BR's route network?
- ii. What approach should be adopted towards the other suggestions advanced by the Secretary of State for Transport? In particular:
 - are all of them worth pursuing?
 - if they are, should the Government attach higher priority to some than to others?
- iii. Does the draft letter to Mr Reid adequately reflect the views of Ministers on questions i. and ii., and more widely?
- iv. Should it be published?

Route network

4. The work done by MISC 94 (see paragraph 11 of the Chairman's

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covering note) confirms that none of the ideas for promoting innovation and diversity is likely to lead to a major change in the level of support for the railways and that any major reduction in public expenditure will depend on substantial contraction of the passenger network. What therefore can be done about the network (for example loss making inter city services and some of the provincial sector) consistent with the Manifesto commitment not to provide ever larger subsidies from the taxpayer but not to embark "upon a programme of major route closures"? It is not clear what Mr King has in mind. He accepts the need "not to make the commitment more restrictive on our discretion". He suggests that further examination of inter city services may require reappraisal of the Manifesto commitment and that examination of some provincial services may require new approaches to bus substitution and local options.

5. If the Government is to make tangible progress in reducing the network within the constraints of the Manifesto commitment, this will require a positive steer from the Sub-Committee, some hard and detailed analysis of particular services, and a major effort to develop a new form of bus substitution which undermines opposition to local closures. Care will also be needed over the drafting of the references to network size in the letter of objectives to the new Chairman. In particular would it be better to omit the last sentence of paragraph 6 which repeats the Manifesto commitment about "no major route closures" but inevitably by inclusion in this letter makes it harder and more specific?

The suggestions for innovation and diversity

6. The Sub-Committee will probably see no harm in opening up the suggestions for innovation and diversity to public debate.

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If however the Sub-Committee were to conclude now that some of them are not likely to be sufficiently worthwhile, it would be better to drop them now, so as not to consume effort and distract management.

7. The most immediate of the suggestions in this area is that of a study of separating off the Southern Region. Besides the arguments for this identified in the papers, there is the further point that it could be easier for a separate Southern Region to work effectively with the new London Regional Transport, since both organisations would be receiving subsidy specifically for much the same area and many of the same customers. On the other hand, a substantial study would be bound to involve heavy calls on the time of BR management; and there would be the danger that the final result would be little more than re-painting the carriages and changing the letterheads. You will wish the Sub-Committee to probe the arguments for and against with some care.

Draft letter to Mr Reid

8. The draft letter to Mr Reid has been broadly agreed by officials of the Departments mainly concerned. It will however be important to make sure that there is Ministerial agreement on what, if anything, should be said about network size (paragraph 6 of the draft letter; see paragraph 5 of this brief). Some Ministers may be dismayed by the reference to carrying "the most you can by rail" in paragraph 3 of the draft letter. This is evidently meant to relate only to the freight and parcels business and to be constrained by the requirement for a commercial return on that business. If paragraph 3 is thought to be insufficiently clear, the draft will need to be amended. On these and any other points as required, the Secretary of State for Transport might be

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invited to revise the draft letter and clear it in correspondence with the Sub-Committee before it is shown to Mr Reid.

Publication

9. There is much to be said for the Government's publishing the letter in preference to partial leaking from BR, and there appears to be nothing in the draft which would make this difficult. Although it would be courteous to consult Mr Reid about publication, the Sub-Committee might agree that, unless Mr Reid raises some unforeseen point, Mr King might be authorised to arrange publication of the letter, assuming that the text is approved by the Ministers concerned.

HANDLING

10. You will wish to invite the Secretary of State for Transport to open the discussion. Either the Chancellor of the Exchequer or the Chief Secretary, Treasury might then be invited to reply. The Secretaries of State for Scotland and the Environment and Mr Roberts (attending on behalf of the Secretary of State for Wales) will wish to comment, in particular, on the route network; Mr Roberts should also be able to comment on the specific proposal about a passage on local options for the consultation paper on transport in Wales.

CONCLUSIONS

11. You will wish the Sub-Committee to reach conclusions on the following matters:

- i. what should be the Government's policy, and public stance on network size;



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- ii. whether ideas of franchising, track authorities and private freight companies should be put into public debate;
- iii. whether officials (MISC 94) should urgently produce proposals for an outside study of making the Southern Region a separate public sector railway;
- iv. whether the Secretary of State for Wales should include a passage on local options in his consultation paper;
- v. whether the letter of objectives for the new BR Chairman should be on the lines of the draft at Annex 1 to E(NI)(83)18 and should, subject to consultation with Mr Reid, be published.

