PREM 19/1989

PART 8

MT

SECRET.

C

Confidential Filing

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 8 : January 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
14.3.84		22.10.84		7.4.86			
16.4.84		2.11.84		14.5.86			
17.4.84		14/11/84		20.5.86			
18/4/84.		28.2.85		29.5.86.			
26.4.84		18.3.85		9.6.86			
3.5.84		25.3.85		16.6.86			
11.5.84.		27.3.85		11.7.86			
17.5.84		28.3.85		23.7.86			
22.5.84		2.4.85		25.7.86			
25.5.84		22.4.85		31.7.86			
30.5.84		24.4.85		pt 8 ends			
6.6.84		8.5.85					
11/6/84		15.5.85.					
19/6/84		31/7/85					
19.7.84		8.8.85					
23.7.84		12.8.85					
26/7/84		22/8/85					
13.9.84		23.8.85					
4.10.84		30.8.85					
		3/9/85					
		11.9.85					
		18.9.85					
		5.2.86					
		10.2.86.					
		19.2.86					
		28.2.86					
		14.3.86					

PREM 19/1989

PART 8 ends:-

CST to SS trans 31/7/86

PART 9 begins:-

SS/trans to CST 9/10/86.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(NI)(84) 8	19/07/1984
E(NI)(84) 4th meeting, item 1	26/07/1984
CC(84) 30th meeting, item 4	13/09/1984
E(NI)(85)4	08/05/1985

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 _____ Date 21/10/2014

PREM Records Team

013/2985

CONFIDENTIAL

cc BS

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

31 July 1986

Dear John,

BR OBJECTIVES

Thank you for your letter of 25 July reporting the outcome of your further discussions with Sir Robert Reid.

While I appreciate the importance you attach to securing the Chairman's full commitment to the PSO target and all the work you and he have done, I cannot accept that we should settle for the £555 million you propose.

I do not press for an assumption of higher real fare rises in the London area than 1½ per cent per annum, though I do not rule this out as an option.

But it is in the area of cost reductions that I am most disappointed by your proposals. When I agreed a target range of £470-£520 million for the PSO grant with Nicholas Ridley in March, this was on the basis - hardly too radical - that BR should be able to repeat the real reductions in general costs they had achieved from 1983 to 1986-87 over the next 3 years. I understand that on the latest figures, such a reduction in overall costs would produce a grant level of more than £100 million below what you are proposing, as a result of BR's more recent buoyant revenue. I appreciate that past movements in overall costs have been distorted by BREL redundancy costs and by the pattern of revenue investment. But even excluding these costs, and looking at basic costs, your proposal is consistent with a reduction in costs of 1½ per cent per annum over the next 3 years rather than the 2.2 per cent per annum the Board have achieved since 1983. Since a repeat of the performance since 1983 would produce a grant level very close to the top end of the original range I had agreed (£520 million),

CONFIDENTIAL

TRANSPORT
BR
PT 8

I must ask you to reconsider. I think it right to be tough with BR; as your E(NI) papers brought out they have not been as effective as they should have been in improving their efficiency and reducing their unit costs.

You would not in any event be able to announce a new PSO target at this stage, since several details remain under discussion. I do not therefore see the need to agree a target - which will inevitably be subject to later adjustments - at this stage and I am not persuaded of the need to go above the original range of £470-£520 million that I agreed. Have you considered the possibility of an efficiency audit carried out by outside consultants which could identify the opportunity for further efficiency savings to help them meet the target we set?

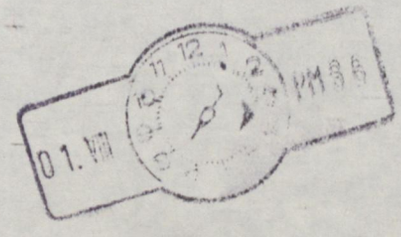
I also consider that the level of PSO grant should be decided at the same time as the rate of return for BR's commercial businesses. Here I am concerned about the overall 3 per cent target return that you propose. The current Government target for Inter-City, as you know, is a 5 per cent real rate of return by 1988-89. I realise why this cannot be achieved, but I think that we must seek a more ambitious target than simply breaking even a year after Inter-City will be ineligible for grant. Equally, I think there should be a more ambitious target for the Parcels sector than BR have proposed. For these reasons, I would prefer a rate of return target nearer to the overall NI target of 5 per cent than your proposal. Indeed, even a 5 per cent target would be somewhat generous as the assets of BR's commercial businesses are almost certainly undervalued.

I am copying this letter to members of E(NI), to Nicholas Edwards, and to Sir Robert Armstrong.

Yours ever,

JL

JOHN MacGREGOR



CCBR

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

CONFIDENTIAL

25 July 1986

The Rt Hon John MacGregor OBE MP
Chief Secretary
H M Treasury
Parliament Street
LONDON SW1

NGP 2

Dear John.

BR OBJECTIVES

At E(NI) on 15 July I was invited to agree with you the targets attached we propose to set BR for grant and the rate of return on their commercial businesses for Sir Robert Reid's further 3 year term of office. I am now writing to let you know the outcome of the further discussions I have had with him.

My aim was to get as close as possible to the target range of PSO grant which you and Nicholas Ridley agreed earlier in the year to ask the Chairman to try for. At the same time, for the reasons I explained at the E(NI) meeting, I regard it as essential to have the Chairman's full commitment to the figure: it cannot be one that we impose on him against his better judgement. He needs to be able to sell the figure to his Board and management as a tough but realistic target which he is reasonably confident can be attained. The fact that Sir Robert was wholly committed in this way to the targets he was set in 1983 accounts in large measure for the success the Board have had in reducing their call on grant over the past 3 years.

My discussions with Sir Robert were based on the Board's latest forecasts contained in Strategy Documents which your officials have seen. Unfortunately in the last couple of weeks the Board have discovered arithmetic errors underlying some of the figures which bring the forecast grant requirement for the Network South East (NSE) and Provincial sectors to some £640m in 1989/90 (at 1986/87 prices) instead of the £620m we had previously been working on. That made the gap £20m wider than we had expected. I had also been looking to increases in real fares in the London area to contribute savings of some £30m in the target year. This was based on real increases of 2-3% per annum. Sir Robert made it clear to me that he was very uncertain whether the Board could deliver increases as high as this. I was also mindful of the comments made by colleagues on this point during our discussions.

Sir Robert Reid has nevertheless agreed to aim for increases of some 2% although he thinks it would be unwise to rely on more than 1.5%. That reduces the prospective savings by a further £10-15m.

In the light of all this, Sir Robert argued very strongly that the largest saving he could offer was £60 million - £15 million from fares increases and £45 million from deferring investment, the identification of additional benefits from investment already planned, and from further productivity savings he could clearly identify now. This would bring the grant down to £580 million in the target year. I impressed on him however the need for further reductions in the Board's basic costs; they have fallen by some 2.2% per annum over the last 3 years but looked set to remain pretty constant over the next 3. The savings Bob Reid had already volunteered included cuts in basic costs of around £15m. After further discussions he has now agreed to aim for further productivity savings of £25m bringing the total reduction to £40m, although the Board have not yet been able to develop specific proposals for achieving these extra savings. It would bring the reduction in the Board's basic running costs to 1.5% per annum over the next 3 years and reduce the grant requirement to £555m. Sir Robert has assured me that at this figure he expects to achieve the Board's quality of service targets. But he also made clear that this is the furthest he feels able to go. But for the extra costs of £20m and the £10-15m reduction in the prospective savings from London fare increases, it would of course have met the upper end of the target range Nicholas Ridley set.

I therefore propose to set the Board this target for 1989/90. It represents in total a reduction in grant of £180m compared with the target for the current year, and is in my view both challenging and realistic. It is by no means free of risk; apart from the fact that the Board have not yet identified the ways in which they would achieve the additional productivity savings, the Board's forecasts incorporate assumptions about growth in receipts in NSE quite apart from the results of real fare increases. 1985/86 was a year of exceptional growth but this may be partly explained by one-off restructuring of fares and the introduction of Capitalcard. There are no equivalent factors to support the forecast increase in 1986/7. If the growth forecast in 1986/7 and beyond does not materialise, some £30m would be at risk. If in addition part of the £20m growth in revenues last year proved to be a transitory phenomenon, that could be at risk also. The Board might recoup that by further real fare increases above 2%, but we would have to be prepared to stand by them in defending increases of that kind.

My officials are currently having discussions with BR about various accounting changes including the attribution of interest between the Sectors and the calculation of the Special Replacement Allowance which is intended to bring BR's historic cost depreciation provision broadly up to a CCA basis for grant purposes. These changes are likely to lead to some downward

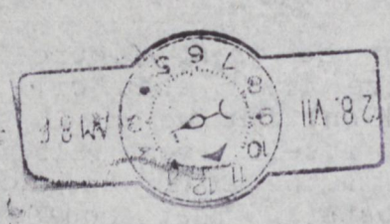
adjustment in the grant figure. If we decide to introduce a separate Police grant that will also reduce the PSO grant (by some £10 million) but we shall of course have to allow for the Police grant itself (some £15 million). We are also still discussing with the Board the accounting treatment of the BREL redundancy costs. That could lead to a change (upward or downward) in the grant requirement in the target year. We shall be aiming to conclude all these discussions during the summer so that they can be incorporated in the published grant target. My officials will of course keep yours closely in touch.

I am still discussing with Sir Robert the target rate of return on the "commercial" businesses. He is still aiming - despite considerable risks on both costs and revenue forecasts - for a 5% rate of return on the freight business and a broadly comparable one on freightliner. Clearly InterCity will not be able to do much more than break even in 1989/90, though I shall be looking for a significant improvement in the early '90s. The other commercial business is parcels where the Board are currently suffering unexpected losses as the result of the loss of the Post Office parcel business and the Murdoch group newspapers. In the light of this and the position of InterCity Sir Robert feels that it would be unrealistic to aim for an overall return of more than 2.2%, which might be increased to 2.5% by the proposal I am still examining to pay a separate grant towards BR's police costs. I am still discussing these points with him in the hope of increasing the overall target to 3%. These figures exclude future assets relating to Channel Tunnel trains which will have to be considered separately.

I regard the commitment by BR to take Inter City out of grant and expose it fully to competitive disciplines as a considerable achievement. If we can get them to agree to a 3% target return on their commercial business as well as the reduction of grant to £555 million we shall have done very well. We can rely on Bob Read to give his full backing to the figures he has signed up for and to improve on them if he can.

Copies of this letter go to members of E(NI), to Nicholas Edwards and to Sir Robert Armstrong.

JOHN MOORE


28. VII

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 July, 1986.

NEW OBJECTIVES FOR THE BRITISH RAILWAYS BOARD

The Prime Minister was grateful for the report of E(NI)'s discussion of new objectives for the British Railways Board set out in the Chancellor's minute of 21 July.

(David Norgrove)

Tony Kuczys, Esq.,
HM Treasury.

RS2/41 CONFIDENTIAL

SCBG

PRIME MINISTER

Prime Minister 2

DRV 22/7

NEW OBJECTIVES FOR THE BRITISH RAILWAYS BOARD

ATTACHED

E(NI) discussed new objectives for the British Railways Board under my chairmanship on 15 July.

2. The Secretary of State for Transport gave a clear presentation of the position and prospects of British Rail's businesses, both commercial (Inter City, Freight, Parcels, Freightliner) and non-commercial (the Provincial and South East Networks). British Rail had made great strides under Sir Robert Reid's chairmanship, and the target of a real reduction in central Government subsidy of 25 percent had been achieved. But there was little prospect that Inter City would achieve its target real rate of return of 5 percent in 1988-89, and the freight businesses faced continuing difficulty. Moreover, although substantial progress had been made in reducing manpower, much of the benefit had been offset by surprisingly large increases in real wages. The task now was to set new objectives for British Rail in terms of the level of subsidy and the real rate of return on commercial businesses to be achieved by the end of Sir Robert's further three-year term as Chairman in 1989-90.