CONQUEROR

PLG

P L GREGSON

12 September 1983

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COMPTON



17 DEC 1968

Prime Minister (2)

9 September 1983
Policy Unit

PRIME MINISTER

RAILWAY POLICY

Please see, too, Tom King's

E(NI) paper (Plan A). Alan Walters will be

letting you have his views. *ms 9/9*

1. British Rail is at last beginning to think along the right lines. So is Tom King. They need to be pushed along a bit faster.
2. We must be explicit from the outset in our instructions to Bob Reid. If he is merely invited to "review" or "keep in mind" a possibility for disposal or closure, the temptation will always be to find excuses, "after careful consideration" naturally, for keeping his empire as nearly intact as possible. The officials' report provides some useful and positive advice for reform of BR. It should be used as a manual for action, not as an inspiration for further reports.

Financial Target

The BR Corporate Plan is offering a reduction in subsidy to £700 million-plus by 1986. Tom King suggests a reduction in the PSO grant to £635 million (in constant prices). This welcome, if tardy, enthusiasm for retrenchment suggests that there is still more fat on the bone. We recommend a target of £600 million cash by 1986 as the total public subsidy to the railways. The present figure is about £1,000 million.

Network

Our Manifesto commitment ("no programme of major route closures") does not inhibit the early scope for further major reductions in subsidy "over and above those achieved by improved efficiency", as Tom argues. We can sharpen up the draft objectives as follows:

BREL (paragraph 10): an "urgent review of the options" is insufficient. This might well inspire BR to spend more time and money on fattening BREL for market - by expensive redundancy payments, new orders for rolling stock, export missions, etc. If BR knew how to rationalise BREL, why has it not already done so? How would BR know what private operators might have in mind for BREL? The instruction should simply be to "prepare BREL for privatisation as soon as possible".

Contracting out (paragraph 11): we should expect BR to contract out to competitive tender all supply and support services. We should also expect BR to dispose of all under-utilised assets, notably its land holdings, as fast as is commercially prudent.

Commuter fares (paragraph 8): I do not honestly think that the rest of the nation should be expected to continue to subsidise commuters in the South-East at the present rate of £290 million a year. On any economic criterion, season tickets ought to be subject to real, albeit gradual, increases. It is wholly illogical that subsidies on this scale should go to BR's only semi-captive customers. The political difficulty of such increases is somewhat reduced by lower rates of inflation. Of course, any real fare increases ought to be accompanied by improvements in standards of service too.

Bus Substitution

We can rely on BR to report positively on this. BR wants to close the most uneconomic of the provincial routes; it has suggested that buses might replace trains on 25 per cent of the whole rail network. The National Bus Company has claimed that buses could replace trains on 75 per cent of the provincial network. Together, BR and NBC have already produced illustrative studies of specific cases, which indicate substantial savings (half the losses). It would be a straightforward task for BR to develop these ideas for all the provincial services. Mr Reid should be asked to identify losses per passenger mile, line by line, on all the provincial routes; these must feature in the eventual presentation of the substitution proposals.

Tom neglects to point out that, on a number of uneconomic routes, BR already competes with a bus service, which need not necessarily be a subsidised one. To introduce a subsidised BR substitute bus service on these routes would be wasteful and unfair to the existing bus operators. Ministers will need to brace themselves to closure of some lines, without any bus substitution, if they are to make a significant impact on BR's losses.

Splitting up BR

The creation of Southern Rail is the obvious starting point for a more manageable unit. As the officials' paper points out, SR is

self-contained, dedicated to one business sector (commuter services), its infrastructure is managed regionally, it has its own type of rolling stock, and its own maintenance. It is vital that the Government retains the initiative on this, because BR (and its new Chairman) are bound to resist. We do not at all like Tom King's proposal to commission a "positive investigation" by outside consultants of "the pros and cons" of separation. If Ministers are convinced that BR is too large to be managed as a unit, Mr Reid should be asked to prepare plans to establish Southern Rail by, say, end-1984.