3. The central Government subsidy this year is £725 million. British Rail accept that subsidy should no longer be paid on Inter City after next year, and this will save more than £100 million a year. This saving presupposes substantial progress in generating revenue and achieving real cost reductions. Further progress in reducing the subsidy will depend on rationalisation of the Provincial Network where revenues cover only about 25 percent of costs, and on real fare increases on the South East Network.

4. Nicholas Ridley as Transport Secretary asked British Rail to consider a range of £470-£520 million for the subsidy target in 1989-90. In addition to other measures to cut costs, getting down to this range would almost certainly involve substituting guaranteed bus services over a significant part of the loss-making provincial services, and increasing real fares in the South East by perhaps 3 percent a year. The Sub-Committee agreed that John Moore's objective, in his further discussions with the Chairman of British Rail, should be to agree a subsidy target in this range, the achievement of which would have the full commitment of the Board. But they acknowledged the political sensitivity of moves to implement bus substitution, and emphasised the importance of service improvements if real fare increases in the South East were to be justified. The Transport Secretary will settle the precise figures for the grant target with the Chief Secretary in the light of his further discussions with British Rail.

5. As to the commercial businesses, the Sub-Committee agreed that there should be a single rate of return target to replace the present separate targets for Inter City, Freight and Parcels. This sensibly reflects the fact that much of the manpower and equipment can be used interchangeably between British Rail's different businesses. Here again it is important that the target should be a realistic one, which would carry the support of the board. The figure will be settled by the Transport Secretary with the Chief Secretary; the Chief Secretary made it clear he would need to be fully satisfied about the arguments if it were to be below 5 percent. Once the numbers have been settled, John Moore will agree with John MacGregor the terms of an appropriate statement of British Rail's new objectives, keeping E(NI) colleagues informed.

N.L.

21 July 1986

10 DOWNING STREET

Prime Minister 2

Note that N Moore proposes 2-3 & real increases in South East rail fares. This follows the past pattern and N Moore thinks this will be acceptable as quality improves. (para 8).

DCV
11/7

Prime Minister 2

An interesting note, but I doubt that there is any need for you to suggest that John Rowe and Bob Reid should meet. DCT 11/7.

PRIME MINISTER 11 July 1986

BRITISH RAILWAYS - CORPORATE PLAN AND CHAIRMAN'S OBJECTIVES

Next Tuesday, E(NI) will review BR's Corporate Plan and the Chairman's objectives for the next three years. This period could be a watershed for BR - now our most heavily subsidised nationalised industry. After the Serpell Report in 1983, the Government opted to defer further pruning of the most uneconomic parts of the Provincial network and see how much could be achieved through better management and a more businesslike approach.

So far, Bob Reid and his managers have made steady but not spectacular progress. Their most creditable achievement has been to hit the target of a 26% real terms reduction of the Public Service Obligation (PSO) grant since 1983. Productivity has increased and manpower has been reduced. The snag is that BR have so far continued to give away the benefits of productivity improvements in higher real wages and better terms of service. Thus, the 13,000-odd reduction of staff since 1983 has no more than offset the steady drift of real average earnings - up 14% from 1979 to 1984 compared with a national average of 12%. For a manpower-intensive business where wage costs represent over 50% of the total, this has been a crucial shortcoming.

(and the Post Office)

Whether BR can emulate LRT and get back onto the virtuous track of providing a better quality and more appealing service

to a growing number of passengers for declining unit costs, will depend, above all, on cracking this nut. Keith Bright of LRT has shown that it can be done whilst avoiding serious strikes. LRT's management have kept the productivity gains from extensive automation and wider use of one-person-operated buses and underground trains. Their manpower has been cut by 8% in 2 years and wages have been reduced in real terms. Much the same pattern is now emerging in the local bus industry, where the prospect of competition and the advent of popular minibus services is breaking the stranglehold of union-imposed restrictive practices. There must be some encouragement in the fact that on 3 occasions now rail union members have rejected their leaders' calls for strike action.

Moreover, there are other encouraging pointers. We may yet look back on the late 1980s and see this as the turning point at which the railway industry changed course from being a declining, increasingly shabby - yet costly - part of our Victorian heritage to become a modern business enterprise competing successfully in the travel, leisure and freight markets.

The Channel Tunnel presents a business opportunity, the scope of which has yet to be fully appreciated. The French have demonstrated the customer appeal of high-speed trains capable of rivalling air services for inter-city travel, while providing top class cuisine, flexible business facilities with all the communications of a modern office and, for the leisure market, entertainments such as discos. Air travellers

jostling on crowded flights to Paris, Brussels and even Amsterdam, will find great appeal in the prospect of a comfortable train journey from London to Paris in three and a quarter hours, London to Brussels in two and three quarter hours, and even London to Amsterdam in four hours.

At the top of the leisure and business entertainment market, there is room for businessmen like James Sherwood to emulate his successful Orient Express service. Further down the market, travel companies like Intasun will be able to purchase their own rolling stock and lay on overnight sleeper services (optionally including cars) to the skiing slopes or the beaches of the Mediterranean. Significantly, Foster Yeoman have just purchased powerful locomotives to haul aggregates from the West Country to the London area in their own BR-operated freight wagons. It can only be a matter of time before go-ahead freight companies like NFC develop high-speed rail transport services to the Continent.

It will be interesting to see what Chris Green, London and South East's publicity-conscious new Manager, can achieve with his up-beat "Operation Pride" and the emphasis on quality, customer service and imaginative marketing. This new generation of BR managers regard themselves as businessmen more than train operators. If they live up to this promise, they should recognise the considerable further opportunities for harnessing private capital through franchising and joint ventures, for example, to exploit the commercial development potential of stations in prime town centre locations. (The

redevelopment of Liverpool Street Station foreshadows many smaller scale projects). On-train catering should be another rich vein for private enterprise; the concourse at Waterloo stations shows what can be done by imaginative franchising.

A substantial source of cost savings still in the pipeline is the fundamental reorganisation of maintenance to take advantage of modern railway technology and the latest maintenance techniques.

Recognising these pointers, Bob Reid and his more forward-looking managers are attracted by the vision of what a modern railway business linked to the Continent might be capable of by the late 1990s. At the same time, they can see that Provincial branch lines requiring subsidies of 30p for every 5p paid by the passenger are not part of that future; on the contrary, they divert scarce capital and resources from the core of the railway business which justifies modernisation.

Deregulated buses, coaches and scheduled taxi services are surely the 1990s answer to the problem. But how do we get there, given the difficult emotion-charged politics of rail closures? Unfortunately, there is little that can be done in the short term. The task should be easier when the next Chairman takes over in 3 years' time and the benefits of the 1985 Transport Act are more widely apparent. BR can help by preparing the ground for a phase of extensive bus

substitution. Meanwhile, BR must not overdo the acquisition of new rolling stock for the Provincial network.

Issues

- Given the sensitive politics, how hard should the Government press coach, bus and scheduled taxi substitution for uneconomic Provincial services? In what terms should this be covered in the Manifesto?

- To what extent is the Government prepared to back the vision of a modern rail business with capital investment? Is it perhaps better to err on the mean side and encourage the new generation of BR managers to make greater use of private sector capital and collaboration?

The Chairman's objectives are a sound, medium-term basis for continued progress. It might be worth inviting John Moore and Bob Reid to discuss their aspirations and plans for British Rail in the aftermath of next Tuesday's E(NI) meeting.

JOHN WYBREW

CONFIDENTIAL

CQRR

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Ms Rachael Lomax
Private Secretary to
The Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

16 June 1986

Dear Rachel,

I attach a letter from my Secretary of State to the Chancellor about the ballot which the BR Unions will be holding shortly about BR's latest redundancy proposals for British Rail Engineering Limited (BREL).

As you know there is an unfortunate history of leaks of letters and other documents dealing with British Rail/ Trades Union matters. We have concluded that we should try to cut down the numbers of copies of such papers circulating in Whitehall. The letter is therefore classified "Personal and Confidential", and the copies have been numbered. I should be grateful if you and copy recipients would ensure that any further copies taken within Departments are done on a strict need-to-know basis, and numbered.

I am copying this letter to the Private Secretaries to all recipients of the attached letter.

Yours,

Richard.

R A ALLAN
Private Secretary

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

1685

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

14 June 1986

Prime Minister ?

DRS
16/6

Dear Nigel. MF

BREL BALLOT

You and colleagues will want to be aware that the National Union of Railwaymen and the Confederation of Shipbuilding and Engineering Unions (representing 7 unions) have jointly decided to ballot their 23,000 members, on 30 June and 1 July, on the possibility of action aimed at overturning BR's latest redundancy proposals for British Rail Engineering (BREL).

BR announced in January that they intended to restructure BREL into two business groups, one for new build and heavy overhaul and the other working for BR, in conjunction with BR regional depots, on maintenance and light repairs. On 20 May, BR gave workload forecasts which implied that some 5,900 jobs would be lost over the next three years and my predecessor made a statement in the House giving the details of the BR proposals. The changes in workload stem from BR's investment in rolling stock, and from a change towards a more efficient method of undertaking maintenance. Although the Unions will no doubt try to link the job losses to a possible privatisation, that is an entirely separate issue, and no decision has yet been taken by British Rail on whether to propose privatisation or not.

The decision by the Unions to hold a ballot probably reflects a feeling among the union leadership that they must be seen to be taking some action. I understand that the exact wording of the ballot is not yet settled but is likely to include the possibility of strike action. The NUR intend mounting a publicity campaign to muster support. The outcome of the ballot is, however, far from

certain. Many of the men may feel that the job losses are an unwelcome but inevitable consequence of modernisation so that it is difficult to see what alternative policy they should press for: asking for more investment would simply intensify the problem. A large number of depots are relatively unaffected by the changes; several unions are involved so that the chances of an unequivocal response are much reduced; and it seems unlikely that the membership have the stomach for any prolonged strike in current circumstances.

BR's overall assessment at present is that the risk of support for extensive industrial action is very small. They are continuing to discuss the proposals with the unions and are making special efforts to spell out to those directly affected the reasons for the restructuring and the adverse consequences of industrial action. A new senior Director is being appointed by BR, to co-ordinate measures aimed at providing new jobs for the people in areas affected, through such means as the creation of development agencies in conjunction with the local authorities concerned.

I will keep colleagues informed if the situation seems likely to escalate beyond present expectations.

I am copying this letter to the Prime Minister, to other members of E(A), and to Sir Robert Armstrong.

Yours ever

John

JOHN MOORE

10 DOWNING STREET

CDP

Message from Richard Allan, John Moore's office.

Lord Weinstock is likely to raise the wish of British Rail to buy class 38 diesel locomotives for pulling freight trains. Politically, the importance is that BR may seek tenders from US manufacturers as well as British – this hasn't been done before.

However, in accordance with government procurement policy, BR have given manufacturers advance notification of requirements so that they can prepare designs & compete on equal terms with the competition.

Julie
9/6

10

ATTORNEY GENERAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

29 May 1986

The Rt Hon John Moore MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1

Prime Minister 2

Fleetcare had a turnover last year of £25m, against a turnover for the National Freight Corporation as a whole of £667m.

DCV
30/5.

Dear John

FLEETCARE LIMITED

I felt that I ought to alert you to the circumstances of a substantial investigation being conducted by the British Transport Police into the affairs of Fleetcare Limited which is a subsidiary of the National Freight Consortium PLC and was formed to take over the maintenance and repair of British Rail road vehicles on privatisation of that work. British Rail remains its main customer and apparently provides some 80% of its work.

The investigation commenced as a result of information received by the British Transport Police in Cardiff to the effect that the Manager of the Swansea depot of Fleetcare Limited had been responsible for persistently submitting inflated and false invoices to British Rail. Documentation was seized which indicated over-charging at that depot of over £200,000. Scott, on being interviewed by the Police, admitted the practice (although he subsequently withdrew parts of his admissions at trial) and claimed that it was a common practice throughout Fleetcare depots in England and Wales and one which had been organised by senior management of the company. Discreet enquiries by the Police suggested that this was indeed the case and the Director of Public Prosecutions was consulted.

In October 1984 the Director made application to the High Court for and obtained an order under section 441 of the Companies Act 1948 empowering the Police to take possession of and inspect documents from a further 20 Fleetcare depots throughout England and Wales, 7 regional offices and headquarters. On execution of these orders, the Police found evidence of falsification of accounts in the documentation seized from every depot. A number of prosecutions have followed.

From the point of view of the prosecution, this is not an easy case in that those against whom the evidence is strongest are not necessarily those who were responsible for instigating the offences. The overcharging appears to have run into several million pounds and the Police belief is that it was part of a systematic fraud, orchestrated and organised by senior management of Fleetcare Limited. But, whilst there is substantial evidence against the various depot managers (who have been directly responsible for false accounting and the submission of false invoices) there is little direct evidence implicating senior management. However, it would be an extraordinary coincidence that precisely the same sort of fraud should be occurring in the same way in at least 20 depots throughout England and Wales in circumstances where the beneficiary is Fleetcare Limited rather than the individuals perpetrating the fraud. Thus, the only course open to the Director has been to proceed against the branch managers in the hope that, after proceedings have been taken against them, they will be prepared to make statements implicating those on whose instructions they have acted. The present position with regard to the proceedings against depot managers is that two cases have been concluded. In one case (the Swansea depot) the manager ran a successful defence that although the documents in question had been falsified it was not he who was criminally responsible for that falsification. In the second case, a manager pleaded guilty and his mitigation was based

upon the fact that he had been acting under pressure from his superiors in Fleetcare Limited.

It is inevitable that this investigation and the subsequent prosecutions have attracted adverse publicity for Fleetcare Limited and damaged its working relationship with British Rail. Indeed, I understand that British Rail may have given notice of its intention to cancel the contract with Fleetcare Limited. Suffice it to say, the Chairman of National Freight Consortium PLC has written personally to the Director stating, inter alia, that the reputation of the company is being so tarnished that "its future is in question" and that loss of commercial confidence could result in many redundancies in the company. The view of the Director is that the public interest undoubtedly requires that the investigation should continue to its proper conclusion but he has assured Sir Peter Thompson that this will be done as swiftly as possible. I am satisfied that this is the only right and proper course. However, there may well be political embarrassment if the company should find itself in difficulties as the result of misconduct of this nature by senior management and I felt that I ought to let you know the position.

I have copied this letter to No. 10 but have given it no wider circulation.

Yours ever. Michael

[Mr. Max Madden]

university of Bradford, which, with Aston and Salford, suffered savage cuts in 1981 and which recently announced the closure of its physics department, is to receive under his proposals a net real increase in resources, or the reverse?

Sir Keith Joseph: The hon. Gentleman will have to look at the details in the letters, but the former chairman of the UGC who presided over the allocations in 1981 recently wrote to *The Times* to say that, in his view, thanks to the presence of two very vigorous vice-chancellors, Salford and Aston are both better universities now than they were in 1981.

Mr. Peter Bruinvels (Leicester, East): I welcome the anouncement and I bear in mind that Leicester university will benefit from today's announcement, but will my right hon. Friend confirm that no blank cheque is available, that university results must be improved, and that the unnecessary courses in some universities should be done away with and excellence maintained?

Sir Keith Joseph: Yes, Sir.

Mr. Andrew F. Bennett (Denton and Reddish): Will the Secretary of State explain why he has not put the UGC letter before the House today so that right hon. and hon. Members could see for themselves the extent of the real term cuts both in resources for the universities and in student numbers? Will he also tell us why the Government believe that higher education should be cut? Does he not agree that this is only one of three attacks on higher education — the universities, the public sector, and student grants? Does he not agree also that his statement is blackmailing the universities: that if they go along with this reallocation of smaller levels of resources and allow major cuts in research at places like Aston, Hull, Keele, Newcastle, Aberystwyth, Bangor, Swansea, Aberdeen, Dundee and Stirling they might get a few extra resources? Does he not agree that rather than being a landmark his statement puts a landmine under higher education in this country?

Sir Keith Joseph: Categorically, no. This is not an attack on universities but a stimulus to excellence.

Several Hon. Members *rose*——

Mr. Speaker: Order. I am sorry that I am unable to call everyone today, but I remind those right hon. and hon. Members whom I have not called that there will be education questions on 10 June. I shall keep a careful list of those who were not called today.

British Rail Engineering

4.4 pm

The Secretary of State for Transport (Mr. Nicholas Ridley): With permission, Mr. Speaker, I should like to make a statement about the announcement British Rail is making to its trades unions at the Rail Council today about its future arrangements for the manufacture and maintenance of rolling stock.

We have set British Rail the objective of modernising the railway. To that end, we have agreed a massive investment programme. Over £400 million of new rolling stock has been approved over the last two years, and some £700 million is planned to come forward over the next five years.

As the House must realise, new modern designs of rolling stock require less maintenance and repair. For example, on average, two of the new Sprinter vehicles are able to replace three of the old DMUs, and each one requires 30 to 40 per cent. less maintenance than its predecessor. So overall there is a reduction of 50 to 60 per cent. in the British Rail Engineering Ltd. maintenance work load for that service.

Similarly the new class 87 electric locomotives have much higher availability than the designs of the 1960s which they will replace. Again, two new vehicles will replace three old ones, each requiring less maintenance, so again there is a dramatic fall in work load.

As a result, capacity reductions within BREL have been occurring for a number of years. I regret to have to tell the House that the same factors of work load reduction are the major reason for BR's announcement to its unions this morning that it expects further job losses over the next three years. These are the subject of the normal processes of consultation with the unions.

British Rail announced in January that a new build and heavy repair group would be set up and separated from maintenance and repair and that the latter would be brought closer to the operation of the railway.

The main elements of the new build and repair group are Crewe, York and the two works at Derby. Here the numbers employed will to some extent vary with the orders obtained—and some export orders are coming through — but there is expected to be some decline in employment as lighter maintenance work is transferred elsewhere.

In the maintenance group of works, BR's proposals are as follows. At Eastleigh BR believes that productivity can be improved and overheads reduced sufficiently to enable the works to continue with its present job of refurbishment and heavy overhaul of Southern region third rail electric stock, but over the next three years up to 500 jobs may go.

Doncaster will continue to carry out wagon manufacture and wagon overhauls, and will also become a major maintenance depot for locomotives and other rolling stock. Doncaster will also become the site for BR's new national store for supplying spare parts to BR depots. Together, these proposals mean lower levels of employment at Doncaster—down over the next three years from the present level of 3,100 to between 1,430 and 1,690.

Wolverton will become a major maintenance depot for a wide range of coaching stock, and as an interim measure

complete its programme of electric train refurbishment. But over the next three years employment there will decline from the present level of 1,900 to between 650 and 850.

Glasgow Springburn will become a regional maintenance depot for ScotRail with jobs for about 200 people.

Job losses in regional depots will amount to about 300 a year, as was envisaged in BR's 1985 plan.

Thus, BR's new estimate of manpower requirements points to reductions of between 4,200 and 5,000 jobs in BREL over the next three years, together with the 1,750 previously notified to the trade unions.

Both the Government and British Rail are deeply conscious of the consequences of these changes for a large number of staff and their families. The board intends to appoint a senior director to co-ordinate measures to help those affected by the changes. He will work with BREL in redoubling its efforts to find alternative employment both within and outside the industry for those displaced, and to develop retraining programmes. British Rail will be recruiting some 20,000 people over the next three years to jobs in all departments of the railway. BR will also be approaching the local authorities with a view to setting up, or supporting, in each area a suitable development agency on the lines that BREL has done with considerable success at Shildon, Norwich and Swindon. They will provide financial and other support through these agencies for job creation schemes.

Mr. Robert Hughes (Aberdeen, North): The Secretary of State's announcement makes yet another savage cut in BREL's manning levels and represents a further betrayal of the work force, which has been promised time and again that each round of cuts was the last and would provide job security and stability. Given last May's announcement, this means that there will be cuts of between 6,000 and 7,000 in the work force over the next three years. Moreover, the total cuts package in BREL since 1979 amounts to over 19,000.

Despite the Secretary of State's protestation that less maintenance is now needed, the fact is that cancellations and problems still seem to be the order of the day, and the promised better rail service simply does not materialise. Southern region contains the largest passenger sector, yet maintenance is down by 33 per cent. despite the fact that the vast majority of its stock is more than 25 years old.

The workshops most savagely hit are at Springburn, where the number of jobs is to be reduced from 1,000 to 150 or 200; at Wolverton, where the number of jobs is to be reduced from 1,850 to 650 or 800; at Doncaster, where the number is to be reduced from 1,912 to 780 or 1,040, and at Eastleigh where the number of jobs will fall from 2,122 to either 1,650 or 1,850.

No workshop or depot escapes. It would have been far better to invest more in new rolling stock—passenger and freight—and to ensure that British Rail builds in-house. There is, of course, an element of truth in the claim that maintenance needs have fallen. But maintenance engineers could be switched to new build. We know, for example, that the freightliner wagon fleet needs completely rebuilding. We also know that British Rail is using freight because locomotives are unavailable. Indeed, British Rail should go further, and should invest in making BREL the showcase of British engineering internationally. There should be a sustained export drive, especially as currently BR obtains only 13 per cent. of the orders that it goes for.

Last year, BREL struck out a £25 million profit, because it had set £102 million aside for redundancies and closures. That is absolute nonsense. The statement said that BREL is to appoint a senior director to help those seeking redeployment. Presumably he is to compete with the senior personnel of British Shipbuilders, who will be looking for jobs for their staff. Last week my right hon. and learned Friend, the Member for Monklands, East (Mr. Smith), said that the Government were investing in sticking plaster for British shipbuilding. Now they are investing in splints to try to bind the shattered limbs.

The Secretary of State has totally failed to address himself to dealing with the problems of BREL, British Rail and our nation's transport needs. There is no point in the Prime Minister speaking at Perth last week about slaying the dragon of unemployment, when the Secretary of State, through his short-sighted rail policies, is feeding that same dragon. We demand a categorical assurance from him that there will be a debate on this issue, so that alternatives can be put forward and so that his paucity of thought can be totally exposed.

Mr. Ridley: The hon. Gentleman almost accepted something that he must accept, which is that the modern rolling stock being built for BR requires far less repair and maintenance than before. If he does not believe me, he should ask the chairman of British Rail whether it is true. He will have to accept the answer from BR's management, even if he will not accept it from me. He himself said that the maintenance requirement of Southern region was down 33 per cent. What does he expect British Rail to do to keep its work force, especially when the hon. Gentleman himself admits that some of the workshops are suffering a 33 per cent. drop in repair and maintenance work?

I think that the hon. Gentleman misunderstood the difference between repair and maintenance, and the new build activities at the four core works. I believe that the future for the four core works is much better than that for the repair works. A major export drive is going on. Indeed, the hon. Gentleman will have seen that an order has been won for the international coach to be sold to China. If I may say so, that was achieved with my help. Every effort is being made to ensure the greatest number of export orders for the new build part of BREL. But the hon. Gentleman must also recognise that that can be of no help to the repair and maintenance part of BREL, which is in business only to repair and maintain BR's stock.

The hon. Gentleman seemed to question the efficacy of the job creation efforts of BR. He should know that Shildon was closed in 1984, but that 710 new jobs have already been found, with the potential for that number to rise to 1,900 during the next two or three years. At Horwich, 374 jobs have been found, with the potential for that number to rise to 500 during the next two or three years. Those are no mean achievements, and the hon. Gentleman should not belittle the great effort BR has made to find replacement work for those whom it so unfortunately has had to displace.

Mr. Terence Higgins (Worthing): Given the present controversy over whether there should be tax cuts or more expenditure on the infrastructure, does not my right hon. Friend's reference to a massive increase in investment in

[Mr. Terence Higgins]

British Rail show that we are achieving both? I tried to follow closely the figures that my right hon. Friend gave, including those for increased recruitment in British Rail. Am I right to think that, at the end of the three-year period, he expects total employment in British Rail to increase?

Mr. Ridley: I am grateful to my right hon. Friend for that question. Investment in British Rail is on an upward path, and it is forecast that that will continue. The Opposition have frequently pressed us to increase investment, and we have willingly done so whenever BR has brought forward projects that it considers viable.