Inter-City Frequency

BR ought to be readier to consider profit and loss not only line by line, but train by train. One of the greatest potential sources of savings - on fuel, manpower and track maintenance - is the reduction of off-peak main-line services, often run largely for prestige reasons ("there's a train to Barchester every hour"). Reduction of mid-day frequency does, however, require more readiness of railwaymen to work split shifts if it is to produce the maximum savings. We suggest a mention of to the need for BR to improve the load-factor on all its passenger services.

fm

FERDINAND MOUNT

Willie,

Re:
BRITISH RAIL (MCS to Tr. 4/3)

1) Dinah Nicholls tells me that Michael's request for a brief for incoming BR chairman was answered in a letter from S/S Transport to PM dated 2.8.83. Am I right in thinking that this is with you? Yes

2) Progress on short-term savings will be circulated as a note to MISC 94. Do you wish us to continue to follow this up? No

Susan 5.8.83

With office have no comment CC No DC 11/8

M/S
CONFIDENTIAL

1 Mr Fletcher 2 BF to Mrs on 1/9.

P.01085

MR RICKETT

OBJECTIVES FOR BRITISH RAIL

Discussed with PM: she agreed that Mr King could use the draft objectives as a "speaking note" only. She agreed that the objectives and the report of the Official Group should be considered in September. Mr King has subsequently told the PM that he has not yet found a suitable candidate for the Chairmanship.

You asked for advice about the handling of the Secretary of State for Transport's minute of 2 August covering draft objectives for the next Chairman of the British Railways Board (BRB).

*WPR
10/8*

2. The timing constraints are as follows:

- i. Mr King is keen to settle the appointment of a new Chairman in time for him to take up his duties when Sir Peter Parker departs on 11 September. Before the appointment is finally settled, there ought to be some understanding between Mr King and the appointee about what is to be expected of him in the job.
- ii. Mr King would ideally like to be able to make a public announcement about the Government's objectives for the new Chairman in the week beginning 12 September when he takes up his new duties. Such an announcement would inevitably constitute a major Government policy statement about the railways.
- iii. Ministers cannot discuss the major issues of railway policy until they have the report by the Official Group (MISC 94) which was commissioned last March, and Mr King's own comments on that report. The report is likely to be submitted to Mr King tomorrow. Mr King is unlikely to be able to circulate his own views on it before the weekend, when he goes on holiday. He is however likely to be able to circulate the report and his comments on it before the end of August.
- iv. Treasury Ministers are unlikely to be ready to give their agreement to the draft objectives, at any rate as a final document for publication, before the weekend; the same may be true of other Ministers who received copies of Mr King's minute.

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3. The handling turns critically on whether, when the Prime Minister sees Mr King tomorrow, she is able to approve his proposed candidate for Chairman. If there is to be no quick decision on who should be approached, more time can be left to consider the draft objectives. If however Mr King is in a position, following tomorrow's meeting, to approach a prospective new Chairman, we need to consider what should be done about the draft objectives in the light of the constraints set out above.

4. If a new Chairman is to be approached before the end of August, my advice, after discussion with officials in the Department of Transport and the Treasury, would be to handle the matter in two stages as follows:

i. Since the draft objectives attached to Mr King's minute are primarily designed to keep all options open, and have, in an earlier draft, been the subject of exchanges between the Department of Transport and Treasury officials, there would probably be no harm in Mr King's using them as a speaking note in talking to the new Chairman about the nature of the job on a purely exploratory basis. It would have to be made clear that the definitive objectives, and any public statement, would come rather later.

ii. As early as possible in September Ministers should have a discussion, under the Prime Minister's chairmanship, either in E(NI) or in an ad hoc meeting, which would cover both the draft objectives attached to Mr King's minute of 2 August and the MISC 94 Report with Mr King's comments on it. Although Ministers would be unlikely to reach final decisions about railway policy at such a meeting, they would be able to address the question of what should be said definitively to the new Chairman about objectives and what should be said publicly against the background of some preliminary exchanges about the important policy issues.

PLG
P L GREGSON

3 August 1983

TRANSPORT: BR Jaw
P47



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3 AUG 1983
A circular stamp with numbers 1 through 8 arranged around a central point, possibly indicating a date or time.

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cc n/s

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PRIME MINISTER

OBJECTIVES FOR THE NEXT CHAIRMAN OF THE BRITISH RAILWAYS BOARD

1. When we appoint the new Chairman, we must give him clear objectives. I am writing to seek your agreement to them. I attach the draft.
2. I believe that we should publish the letter when it is sent to avoid any risk of leaks. So I have prepared the draft with a view to publication.
3. We must state clearly and unambiguously that the commercial railway businesses are to be operated to a commercial objective and not muddled up in their accounting with the other parts of the railway. But the main financial objective we must set is a reduction in grant to secure the short-term savings identified by Serpell. The target in paragraph 4 would reduce the Exchequer grant in 1986 to £635m (in 1983 prices). That would be a cut of £200m in constant prices compared with the grant figure for 1983.



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4. I am sure we must reiterate what we said in our manifesto about the network - that we are not embarking on a programme of major route closures. But as you will see, I propose also to call specifically for views on allowing guaranteed bus services to be substituted for some rail services. This will be attacked by the rail lobbies, but we shall command a lot of sensible support, and I am sure we must get this idea under-way.

5. I should warn my colleagues that this week the Railways Board are explaining to their unions the Board's specific plans for achieving a reduction of 1,900 miles (nearly 10%) in the total length of track. This is the target they have set for themselves and they have been planning it for some time. Most of this rationalisation will come from slimming down, say, four parallel tracks to two, or two tracks to one. Removal of the duplicate tracks is intended to bring capacity closer into line with the requirements of the rail business. The plans do, however, also include a few closures (e.g. Marylebone Station and some freight only routes), which will be contentious. We are not committed to these proposals and, of course, any opposed closure of passenger stations and services will have to come to me individually for confirmation. I am sure it is right for the Board to get their plans on to the public record before the new Chairman takes office. In this way, he will not be the target for the instant blame that would be laid at his door if the announcement of the plans were delayed until after his arrival.



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6. We must make clear that we expect the financial improvements to be won through increased efficiency and lower costs, not from higher fares, particularly for commuters. I propose, therefore, to restate the policy we laid down in November 1981, when David Howell published draft objectives for the London and South East services: changes in the level of commuter fares should not exceed the rate of growth in the RPI except where specifically justified because a service has been improved. This will give the lie to the post-Serpell scare stories that we intend to raise BR commuter fares by 40%. Peter Rees and I are already in touch about the separate question of London Transport fares when the LRT is set up.

7. Sealink must be privatised as soon as possible. I do not propose to allow its privatisation to be put back to next year unless there are good market reasons for that. I shall keep in close touch with the Chancellor on this aspect in particular.

8. As to BREL, there is frankly a conflict between forging ahead now towards privatisation, at a time when the future order book is very uncertain, or pressing the Board to get ahead with the necessary contraction, of which the closures at Horwich and Shildon may be only the first stage. I do not think we should aim to resolve that conflict now. My proposal, therefore, is that we should ask the new Chairman for an urgent review of the options.



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9. On industrial relations, I shall make clear to the new Chairman that he must improve the present negotiating machinery, which is far too protracted, and that in particular he should get out of the present situation that any party can make a unilateral reference to a McCarthy Tribunal.

10. The draft necessarily covers a number of other matters, and gives a clear basis on which the new Chairman and I can work together. I have included in the draft a reference to the longer term possibilities, on which the Official Group is about to submit to us its report.

11. I am sending copies of this to the Chancellor of the Exchequer, the Chief Secretary, the Secretaries of State for Scotland, Wales and Employment and to Sir Robert Armstrong.

TOM KING

2 August 1983



AUG 1985

11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

OBJECTIVES FOR THE NEW CHAIRMAN OF BR

1. This letter sets out the objectives the Government wishes you to pursue as Chairman of the British Railways Board. It supplements the present statutory and financial duties of the Board.

Service and Financial Objectives

2. Your main objective should be to run an efficient railway, providing good value for money. This means:

- for your customers, services that are reliable, attractive and punctual at acceptable levels of fares and charges, with improved efficiency making a full contribution to restraint on fare levels;
- for taxpayers, a reduced requirement for financial support;
- for management, commitment to achieve the improvements already begun and to going further and faster in the adoption of the most modern business techniques;
- for your employees, the prospect of working for a successful business and of feeling pride and satisfaction in helping to provide a good and efficient service.

3. The Government expects you to bring the commercial railway businesses (Inter-City, Freight and Parcels) urgently to the point where they are earning a commercial return on the assets employed. Keeping to this target, we want you to carry the most you can by rail. To this end, we shall encourage firms to come forward with applications for freight facilities grants under section 8 of the Railways Act 1974.

4. The Government also looks to you to contain and reduce the subsidy for the rail passenger services provided under the present Public Service Obligation. We consider that the target to which

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you should work is to reduce the requirement for PSO grant from central government in 1986 to £635m (in 1983 prices). The Board's current plans show progress towards this aim. I shall want to discuss the plans with you, to settle firm milestones to the achievement of the target, and to determine if additional financial assistance may be needed to help meet certain transitional costs.

5. I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to cut out wasteful duplication between operators.

I shall be establishing liaison arrangements to this end and will be looking to you to make a major contribution to achieving the improvements that are needed.