The massive increase in the amount of rolling stock ordered will, I think, lead to improved standards of service and to greater punctuality. In addition, approval was given for electrification of the east coast main line, which has produced many jobs in other industries. Moreover, it has produced orders for the new class 91 locomotive. That massive order is going jointly to Crewe and GEC.

As a result of normal wastage, BR expects that it will have to recruit a further 20,000 people. That does not mean that the total will be increased by that number at the end of the period. They will be recruited for new jobs as BR takes on people to replace those who leave.

Mr. Stephen Ross (Isle of Wight): Does the Secretary of State agree that this is yet another very sad day for a loyal work force? Does he further agree that Glasgow Springburn has come off particularly badly? In his second paragraph, the right hon. Gentleman spoke about £700 million extra being available to British Rail. Does that include the £800 million to which he referred when answering questions yesterday in relation to the Channel tunnel project? I thank him for the fact that Eastleigh will remain a main repair depot. That is at least one consolation. But, when those 20,000 extra jobs come up will first refusal be given to those who will lose their jobs as a result of today's announcement? I do not know whether they will be qualified for those jobs, but they should at least have the chance to take them, if they so wish.

Mr. Ridley: I could not agree more that this is a very sad day indeed for many people who have been loyal, hard-working and highly skilled operatives. But the change in industrial technology has made this announcement necessary, and that is a matter of great sadness to all hon. Members, including the hon. Gentleman and me.

I entirely agree with what the hon. Gentleman said about Springburn——

Mr. Michael J. Martin (Glasgow, Springburn): We do not want the Secretary of State's sympathy.

Mr. Ridley: I also entirely agree with the hon. Member for Isle of Wight (Mr. Ross) that it is good that Eastleigh can remain a workshop. Indeed I have not announced the closure of any workshops, and I wish Eastleigh a prosperous future. The extra orders which might derive from the Channel tunnel, through the order for the shuttle trains placed by Eurotunnel and by the extra stock and investment required by British Rail to run through train services, are not included in these calculations because the orders will not come through during the three-year period that this covers. Of course, if those orders do not come through because the Channel tunnel does not proceed, it will put many jobs in BREL under threat in the late 198[illegible] and early 1990s. I am sure that the House will recognise the importance of that.

Sir David Price (Eastleigh): Will my right hon. Friend accept that any job loss today is a personal tragedy? Do I gather from what my right hon. Friend said about Eastleigh that the 500 jobs we shall lose over three years include the 200 that we knew we would lose in asbestos stripping or are they additional? I and my colleagues from the works made representations to my hon. Friend the Minister of State and the board of British Rail that Eastleigh is a special works dedicated to Southern region with its separate third rail propulsion. Have those arguments been accepted? What would have been the redundancies if those arguments had not been taken on board and put into the strategy of British Rail for future maintenance workshop deployment?

Mr. Ridley: I entirely agree about the individual tragedy which every man made unemployed represents. I share my hon. Friend's sadness at the unfortunate news that I have had to announce to the House today. The delegation he brought to see my hon. Friend was very helpful, and its arguments did prevail, as the statement shows. The number employed at Eastleigh at the end of this year is likely to be 2,122 and by the end of 1989 it is likely to be between 1,650 and 1,850. I am sure that the chairman of British Rail will write with more detailed information for the benefit of my hon. Friend.

Mr. Martin: The Minister is misleading the House. When he talks about a work force of 150 at Springburn, he is really talking about a complete closure. The Minister is instructing British Rail to create a tidy little package for privatisation to sell off to his pals who gave him aid at the general election. It is legalised graft, and it is time that the Minister faced his responsibilities and learnt a bit about engineering. If he knew anything about engineering, he would know that a maintenance workshop of the nature of Springburn could easily switch to new build. He is not prepared to help Springburn, and, once again, we are being punished because we did not support the Tory party.

Mr. Ridley: I have every sympathy for the hon. Gentleman's constituents. Springburn is going into British Rail and will not be a part of Core & BREL. Therefore, in no sense is it being packaged ready for privatisation. It is being hived into British Rail instead and there is no plan to privatise Core & BREL. The chairman of British Rail has not reported to me on what he sees to be the future for the heavy repair and new build section of British Rail. The hon. Gentleman's suggestions are quite wrong.

I think that I am one of the few qualified engineers in the House, and I fully understand that any works can be altered to almost any type of manufacturing business. The hon. Gentleman will recognise that it must be for British Rail to decide where to put its orders and how to organise its own business. He will know that the hon. Member for Crewe and Nantwich (Mrs. Dunwoody) has been the main beneficiary of the large engine orders.

Mr. Conal Gregory (York): Will my right hon. Friend confirm that there has been no shortage of investment for British Rail and that the Labour party is shedding crocodile tears today on an almost unbelievable scale? Furthermore, under the new scheme announced today there will be greater design potential, not only for the export market in

way that has been shown for China but, with a privatised bus company, there will be the opportunity for bus and coach maintenance on the engineering side of BREL rather than keeping it exclusively as a rail company. Finally, what effect will the announcement have on York, where there is a marvellous work force?

Mr. Ridley: My hon. Friend will be glad to know that he is one of the lucky ones and that there is to be a marginal increase in employment in York. We are talking about new build to a large extent. However, when we concentrate on the much more difficult question of repair and maintenance, it is totally wrong for any hon. Member to believe that, when the work load for the repair work shops has fallen, as it has, due to much greater investment, British Rail should continue to employ people when there is no work for them. It is wrong to think that this is the action of the Government. Indeed, in some measure it may be due to the Government's action because, in sanctioning so much investment for British Rail there is a much lower repair load in the workshops. It is in response to that that the unfortunate redundancies have had to be declared.

Several Hon. Members *rose*——

Mr. Speaker: Order. I have already mentioned the business before the House today. May I ask for brief questions because that will lead to briefer answers? I shall try to call everybody, but we must stop questions on this statement at 20 minutes to five.

Mr. Michael Welsh (Doncaster, North): Is the Minister aware of what he is doing to Doncaster? The jobs of 1,600 people will go. The pits are closing, the workshops are closing, and the plants are now being attacked and will close. One in four is unemployed, and 90 per cent. of the kiddies who left school could not find a job. What will be done for Doncaster and what investment is going into the area? When will the Government invest in order to find jobs for our lads and lasses?

Mr. Ridley: The hon. Gentleman knows that general employment is not a matter to which I can respond on this statement. This is a statement of what British Rail, in its managerial capacity, has decided to do. The hon. Gentleman will know that massive investment is going into British Rail, including the electrification of the line through Doncaster. The unfortunate consequences of the very thing that he has asked me for, investment, are what we are discussing today.

Mrs. Edwina Currie (Derbyshire, South): Am I right in thinking that in the past two years the Government have approved more than £600 million worth of new contracts for railway stock and works, many of which have been won by my constituents working at BREL in Derby? Does that not carry with it the inevitability of the changes announced today? As new rolling stock which is light-weight in construction and deliberately designed for low maintenance is brought on stream, will there not have to be less spent on maintenance? Does not every railwayman in the country know that?

Mr. Ridley: My hon. Friend is right. As she said, I believe that the railwaymen know that that is the case. It is always sad to have to discuss the results of industrial change, but a nation which cannot face up to the results of industrial change will earn industrial stagnation.

Mr. Donald Stewart (Western Isles): Is the Secretary of State aware that, as a result of the abolition of the Springburn works, there will be great resentment that the heavy diesel locomotive maintenance and even the refurbishment of rolling stock from the Scottish region will not be carried out in that workshop or even in Scotland? That resentment will be fuelled by the announcement that the four core work are all to be placed in England.

Mr. Ridley: All the repair and maintenance work of ScotRail will be done at Springburn. It is possible that the number employed will be between 150 and 200, which is more than the right hon. Gentleman said. Due to the concentration of repairs and maintenance in ScotRail, maintenance work in Scotland will therefore find its way into Springburn.

Mr. Michael Hirst (Strathkelvin and Bearsden): I welcome my right hon. Friend's announcement of new investment in British Rail, but is he aware that his announcement of job losses at Springburn will be greeted with profound dismay by my constituents who work there? Can he tell me what it was that prompted BREL to designate Springburn as a maintenance works rather than a core works, in view of the decades of experience of heavy engineering there? Will he give me an assurance on the enterprise package? Will it be sufficient to produce jobs for those who will lose their jobs at Springburn? Will British Rail give priority in its new job creation to those who lose their jobs at Springburn?

Mr. Ridley: As I said to the right hon. Member for Western Isles (Mr. Stewart), the repair and maintenance works for ScotRail will be concentrated on Springburn. The heavy maintenance will go to one of the heavy maintenance works, which will be suitably equipped—one of the four core works that I mentioned. That makes for much more efficient working, which is why the move has been made. I ask my hon. Friend to get further reasons from British Rail on why it has chosen various works in its allocation of orders.

My hon. Friend referred to the new enterprise company or authority that will be set up. I shall take into account my hon. Friend's remarks about making sure that the needs of Springburn and district are well looked after. I can make it clear that British Rail has allocated a first tranche of money—£3 million. If further money is required, I have no doubt that it will be forthcoming, if it is available, to provide jobs for those who, unfortunately, lost their jobs today.

Mrs. Gwyneth Dunwoody (Crewe and Nantwich): Is the Secretary of State aware that his stewardship of BREL, through British Rail, has demonstrated a long history of hypocrisy and cant, and that his statement today will be met with disbelief and anger? Those of us with workshops in our constituencies, which we are told are safe, have only one thing to say to him. The long history of his control has meant a loss of 150 jobs today and tomorrow will mean a complete break of faith and no employment. The privatisation package is unacceptable, and the electorate will make that very clear.

Mr. Ridley: It ill behoves the hon. Lady to say that when, on present plans, her constituency of Crewe will have 3,624 employees in 1989 and has been the main beneficiary of the very large locomotive orders that have

[Mr. Ridley]

been placed by British Rail. She is one of the few who have railway workshops in their constituency who might, on this occasion, have kept quiet.

Mr. Eric Cockeram (Ludlow): Does my right hon. Friend accept that it is no more necessary or, indeed, desirable for British Rail to build its own trains than it is for British Airways to build its own planes or any other nationalised industry to build its own plant and equipment? Does he further accept that the size of British Rail Engineering is a product of history and that, by contrast, modern railways abroad rely on competitive tendering? Wil he note that, for example, the Hong Kong railway relied on competitive tendering, and the contracts came to Britain to private enterprise, and not to British Rail?

Mr. Ridley: I am sure that my hon. Friend is right that we should go to competitive tendering for the supply of railway stock to British Rail. That has been the policy for some time. I congratulate British Rail Engineering—that is the manufacturing new build part of it—on the orders that it has obtained. Since 1983, it has obtained orders for 270 Sprinter DMUs, 178 railbus DMUs, 530 EMUs, including 184 for the Snow hill tunnel scheme, and 120 for Bournemouth-Weymouth, 25 class 87 electric locos and 31 class 91 electric locos, the last two with the help of GEC. That is a massive number of rolling stock orders, which have all been won in open competition by BREL. That is why the new build part of BREL is looking very much rosier than it might have done otherwise.

Mr. Martin Redmond (Don Valley): When will the Secretary of State and the Government stop behaving like Pontius Pilate? They can do something. Some 1,570 jobs are to be lost under the latest cut. Will the Secretary of State issue a directive to British Rail to stop the proposed closures and reductions? The right hon. Gentleman mentioned the ability of the new agency to promote jobs. How much cash will it have in its pocket, because the announcement about that was conspicuous by its absence from the statement?

Mr. Ridley: With regard to his final point, the hon. Gentleman cannot have heard me say that the agency would have an initial funding of £3 million, and more would be available if demand so required. Let me point out to the hon. Gentleman how absurd his request is that I should issue a directive to the railways not to release people from work, for whom there is no work, and when there is not likely to be work for them in the next three years. Does he wish them to be sitting in the railway workshops with nothing to do, or would he rather that they were allowed to at least seek more lucrative opportunities by looking for other jobs? His failure to face up to the reality of this tragic situation does no service to his constituents.