6. I shall want to consult you about clearer objectives for the passenger services provided by the Provincial Sector. I should welcome your early views on the proposals, which have been widely advocated, to allow bus services to be provided - with the aid of subsidy, where necessary, and with proper guarantees for continuity of operation - in certain circumstances in substitution for particular rail services. It is not our intention, however, that you should embark on a programme of major route closures.

7. I shall also want to consult you about the content of a new and up-to-date PSO Direction, in which I would seek to reflect the Board's reorganisation of the business by sectors and the need to give clear objectives to the sector directors.

8. It is the Board's responsibility to determine fares. But I shall look to you to ensure that the railway does not use its monopoly power to raise fares disproportionately on the subsidised services. For commuter services, in particular, changes in the level of fares should not exceed the rate of growth in the retail price index except where justified to reflect service improvements.

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Objectives for Privatisation and Innovation

9. As I made clear to your predecessor, plans to privatise Sealink must be carried to completion as soon as possible.

10. Rationalisation of British Rail Engineering Ltd's excess capacity should be completed as soon as possible; and railway rolling stock should be procured by competitive tendering. In addition, you should complete an urgent review of the options for the future of BREL. I shall wish to discuss with you the report of this review and the implications of your preferred options.

11. The Government will also look to you to contract out to competitive tendering in the private sector more supply and support services for the railway and the Board's other activities, including rail and station catering. I shall welcome proposals from you for involving the private sector in the development of stations and the provision of railway services.

12. As my predecessor indicated in the Parliamentary debates on railway policy earlier this year, there may be scope in the longer term for a better structure for the railways that would contribute to better services for transport users and encourage innovation. I shall wish to discuss these possibilities with you and to hear your ideas.

13. You should review and make such proposals as you think fit for clarifying and strengthening the role, structure and composition of the Board itself. Urgent action will be required to carry forward the good work that has already begun to improve the management of the railway and the subsidiary businesses. I expect the Board to ensure that clear and effective systems of management accounting and control are operated, which produce the information needed for efficient management at all levels and enable the Board to monitor performance against objectives and take prompt remedial action where the two diverge.

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14. The Government wish you to put forward investment programmes directly related to the achievement of our financial and business objectives for your industry. Projects which save costs and have a quick payback should receive priority in your programmes.

15. The achievement of the changes that are needed will require the cooperation and help of your employees. That will demand clear leadership and effective communication between management and the workforce, recognising railwaymen's pride in their work and their desire to provide a good service. We believe that the railway's present industrial relations machinery has hampered good communications and has slowed down the necessary pace of change. We want you to secure improvements in these arrangements in the interests of your customers, your employees and the taxpayer.

Role of Government and Relations with the Board

16. In recent years, the Department has been drawn too deeply into matters which are the proper responsibility of the Board and its managers. Close adherence by the Board to the objectives set out in this letter will enable me to confine my own and my Department's involvement only to what is necessary for the proper discharge of my statutory duties and my accountability to Parliament and my colleagues, particularly for the value for money obtained for the grant and loans. I shall, of course, expect you to consult me on major decisions with wider implications for the economy. And I shall want to discuss with you how the Department's prior scrutiny of investment projects can be reduced by improved project appraisal by the Board.

17. The Government will settle each year, after discussions on your current business and investment plans, the total of external finance and the ceiling of grant within which you are expected to operate for the coming year, together with an indication of the figures for the subsequent two years.

18. These are the immediate objectives to which we wish you to work. Other matters are likely to arise from time to time on which it would be appropriate for me to give you additional objectives.

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Summing Up

19. Railways depend on the support of the public - both the customers who pay directly for the use of the services and the taxpayers who provide the substantial grants. To retain this support, the railways must show that they do provide good value for money, that they will adapt to the changing demands of their customers, that they can meet the challenges of their competitors, and that they will exploit the opportunities provided by new technology.

20. I look forward to working with you and your Board to achieve the good quality, efficient railway services which are, I know, our common goal.



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1989-1990



condemned

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PA

MR. SCHOLAR

BRITISH RAIL

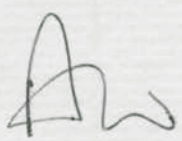
Told Mr King's office
They are getting in

On 23 June, under arrangements made by Sir Alfred Sherman, I met Sir Peter Parker and some of the top management of British Rail. The objective was to see whether we could arrange for British Rail itself to make better use of its assets and particularly the rail tracks and valuable land in urban areas. The result of the evening was that British Rail have agreed that there are possibilities of converting under-utilised and unprofitable tracks into high speed roads. The consultants Coopers and Lybrand will undertake to review:

touch
with AW
+ AS
MCS
29/6

1. The Marylebone line.
2. A West London line.
3. Another London line yet to be identified.

This looks like a breakthrough for BR.