Mr. W. Benyon (Milton Keynes): Does my right hon. Friend accept that this is a sad day for Wolverton, which has a long and successful record in the development of British rolling stock, including building the Royal train? Can he give me an assurance that there will be adequate funding, first, for retraining, and, secondly, for the alternative employment package? Will he assure me that we shall have no nonsense about Wolverton being part of the dynamic south-east?

Mr. Ridley: I entirely share my hon. Friend's concern about the jobs lost at Wolverton. I add my tribute to the skill, loyalty, perseverance and hard work that the workers have shown over the years. That is why I am particularly sad. I assure my hon. Friend that British Rail will take all steps possible to provide the retraining facilities, as well as seeking extra jobs in his area through the new agency that it proposes to set up.

Mrs. Margaret Beckett (Derby, South): Will the Secretary of State confirm that despite his passing remarks about Derby being a new build works, a total of almost 1,000 jobs are to go from the two workshops in my constituency? Does he understand that, unlike his hon. Friend the Member for Derbyshire, South (Mrs. Currie), the people of Derby will be outraged by the proposal, which is further evidence of the Government creating an industrial wasteland where there was once prosperity?

Mr. Ridley: Sadly, I confirm what the hon. Lady says, that about one quarter of the jobs in the two works at Derby will be lost, but those are the works to which most of the export orders will go. If we can get a much better export performance, there is an opportunity for expansion, which is more than can be said for the repair and maintenance workshops, where the real problem lies.

Mr. Gary Waller (Keighley): Does my right hon. Friend agree that if they are to survive and prosper, public sector industries must operate in as similar a way as possible to those in the private sector, and respond to changing situations? If many of the private sector companies had not made difficult decisions to contract their work force in the past, many of them would have gone to the wall and fewer jobs would be available today. Does not the same apply to British Rail? Should we not welcome the fact that both British Rail and my right hon. Friend the Secretary of State are willing to grasp the nettle in this situation, which bodes well for the future?

Mr. Ridley: There is a great deal in what my hon. Friend says, but I should like to make a further point. The redundancies are expected to take place over the next three years. The fact that they are lumped together and presented in that global fashion dramatises them much more. British Rail and I have sought to be totally frank with the House. Many private sector companies might have dribbled the redundancies over those three years, and they would not have looked so dramatic, but in order to be totally frank and honest with the House, I have no objection whatsoever to giving all the information from Britsh Rail that is known.

Mr. Donald Anderson (Swansea, East): Was No. 10 consulted? Does the Minister recall that, as a direct result of bus deregulation, there have been major cuts in our domestic bus manufacturing industry? In preparation for privatisation, much of our rail manufacturing industry has been destroyed. Were those job losses foreseen and intended when the Government embarked on their deregulation and privatisation policy?

Mr. Ridley: I do not think that there is any connection between the statement I made today and the deregulation of buses. I am sure that the hon. Gentleman, who always welcomes good news, would like to know that there are now 3,000 mini-buses on our roads as a result of the Transport Act, which would not have been there before. However that is another subject.

Mr. Greg Knight (Derby, North): Although the loss of jobs is a matter of regret, will my right hon. Friend take time today to re-emphasise that, over the years, under both Conservative and Labour Governments, maintenance work has been continually in decline due to advances in technology? Despite my hon. Friend's announcement today about the future, is it not the case that the new build currently taking place, and especially the international coach, is not only good news for BREL but for Derby?

Mr. Ridley: It is absolutely true that increased investment, much of which was started by our predecessors, has caused reductions in repair and maintenance work on an increasing scale over the years, irrespective of which party formed the Government. That is an inevitable consequence of new design, knowledge and skills in building stock. My hon. Friend is quite right; the international coach has attracted a great deal of attention and interest. We know that one order has come through, and several others are possible. All hon. Gentlemen should concentrate on helping to sell the products of British industry whenever they go abroad. There is a real market for BREL overseas. I hope that BREL secures an ever greater proportion of it.

Mr. Gavin Strang (Edinburgh, East): Is there no limit to the destruction of skilled engineering jobs in the public sector by the Government? Surely the Government recognise that there is not only a social case but an economic case, against the background of mass unemployment, for maintaining employment in such work places, albeit with some public subsidy.

Mr. Ridley: If the Government were to accept the hon. Gentleman's advice they would be paying money to keep people in BREL repair and maintenance shops, for whom there was no work and never could be work. He must accept that that is not an activity where exporting is possible. No foreign railway would send its rolling stock here for us to repair, with all the transport difficulties that that would involve. The hon. Gentleman suggests that prosperous enterprises, employing people and creating jobs, should be taxed so that they can shed labour, so that others with no work to do can be kept in the BREL workshops. If that is the Labour party's policy, it will only lead to further unemployment.

Mr. Robert Adley (Christchurch): If everything was black and white, some of my hon. Friends would soon be advocating that we should privatise the armed forces. I turn my right hon. Friend's mind to the nation's infrastructure, of which the railways form a part, and ask him to contemplate the difference between roads and railways. The taxpayer funds all expenditure on roads, including the driver and vehicle licensing centre at Swansea. The railways are expected to provide all their own investment as part of the nation's infrastructure. Will my right hon. Friend look at the new American diesels imported by Foster Yeoman, because no manufacturer in this country, such as GEC, is willing to provide British Rail prototypes? Would it not be a suitable proposition for the Government to fund the cost of prototypes for BREL or GEC to produce to see whether in future, the vehicles can be manufactured in this country?

Mr. Ridley: My hon. Friend knows that, since I have been the Secretary of State for Transport, of all the many investment applications that the railways have made, they have been refused only one. That was for a small piece of electrification in Cambridgeshire, which we judged to be completely unviable. My hon. Friend cannot say that the railways have been starved of opportunities to invest.

The railways have never ordered foreign engines. A great deal of work is being done by BREL and GEC to develop the new class 91 engine, which will stay in this country and which will, I believe, be a great success. What my hon. Friend requested has been done. I cannot say what a private firm, such as Foster Yeoman, will decide to buy for its power car.

Mr. Ian Wrigglesworth (Stockton, South): Is the Secretary of State aware that his depressing announcement this afternoon of threatened and announced closures means that 20,000 jobs will be lost? Will he be more precise about the 20,000 job opportunities which will be available in British Rail? How many of those jobs will be available to those who will be made redundant as a result of this afternoon's announcement? Will the Secretary of State be more precise about the support that the Government will give to British Rail Engineering in making overseas export sales? Will soft loans be available? What other assistance will be given to get further orders?

Mr. Ridley: The figures for expected recruiting and manpower are in the latest report of the British Railways Board. I have said nothing new. If the hon. Gentleman studies the report, he will find all the facts and the figures. The board believes that, over the next three years a further 20,000 people must be recruited for a varied number of activities on the railway. I am sure that preference will be given to BREL employees if they wish to take up jobs on the railway. I shall ensure, through the chairman of the board, that that is done.

I took the chairman of BREL on a long trip around the far east. There was an encouraging response and there were many chances to tender for work. The Chinese order came as a result of that visit. As the hon. Gentleman knows, we have a large soft credit facility from China. If any export potentials arise in other countries, my right hon. Friend the Secretary of State for Trade and Industry is always willing to try to switch resources to assist our exports. Indeed, there is a lot of business which we might win the south-east Asia.

Mr. Peter Snape (West Bromwich, East): Will the Secretary of State accept that his announcement this afternoon was due entirely to his Department's philosophy of tight resourcing so far as the railway industry is concerned, which guarantees that the industry cannot plan for any expansion that might take place? The policy has given us the present appalling intercity punctuality record that condemns commuters every day to a journey of misery. It means that freight trains, on many railway lines, are but a bitter memory. During the period that the Secretary of State has held the transport portfolio, investment has been paid for out of BR's internal sources, and financed entirely by redundancies among other railway men. The arbitrary split between new build and maintenance has condemned skilled men at Doncaster and Glasgow, to name but two areas that are capable of making locomotives and railway wagons for the future, to a maintenance function that is being deliberately run down as a forerunner to privatisation. Over the past few weeks the Secretary of State has announced redundancies in our railways a rundown of our bus network and further

[Mr. Peter Snape]

redundancies in the airline industry. Does he accept that, as Secretary of State, he has been an unmitigated disaster and he ought to do a courtesy to the House by tendering his resignation sooner rather than later?

Mr. Ridley: It is extraordinary that an NUR-sponsored Member of the House should use such strident and critical words of his colleagues on the railways who are trying to run the best railway they can. If that is his view of those he represents in the unions, he will not be thanked the next time he attends a union branch meeting. I have never heard such a disgraceful criticism of union workers.

Mr. Snape: You are an old Etonian twerp——

Mr. Speaker: Order.

Mr. Ridley: The hon. Gentleman should keep his temper. He is in real trouble in trying to get his facts right.

Mr. Snape: You are a hypocrite.

Mr. Speaker: Order. We do not want such anger in a statement like this. Will the hon. Member withdraw the word "hypocrite"?

Mr. Snape: Mr. Speaker, when we are talking about further redundancies in an industry in which both myself and my father worked, I shall not be sneered at by an old Etonian twerp like the right hon. Gentleman.

Mr. Speaker: I ask the hon. Member to withdraw the word "hypocrite".

Mr. Snape: Purely out of deference to you, Mr. Speaker, I will withdraw.

Mr. Ridley: I have never known such an extraordinary demonstration. The hon. Member for West Bromwich, East (Mr. Snape) has got it wrong. The reduction in employment which we are discussing will occur in maintenance and repair which are to be re-integrated into the railways, in my opinion, correctly. The suggestion that the railways are being slimmed down for privatisation is misleading and I make it entirely clear that that is not the case.

NATO (Chemical Weapons)

4.50 pm

Mrs. Ann Clwyd (Cynon Valley): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"NATO's controversial plan to modernise American chemical weapons."

The matter is specific because today or tomorrow a Defence Minister representing the Government will leave for Brussels for a meeting of NATO Defence Ministers. That meeting is likely to give approval to NATO's controversial plan to modernise NATO's chemical weapons.

The matter is important because production of these weapons has been delayed by the United States Congress until at least 1 October. One of the conditions is that NATO should formally ask for those weapons by making modernisation and production of them part of NATO's strategy. We still have an opportunity to influence and reject such a proposal. Today, more than 100 Labour and Liberal Members of Parliament have written to the *Washington Post*, the *New York Times* and the *International Herald Tribune* and to senators and congressmen to voice their opposition to the production, possession and use of chemical weapons.

Conflicting statements have been made on this issue by United Kingdom Ministers. On 28 April, in the House the Minister of State for the Armed Forces said that there would be no deployment of the new chemical weapons in the United Kingdom in peacetime. But, speaking on "Weekend World", the same Minister said that he did not rule out the possibility of the United Kingdom agreeing to the deployment of United States chemical weapons in peacetime. What is the Government's precise position? We have a right to know.

The issue requires urgent consideration because, unlike the Parliaments of other European countries and the United States Congress, which has debated this issue at great length, we at Westminster have had no such debate. I believe that the issue meets all the criteria laid down in Standing Order No. 10 and that such a debate should take place immediately.

Mr. Speaker: The hon. Lady asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that she believes should have urgent consideration, namely,

"the forthcoming discussions between the NATO Defence Ministers of the proposal to give approval to the modernisation of chemical weapons held by the United States Government."

As the hon. Lady knows, the only decision I have to take is whether to give this matter precedence over the Orders set down for consideration today or tomorrow. I regret that I do not consider that the matter she has raised is appropriate for discussion under Standing Order No. 10 and, therefore, I cannot submit her application to the House.

Mr. Robert N. Wareing (Liverpool, West Derby): On a point of order, Mr. Speaker, arising from your decision. I am not dissenting——

Mr. Speaker: Order. I am sorry, but no point can arise from my decision.