ALAN WALTERS
28 June 1983

CONFIDENTIAL



28 JUN 1983

CONFIDENTIAL



cc. N.O.
~~Mr. Scholar - to see on return~~
NBPM

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

27 May 1983

The Rt Hon David Howell
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

New Secretary of State,

BRITISH RAIL PAY

You wrote to me on 26 May about the offer the British Railways Board propose to make to attempt to secure an early settlement with their employees. British Rail's financial position underlines the need for the lowest settlement possible in this case. 4 per cent is not ideal for BR - and presentationally it would be valuable if a settlement fractionally below 4 per cent could be secured. But I agree that an early and smooth settlement at a moderate level has attractions, and that British Rail should seek to secure a settlement on this basis.

My main concern has been whether or not this year's settlement should be used as a further opportunity to pursue the productivity initiatives British Rail so badly need to implement. I accept at this stage that an explicit linkage with productivity would probably not achieve materially faster progress; and could hinder progress. But the unions should be left in no doubt that if problems develop later in the year in implementing changes in working practices, next year's pay settlement will be jeopardised.

I am copying this letter to the other recipients of yours.

Yours sincerely,
John Kew

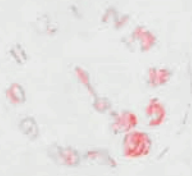
pp GEOFFREY HOWE

(Approved by the Chancellor.)

Mr. [illegible]

1983

27 June 1983



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2/10



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Sir Geoffrey Howe QC
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

Prime Minister ①

Agree not to intervene?

M/S 26/5

26 May 1983

Private Secretaries
to the S/S & Transport
& the Chancellor informed
of this agreement by
phone today

✓ MS

27/5

De Selby

RAILWAYMEN'S PAY

In your minute of 17 May to the Prime Minister you foresaw that BR would probably be making a pay offer towards the end of this month and suggested that I should forewarn colleagues about what is proposed.

The Board have now told me that they believe there is a chance of securing a low and quick settlement if they move in the next few days and that they propose to make an offer at a meeting of the RSNC next week.

When they drew up their Budget for 1983, they made allowance for a maximum 4% increase in pay. Their proposal is to end up with a cash settlement that does not exceed this figure.

The Board contend that this is the best way to secure full acquiescence in further major manpower reductions and administrative economies planned for this year.

The Board think it unlikely that any of the Unions would take the offer to the McCarthy Tribunal. But if there is any suggestion of a reference to the Tribunal the Board would withdraw its offer.

Between now and the day of the meeting the Board will be looking further at ways of formulating their initial offer so as to steer between prompt rejection and attempts to push them above their limit.

I have left the Board in no doubt about the Government's view that they should go for the lowest possible settlement and indeed that pay rises should be offered only for increased productivity, and if they go this route they should certainly open the negotiations at less than 4%.

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However, while the Board do plan further extensive de-manning and productivity improvements they do not want the kind of linkages in the 1981 agreement, which proved so susceptible to fudging, and I think they have a point.

If we now intervene in this process or seek to delay it, this could clearly run political risks without any very obvious gain. So unless my colleagues have any further views (which I'd be grateful to receive by the morning of Tuesday 31 May at the latest) I propose to let the Board go ahead with their meeting and see whether their judgement about getting a quick and low settlement is well founded.

I will keep colleagues informed of developments. I am sending copies of this letter to the Prime Minister and to the members of the 'E' Committee, to Sir Robert Armstrong and Mr Sparrow.

Yours
David

DAVID HOWELL

26 May 1983
10 11 12 1 2 3 4
9 8 7 6 5

CONFIDENTIAL

TOW Richard

BWD

MS 4/5



10 DOWNING STREET

DOCTOR

HOWELL

ETRE

JOHNSON - SMITH

GOODMAN ? RYMER

STANLEY

VARRER

LOW

met on 3/5/1983.

NO REVOLUTION IF WE
DIESEL RATHER THAN
ELECTRICITY

∴ WE WILL DIESEL

HAVE INFORMED THE
PRIME MINISTER.

4/5/1983

PART 6 ends:-

MISC 94 (83) 10

PART 7 begins:-

I. Gow to MCS 4/5/83