DC

STATEMENT, 20 MAY 1986

BRITISH RAIL ENGINEERING LTD

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ABOUT THE ANNOUNCEMENT BRITISH RAIL ARE MAKING TO THEIR TRADES UNIONS AT THE RAIL COUNCIL TODAY ABOUT THEIR FUTURE ARRANGEMENTS FOR MANUFACTURE AND MAINTENANCE OF ROLLING STOCK.

WE HAVE SET BRITISH RAIL THE OBJECTIVE OF MODERNIZING THE RAILWAY: TO THAT END, WE HAVE AGREED A MASSIVE INVESTMENT PROGRAMME. OVER £400M OF NEW ROLLING STOCK HAS BEEN APPROVED OVER THE LAST 2 YEARS, AND SOME £700M IS PLANNED TO COME FORWARD OVER THE NEXT 5 YEARS.

AS THE HOUSE MUST REALISE, NEW MODERN DESIGNS OF ROLLING STOCK REQUIRE LESS MAINTENANCE AND REPAIR. FOR EXAMPLE, ON AVERAGE 2 OF THE NEW SPRINTER VEHICLES ARE ABLE TO REPLACE 3 OLD DMU'S AND EACH ONE REQUIRES 30-40% LESS MAINTENANCE THAN ITS PREDECESSOR. SO OVERALL THERE IS A REDUCTION OF 50-60% IN THE BREL MAINTENANCE WORKLOAD FOR THAT SERVICE.

SIMILARLY THE NEW CLASS 87 ELECTRIC LOCOMOTIVE HAVE MUCH HIGHER AVAILABILITY THAN THE DESIGNS OF THE 1960S WHICH THEY WILL REPLACE. AGAIN TWO NEW VEHICLES WILL REPLACE THREE OLD ONES, EACH REQUIRING LESS MAINTENANCE, SO AGAIN THERE IS A DRAMATIC FALL IN WORKLOAD.

/AS A RESULT, CAPACITY

AS A RESULT, CAPACITY REDUCTIONS WITHIN BREL HAVE BEEN OCCURING FOR A NUMBER OF YEARS. I REGRET TO HAVE TO TELL THE HOUSE THAT THE SAME FACTORS OF WORKLOAD REDUCTION ARE THE MAJOR REASON FOR BREL'S ANNOUNCEMENT TO THEIR UNIONS THIS MORNING THAT THEY EXPECT FURTHER JOB LOSSES OVER THE NEXT 3 YEARS. THESE ARE THE SUBJECT OF THE NORMAL PROCESSES OF CONSULTATION WITH THE UNIONS.

BR ANNOUNCED IN JANUARY THAT A NEW BUILD AND HEAVY REPAIR GROUP WOULD BE SET UP AND SEPARATED FROM MAINTENANCE AND REPAIR AND THAT THE LATTER WOULD BE BROUGHT CLOSER TO THE OPERATION OF THE RAILWAY.

THE MAIN ELEMENTS OF THE NEW BUILD AND REPAIR GROUP ARE CREWE, YORK AND THE TWO WORKS AT DERBY. HERE THE NUMBERS EMPLOYED WILL TO SOME EXTENT VARY WITH THE ORDERS OBTAINED - AND SOME EXPORT ORDERS ARE COMING THROUGH - BUT THERE IS EXPECTED TO BE SOME DECLINE IN EMPLOYMENT AS LIGHTER MAINTENANCE WORK IS TRANSFERRED ELSEWHERE.

IN THE MAINTENANCE GROUP OF WORKS, BR'S PROPOSALS ARE AS FOLLOWS:

AT EASTLEIGH BR BELIEVE THAT PRODUCTIVITY CAN BE IMPROVED AND OVERHEADS REDUCED SUFFICIENTLY TO ENABLE THE WORKS TO CONTINUE WITH ITS PRESENT JOB OF REFURBISHMENT AND HEAVY OVERHAUL OF SOUTHERN REGION THIRD RAIL ELECTRIC STOCK - BUT OVER THE NEXT 3 YEARS UP TO 500 JOBS MAY GO.

/DONCASTER WILL CONTINUE

DONCASTER WILL CONTINUE TO CARRY OUT WAGON MANUFACTURE AND WAGON OVERHAULS, AND WILL ALSO BECOME A MAJOR MAINTENANCE DEPOT FOR LOCOMOTIVES AND OTHER ROLLING STOCK. DONCASTER WILL ALSO BECOME THE SITE FOR BR'S NEW NATIONAL STORE FOR SUPPLYING SPARE PARTS TO BR DEPOTS. TOGETHER THESE PROPOSALS MEAN LOWER LEVELS OF EMPLOYMENT AT DONCASTER - DOWN OVER THE NEXT 3 YEARS FROM THE PRESENT LEVEL OF 3100 TO BETWEEN 1430 AND 1690.

WOLVERTON WILL BECOME A MAJOR MAINTENANCE DEPOT FOR A WIDE RANGE OF COACHING STOCK, AND AS AN INTERIM MEASURE WILL COMPLETE ITS PROGRAMME OF ELECTRIC TRAIN REFURBISHMENT. BUT OVER THE NEXT 3 YEARS EMPLOYMENT THERE WILL DECLINE FROM THE PRESENT LEVEL OF 1900 TO BETWEEN 650 AND 850.

GLASGOW SPRINGBURN WILL BECOME A REGIONAL MAINTENANCE DEPOT FOR SCOTRAIL WITH JOBS FOR ABOUT 200 PEOPLE.

JOB LOSSES IN REGIONAL DEPOTS WILL AMOUNT TO ABOUT 300 A YEAR AS WAS ENVISAGED IN BR'S 1985 PLAN.

THUS BR'S NEW ESTIMATE OF MANPOWER REQUIREMENT POINTS TO REDUCTIONS OF BETWEEN 4200 AND 5000 JOBS IN BREL OVER THE NEXT 3 YEARS TOGETHER WITH 1750 PREVIOUSLY NOTIFIED TO THE TRADES UNIONS.

/BOTH THE GOVERNMENT AND

BOTH THE GOVERNMENT AND BRITISH RAIL ARE DEEPLY CONSCIOUS OF THE CONSEQUENCES OF THESE CHANGES FOR A LARGE NUMBER OF STAFF AND THEIR FAMILIES. THE BOARD INTEND TO APPOINT A SENIOR DIRECTOR TO CO-ORDINATE MEASURES TO HELP THOSE AFFECTED BY THE CHANGES. HE WILL WORK WITH BREL IN REDOUBLING THEIR EFFORTS TO FIND ALTERNATIVE EMPLOYMENT BOTH WITHIN AND OUTSIDE THE INDUSTRY FOR THOSE DISPLACED, AND TO DEVELOP RETRAINING PROGRAMMES. BRITISH RAIL WILL BE RECRUITING SOME 20,000 PEOPLE OVER THE NEXT 3 YEARS TO JOBS IN ALL DEPARTMENTS OF THE RAILWAY. BR WILL ALSO BE APPROACHING THE LOCAL AUTHORITIES WITH A VIEW TO SETTING UP, OR SUPPORTING, IN EACH AREA A SUITABLE DEVELOPMENT AGENCY ON THE LINES THAT BREL HAS DONE WITH CONSIDERABLE SUCCESS AT SHILDON, HORWICH AND SWINDON. THEY WILL PROVIDE FINANCIAL AND OTHER SUPPORT THROUGH THESE AGENCIES FOR JOB CREATION SCHEMES.

002/2983

CONFIDENTIAL

cc BS
BL

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

Prime Minister 2
DTp
19/5.

19th May 1986

Dear Nicholas,

BRITISH RAIL: RATIONALISATION OF BREL

Thank you for your letter of 14 May.

I appreciate that BRB's current proposals follow the broad outlines endorsed by colleagues in August 1985 and announced by BRB in January 1986. You will recall that Ian Stewart in agreeing to the broad outline of BR's proposals in August stressed that final decisions on the structure and the division of work between the depots and BREL core must depend on detailed study by Government of the then envisaged Chairman's report as well as suitable arrangements for finance. Against this background, I would have welcomed more opportunity to consider BR's detailed proposals.

I understand, however, that BRB's proposals offer a robust, high rate of return, with a NPV estimated at over £100 million in 15 years. I can therefore agree in principle that in order to finance these proposals, BR's EFR in 1986-87 and 1987-88 will be higher than it would have otherwise been. The figures will need, as you suggest, to be examined carefully by officials. I would hope - as you imply - that BR can find offsetting savings and that there will be no need for any adjustment to BR's EFL for 1986-87. The increase in 1987-88 will need to be considered in the IFR against other BR requests for that year while the savings in subsequent years will obviously be useful.

Given the recent British Shipbuilders' announcement, BR's own announcement will clearly need to be handled with considerable care. BR propose to spend around £6 million on alternative employment measures designed in cooperation with local authorities to foster jobs over the next three years: you will no doubt

CONFIDENTIAL

encourage BR to emphasize the steps they are taking. In addition, as you suggest, we should stress that it is for BRB to decide on how best to rationalise BREL. I also understand that your Department will emphasize that a major factor in the reduced work load for BREL results from investment in more efficient rolling stock which require less maintenance.

By March 1987 core BREL dealing with new build and heavy repair should be operating on a fully commercial basis. Officials should press on with consideration of the options for privatising this core BREL group.

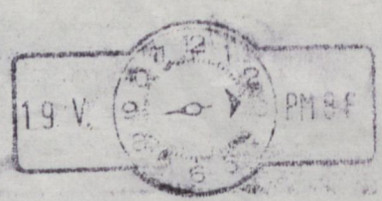
I am copying this letter to the Prime Minister, Willie Whitelaw, Norman Tebbit, David Young, Paul Channon, and Malcolm Rifkind.

Yours ever,

JOHN

JOHN MacGREGOR

TRANSPORT
BR
PT 8



CONFIDENTIAL

PQ now

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister

This seems OK to me, except that the sentence marked x is misleading. The 20,000 are not extra jobs; they are the numbers BR will need to recruit as replacement staff.

19 May 1986

Agree to ask for its deletion? Any other comments?

DHW
19/5.

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON
SW1

Dear David,

My Secretary of State wrote to the Chief Secretary on 14 May explaining that British Rail planned to announce at a meeting with their Unions on 20 May their proposals for the next stage of the rationalisation of British Rail Engineering Ltd (BREL) Workshops.

Reports of the job losses expected started to appear in the press on Friday and my Secretary of State agreed with the Business Managers today that he should make a Statement in the House tomorrow afternoon, Tuesday 20 May. I enclose the current draft of the Statement.

I am copying this letter to the Private Secretaries to all members of the Cabinet, to Murdo MacLean and Rhodri Walters, and to Michael Stark.

Yours,

Richard.

R A ALLAN
Private Secretary

CONFIDENTIAL

DRAFT STATEMENT: BREL.

We have set British Rail the objective of modernizing the Railway: to that end, and urged on by the Opposition and the Unions, we have agreed a massive investment programme. Over £400m of new rolling stock has been approved over the last 2 years, and some £700m is planned to come forward over the next 5 years. There is a further several hundred million pounds worth of railway rolling stock investment associated with the Channel Tunnel, if the House consents to the Bill.

As I have repeatedly said, new modern rolling stock requires less maintenance and repair. For example, on average 2 of the new Sprinter vehicles are able to replace 3 old DMU's and each one requires 30-40% less maintenance than its predecessor. So overall there is a reduction of 50-60% in the BREL maintenace workload for that service.

As a result, capacity reductions within BREL have been occuring for a number of years and some 1750 job losses announced a year ago have still to take place. I regret to have to tell the House that all the same factors of workload reduction are the precise cause of BREL's announcement to their Unions this morning that they expect further job losses over the next 3 years. At this stage these are the subject of the normal processes of consultation with the Unions.

BR announced in January that a New Build and Heavy Repair Group would be separated from maintenance and repair and that the latter would be brought closer to the operation of the Railway.

The New Build and Repair Group comprises Crewe, York and two works at Derby. Here the numbers employed will to some extent vary with the orders obtained - and some export orders are coming through/but there is expected to be some decline in employment as lighter maintenance work is transferred elsewhere.

In the Maintenance Group of Works, BR's proposals are as follows:

At Eastleigh BR believe that productivity can be improved and overheads reduced sufficiently to enable the works to continue with its present job of refurbishment and heavy overhaul of Southern Region third rail electric stock - but over the next 3 years up to 500 jobs may go.

Doncaster will continue to carry out wagon manufacture and wagon overhauls, and will also become a major maintenance depot for locomotives and other rolling stock. Doncaster will also become the site for BR's new National Store for supplying spare parts to BR depots. Together these proposals mean lower levels of employment at Doncaster - down over the next 3 years from the present level of 3100 to between 1400 and 1690.

Wolverton will become a major maintenance depot for a wide range of coaching stock, and as an interim measure will complete its programme of electric train refurbishment. But over the next 3 years employment there will decline from the present level of 1900 to between 650 and 850.

Glasgow Springburn will become a Regional Maintenance Depot for ScotRail with jobs for about 200 people.

Job losses in Regional depots will amount to about 300 a year as was envisaged in BR's 1985 Plan. Thus BR's new estimate of declining workload is for reductions of between 4200 and 5000 jobs over the next 3 years compared to the figures previously announced.

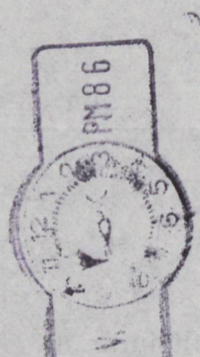
Both the Government and British Rail are deeply conscious of the consequences of these changes for a large number of staff and their families. The Board intend to appoint a senior Director to co-ordinate measures to help those affected by the changes. He will work with BREL in redoubling their efforts to find alternative employment both within and outside the industry for those displaced, and to develop retraining programmes. British

X Rail will be recruiting some 20,000 people over the next 3 years to jobs in all departments of the railway. BR will also be approaching the local authorities with a view to setting up, or supporting, in each area a suitable development agency on the lines that BREL has done with considerable success at Shildon, Horwich and Swindon. They will provide financial and other support through these agencies for job creation schemes.

Though the House will share the Government's disappointment that this has proved to be necessary, I am sure it will be accepted that it is an unavoidable consequence of modernizing the Railway.

Sounds unsympathetic. Reorder the two halves of the sentence?

I should delete the whole of the last sentence - the point about this has been made throughout the statement; and the statement will then end on - job creation schemes


19 V 86

Prime Minister 2

CC RI

BR have already told the unions informally about the redundancies. Another point to make is that it is also investment in new BR rolling stock which is contributing to these redundancies, because it needs less maintenance. DLN 16/5.

PRIME MINISTER

16 May 1986

BR/BREL - THE NEW STRUCTURE FOR MAINTENANCE AND MANUFACTURING

The last thing we need at present is the announcement of another 4,800 job losses at BREL works - over 80% in the Midlands, North and Scotland. But there is no disputing the industrial logic and commercial soundness of the course which BR/BREL are on. Next Tuesday's meeting between BR and the Rail unions is inescapable; by now, so is disclosure of the planned restructuring of maintenance and manufacturing, and the consequent job losses. Continuing speculation will be more damaging than the truth, which briefly is as follows:

1. BREL's assortment of old-fashioned, manpower-intensive workshops are a relic of the great days of steam when locomotives were treated like thoroughbred horses, each needing individual attention at a specialist workshop.

2. Modern rolling stock designs require substantially less maintenance (eg 50-60% less for BR's new diesel multiple units) and are modular so that defective components can quickly be replaced in BR's frontline maintenance depots. This means that defective rolling stock can be put back into service in hours rather than being sent away for weeks to a specialist BREL workshop. Accordingly, BR aim to push up the operational availability of rolling stock from less than 70% to at least 90%.

3. BR's plan is to integrate frontline maintenance with operations. The same manager will be responsible for maintenance and operations, ie for maximising the availability of his fleet. The latest computing aids will be used for spare parts stock control.

4. Having done this, and made the four major workshops at the core of BREL a separate corporate entity engaged

mainly in the manufacturing and rebuilding of rolling stock, the option exists to privatise BREL. But this was not the primary motive behind the restructuring of maintenance and manufacturing. The overriding objective is to make BR an efficient business, exploiting fully the latest railway technology and maintenance techniques.

The important thing now is presentation. Critics will blame the Government's heedless pursuit of privatisation and bewail the decimation of another once great industry.

Ministers must make it clear that modernisation and advancing technology is the reason for the BREL job losses. An efficient modern railway system, linked by Channel Tunnel and high-speed trains to the Continental network has a promising future; so has a railway supply industry which is lean, competitive and abreast of the new technology. The Channel Tunnel project alone will require some £160 million of rolling stock from British manufacturers.

Recommendation

It would be worth asking Nicholas Ridley urgently to ensure that the Government and Party machines are fully briefed on the background to the BREL job losses, the positive aspects of BR/BREL's restructuring of maintenance and manufacturing, and the more promising outlook for the railway industry now that the Channel Tunnel is in prospect.

I have done this. DLW

JOHN WYBREW

010

CYBG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Seen by the Prime Minister
16/5. DCS
pa

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Prime Minister 2 14 May 1986

DCS
15/5.

Dear John

As you know British Rail have been taking steps to rationalise their arrangements for rolling stock maintenance and manufacture. In the course of this process they announced in January their intention to divide BREL into two parts:

- a new Build and heavy Repair Group (NBRG) involving Crewe, York, Derby.

- a Maintenance Group (BRMG) involving Eastleigh, Wolverton, Glasgow (Springburn) and Doncaster. (These will ultimately be brigaded with BR's non-BREL Depots.)

They said then that they could not give the workforce any detailed information about what the policy would imply at individual works, since that would require further examination. There has naturally since been a good deal of speculation, and several requests for deputations to Ministers from individual works.

BR have a major meeting with their unions on 20 May at their Rail Council and they feel they must then go into more detail if they are to retain credibility, and minimise the risks of industrial relations problems from the changes.

Your officials have recently seen the Board's evaluation of their overall proposals which shows that the changes in maintenance arrangements offer large potential benefits. But because there will be a sizeable number of job losses (currently forecast at some 4,800 over and above those BR have already announced, spread over the two years 1987/88-1988/89, details in table A attached), most of which will have to be met by redundancies, the policy also carries the corollary that BR's EFR in those years will be higher than it would otherwise have been, more than offset of course by the consequential reductions in later years.

Bob Reid has asked me to confirm before the meeting on 20 May that Government accepts in principle that the Board will need to incur extra expenditure in order to pursue the course they will be announcing.

Although I recognise that any increase in the EFR will be unwelcome I see no real alternative but to giving him that undertaking in principle. The Board are already a long way down the course, and it would be very difficult to reverse direction now, quite apart from the fact that it would mean giving up the sizeable benefits that are to be expected from their policy. (It would also prevent any possibility of privatising part of BREL for the forseeable future.)

However agreement in principle need not commit us at this stage to precise figures, and our officials will need to pursue with BR what are the minimum changes - if any - that would be necessary to the existing EFL and their plans for subsequent years.

I should be grateful if I could have your early agreement that I should tell Bob Reid that we support his Board's management judgement on how best to rationalise BREL; that we agree in principle that as a result their EFR in 1986-87 and 1987-88 will need to be higher than it would otherwise have been; and that the size of any necessary change in EFL for 1986/87 should be examined further by officials.

I am copying this letter to the Prime Minister, the Lord President, the Chancellor of the Duchy, the Secretary of State for Employment, and the Secretary of State for Trade and Industry.

NICHOLAS RIDLEY

BREL MANPOWER: FORECAST JOB LOSSES 1987/88-1988/89

Crewe		245
Derby (Litchurch Lane)		644
Derby (loco)		316
Doncaster		1161
Eastleigh		389
Glasgow Springburn		487
Horwich		24
Swindon		388
Wolverton		981
York	gains	56
HQ		237
TOTAL		4816

cc BG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

R/PSO/3364/86

The Rt Hon Kenneth Clarke QC MP
Paymaster General
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

7 April 1986

Dear Kenneth

Private Minister 2
BR are still shedding labour, net.
DRV
7/4.

BRITISH RAIL

Thank you for your letter of 19 March in which you suggest that it is BR's practice to keep large numbers of posts vacant in order to guarantee a high level of overtime working.

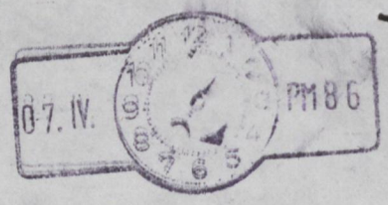
Any organisation of the size of BR and providing the sort of service it does is bound to have a gap between complement and staff in post. Only a small proportion of that gap relates to posts which, for sound management reasons, are held for staff being displaced in the near future. As for the rest, I am sure you will recall that almost 50% of the overtime work relates to Sunday working. This is because BR have always operated on a 6 day week schedule. If it were possible for them to change to a 7 day schedule they would certainly employ more people but at a significantly higher cost than the current arrangements. A further reason for the vacancy gap is the substantial turnover of newly recruited staff. As I mentioned in my letter to John MacGregor, BR need to recruit about 7,000 new entrants each year and up to half of those are lost within the first year.

Since it is BR's policy to maintain service quality as far as possible even where vacancies have not been filled, it is inevitable that they have to rely upon their people to work overtime as necessary. Much of BR's work cannot be postponed. It is certainly not BR's policy, however, deliberately to run short of complement in order to guarantee overtime working. As I made clear in my earlier letter, the amount of overtime worked per employee has been reducing. The Chairman has said that he intends to hold to this trend and considerable pressure is being mounted to step up recruitment. As I indicated in my earlier letter I shall, of course, be keeping a close eye on developments.

Finally, colleagues may wish to note that the unions have now accepted BR's final pay offer outlined in my letter of 28 February.

Copies of this letter go to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

NICHOLAS RIDLEY



Transport: B.R.

P68

GC/BG

NJ(I)71

CONFIDENTIAL

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

Prime Minister

DRS
20/3

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1

19 March 1986

Dear Nicholas,

BRITISH RAIL

Since reading your letter of 28 February to John MacGregor I have been considering British Rail's practice of keeping posts open for redundant staff. I am familiar with the argument that the industrial relations problems of manpower changes can be eased if staff, whose jobs are disappearing, can be offered alternative employment. But in an organisation as large as British Rail, and with a fairly high level of staff turnover, I wonder if there is any real need to keep large numbers of posts vacant, except perhaps for a small number of specialist jobs.

Am I right in believing that another reason for this practice is to ensure that rail staff are guaranteed a high level of overtime working? If this is the main reason then it is likely to be a cause of inefficiency, and is unfair to the unemployed who would welcome the chance to work for British Rail.

I would welcome your views on the desirability of retaining this practice, and whether you have discussed with British Rail the reasons for this practice and know of any plans they have to phase out this policy.

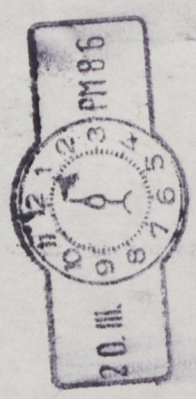
I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours ever,

KENNETH CLARKE

CONFIDENTIAL

TRANSPORT, BR Pt 8.



CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

28 February 1986

Dear John

BR PAY

Thank you for your letter of 10 February about BR's pay proposals for this year.

I have had a number of discussions with Bob Reid about the points you raise. As a result, BR lowered their initial offer to 4.5%. The Chairman made it clear to me, however, that he saw no prospect of achieving a settlement at last year's level (4.85%). He judged that to go for such a settlement would seriously risk the possibility of very costly industrial action. As expected, the initial offer was promptly rejected by the unions, and talks were resumed today.

Turning to the points raised in your letter, the general objective of seeking settlements lower than last year must, it seems to me, pay due regard to the facts relating to particular cases. You accept that BR's recent settlements have been low. Last year they settled at 4.85% compared with an average of 5.75% for the public sector as a whole, and 7.0% for the public trading sector. BR's settlement was virtually the lowest of the major public sector employers. Although it is early in the pay round, settlements so far this year are averaging 5.5% in the public trading sector, and 8.0% in the public sector as a whole. In these circumstances there are clearly limits to how far it is reasonable to expect BR to continue the downward pressure and we must take a realistic view of what is achievable.

While it is true that BR's average earnings have increased in recent years the comparisons made in section (b) of the annex to your letter require some qualification. In fact, the earnings figures quoted for BR cover six, not five, settlements, so that like is not being compared with like. If one compares the October to October position to eliminate distortions created by the pattern of settlements, the increases in average earnings for BR's footplate and manual staff are lower than those for male manual workers as a whole.

BR staff work significantly longer hours than the national average. The figures in section (c) of your annex leave this factor out of account. The average hourly earnings of BR's conciliation staff, representing some 60% of the railway workforce, are £3.41 compared with £3.68 for male manuals in the economy as a whole. And the average hourly earnings of BR's entry grade of Railmen is some 21% below the average for male manuals. Moreover, BR's averages are enhanced through the inclusion of specialist technical staff so that direct comparisons with male manuals can be misleading.

A further point stressed by BR, which I mentioned in my earlier letter, is that the amount of overtime worked per employee has reduced compared with a year ago. It is true that this is against a background of increases in recent years which has assisted BR in securing relatively low settlements. But since overtime money forms such a large component of BR pay - 23.5% for manual grades and 22% overall - the current cut in overtime is having a significant effect on the total earnings of overtime workers, the average reduction being 2%. This is bound to be an important factor in the union's thinking. The Chairman has said that he intends to hold to this trend of reducing overtime and I shall be pursuing this further with him.

As I made clear in my earlier letter, BR are indeed experiencing recruitment problems which, they believe, reflect their overall pay position. Although they are seeking to reduce their total manpower, they neverthless need to recruit about 7,000 new entrants each year. Not only are they failing to attract the quality of applicant they need to sustain the business for the future but they are losing up to 50% within the first year as entrants experience the unsocial and lengthy hours of work needed to reach a tolerable earnings level. These difficulties are general and not confined to particular grades or geographical areas.

BR have told the unions that the pay deal they are seeking is unrelated to productivity improvements. BR's experience is that the changes necessary to improve productivity can be achieved more effectively and at greater overall advantage to BR if they are dealt with outside the national pay negotiations and, wherever possible, at local level. BR have also said, in recent press statements, that they aim to pursue this more decentralised approach to productivity negotiations, taking due account of local labour market conditions.

As regards BR's proposed improvements to pension benefits, Bob Reid accepted our point about the need for these to be considered as part of the package. He has assured me that they were taken into account in planning their negotiating position and were fully deployed during today's negotiations as one of the arguments for the level of settlement proposed. The outcome is that the Board have made a final offer of 5% on basic rates, plus £1 on the minimum earnings level - an overall average earnings increase of 5.19% (compared with their original proposal of 5.5%). This represents a substantial improvement, which I believe, takes full account of all the points we have made.

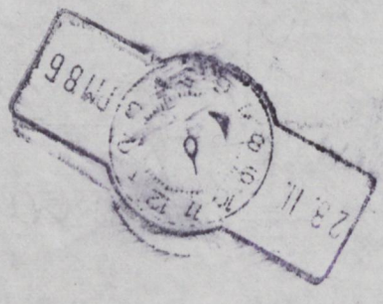
CONFIDENTIAL

Finally, you referred to the need for a demanding unit cost target for the future along the lines of that introduced for LRT. I shall indeed be considering some such possibility in the context of the Chairman's obejectives.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

NICHOLAS RIDLEY

Transport. BR Pt 8.



SS

CONFIDENTIAL

CR 86

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
sw1P 3EB

NBPM

19 February 1986

Dear Nicholas,

B R Pay

I have seen the correspondence between you and John MacGregor about British Rail's pay offer for this year. I agree entirely with the points that John makes in his letter. In addition, you explain that BR point out that opportunities for overtime have been reducing this year. That appears to be true but it follows increases in the amount of overtime worked during each of the previous five years and is no doubt overdue as BR increase their efficiency. I think that any final offer above last year's settlement of 4.85% would be damaging to the Governments' general stance on pay and employment.

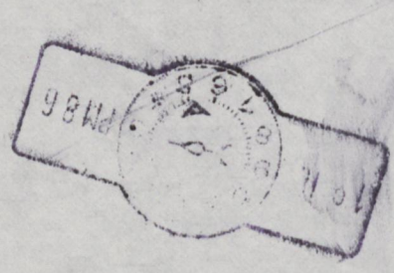
I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours ever,

KENNETH CLARKE

CONFIDENTIAL

Transport; BR Finances



003/112

CONFIDENTIAL

cc BG

Nicholas Ridley

NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

10 February 1986

Dear Nicholas,

BR PAY

Thank you for your letter of 5 February, informing me that BR plan to open negotiations with an offer of 4.75 per cent on basic rates and are prepared to raise it as high as 5.5 per cent in order to secure a settlement.

I am disappointed at these proposals, which envisage an eventual settlement 0.65 per cent higher than last year when it is our agreed objective to seek lower settlements in this pay round. I accept that BR's recent settlements have been low. But average earnings have increased much more rapidly than basic rates and average male manual earnings in recent pay rounds. It is also the case that average earnings in BR compare very favourably with average earnings elsewhere in the economy, especially if account is taken of the rather disappointing productivity performance in recent years. And BR has low staff turnover overall and no general recruitment problems. While there may be a few pressure points there is no case for a general increase to relieve these. I attach a table prepared in the Treasury setting out the key facts and figures.

In the light of this situation I would be grateful if you would ask BR to reconsider. Our minimum objective must be to secure a settlement no higher than last years 4.85 per cent. This obviously means a lower opening offer than the one BR have in mind. I would also be grateful to know what ideas BR have for offsetting the cost of the eventual settlement through productivity improvements and whether they have any plans to pay extra at local level in exchange for agreements on productivity. Is there also scope for a more differentiated approach to pay with a much lower basic offer combined with more flexibility where there are recruitment and retention problems.

CONFIDENTIAL

I also understand that BR are envisaging certain improvements to employee pension benefits. I have no objection in principle to this but clearly the value of these benefits should be a factor in the pay negotiations and their value offset against the overall settlement as was suggested by Nigel Lawson in his letter of 27 January to Norman Fowler. My officials have provisionally costed the value of the enhanced benefits as worth about 1 per cent on current average earnings. This calculation may not be exactly right but I would expect the value of this benefit to be included within the overall envelope agreed for the eventual settlement. Obviously this implies a still lower offer on basic rates than the one BR are currently envisaging.

Finally, I am concerned about BR's disappointing past performance on unit costs and understand that their 1985 Corporate Plan does not envisage more than a 1 per cent improvement in unit costs per mile in the five years from 1986-87. We need a demanding unit cost target for the future -we have for example set LRT a target of a 2½ per cent fall per year in real costs. I hope we can agree that a demanding unit cost target should be one of the objectives for the new chairman to be appointed in October.

I am copying to the Prime Minister, E(PSP) members, and Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

(a) Pay Settlements (%)

Pay Round	BR SETTLEMENT	PRIVATE SECTOR AVERAGE	RPI AVERAGE
1984-85	4.85	6.0	5.7
1983-84	4.98	5.25	5.0
1982-83	4.52	5.75	5.3
1981-82	6.4	7.0	10.7
1980-81	11.0	9.0	13.4
CUMULATIVE	35.9	37.6	

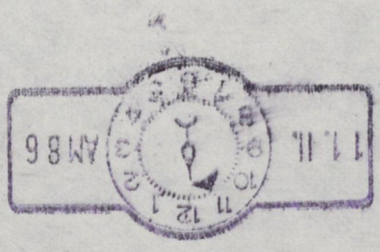
(b) Increase in Earnings % (April to April)

PAY ROUND	FOOTPLATEMEN	OTHER BR MANUALS	PRIVATE SECTOR MALE MANU
1984-85	14.6	11.9	8.1
1983-84	5.0	9.5	8.9
1982-83	8.3	4.9	7.6
1981-82	13.8	14.1	10.1
1980-81	17.2	16.1	8.1
CUMULATIVE	73.8	70.3	50.8

(c) Average Earnings (April 1985) (£ per week)

Workshop	165.20
Conciliation Grades	176.40
Footplatemen	192.00
Male Manuals (Private Sector)	163.40
Male Manuals (Whole Economy)	163.60
British rail Salaried Staff	236.20
Male Non-manuals (Private Sector)	228.00
Male Non-manuals (Whole Economy)	225.00

TRANSPORT : British Rail Pay : Pt 8



CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

5 February 1986

Dear John

BR PAY

The rail unions will today formally present to BR their claims for substantial, but unspecified increases in rates. The BR Board do not intend responding with an immediate offer but expect to give a written response in about a week, with a view to settling in early March.

A prominent feature of BR's pay deliberations this year is the increasing concern, of both the Board and the unions, over their low basic rate pay structure and, in particular, the position of the lowest paid employees. While average weekly earnings compare reasonably favourably with the national average, their hourly rates are significantly lower. This is because of the traditionally high levels of overtime worked which has, in part, enabled BR to secure settlements below the prevailing rate of inflation in recent years. On top of the low settlement achieved last year (4.85%) opportunities for overtime have been reducing this year which has adversely affected average earnings.

BR are particularly concerned about the likely effect on retention and motivation of maintaining the downward pressure on pay. Although the absolute turnover of staff is not particularly high, they say they are experiencing difficulty in retaining staff of adequate quality. There is a high wastage rate among recruits, partly because of the uncongenial shift work involved and partly because they do not come up to BR's standards.

Significant reductions have been made in the workforce in recent years and BR are now forcing the pace of change through the extension of driver only operation, the easement

of single manning restrictions, and the significant productivity improvements which have taken place, and are planned, for British Rail Engineering Limited.

Against this background, BR expect strong pressure from the union leadership when they meet to consider their case today. BR are intent on gaining the co-operation of the workforce for the coming changes and believe that there are advantages in going for a quick settlement this year. They therefore intend making an opening offer of 4.75%. They will do their best to keep the final settlement as near as possible to last year's level but, if pushed, believe they may need to go further - perhaps as far as 5.5% - in order to achieve a settlement.

I and my officials have, of course, stressed the desirability of keeping the pay settlement as low as possible commensurate with avoiding major and prolonged disruption (which is very costly for BR), affordability and the need to recruit, retain and motivate their staff. The Chairman fully understands our position but still believes that in the light of the low settlement last year, the pressures I have outlined above, and the current negotiating climate, BR might need to edge up this year's pay settlement over that of last year.

I shall, of course, keep you and colleagues informed of significant developments.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

Cf
cc Mr Wybrew
for squiggle under
X – the PM has doubts
about this.
BDS
16/9.

£ 2 (but for week-end box)

CONFIDENTIAL

PRIME MINISTER 11 September 1985

BR AND LRT FARE INCREASES

Much has been achieved in changing the frame of mind of British Rail and London Regional Transport managements. They now see themselves not as instruments of social policy, but as business enterprises subject to commercial disciplines and competitive market pressures.

In view of this, the Government should be very wary of tinkering with established medium-term objectives or of second-guessing the managements' business judgements. Fortunately, in current circumstances there is no need to intervene on overriding political grounds.

LRT's decision to increase fares, just under 7% on average, is consistent with the established objective set by Nicholas Ridley to hold real fares broadly stable beyond January 1985. The volume of traffic is on a healthy rising trend - passenger miles up nearly 50% from 1982-1984 for the underground and 13% for buses. The quality of service is improving. LRT's new Travelcard has been a marketing success. Having inherited an EFL approaching £400 million and set to go on rising, Keith Bright has done a good job in reversing the trend.

BR won't be making a final decision on fare increases until their November Board meeting. If inflation continues to

fall, the package will probably be pitched a shade lower than the numbers indicated in Nicholas Ridley's note. As he says, the proposed fare increases are selective, rightly being governed by marketing considerations and the strength of the competition. The London commuter market is robust and can bear a small real fares increase. There is no case for subsidising this sector; likewise the Inter City sector now that the public service obligation is fulfilled by a network of highly competitive, attractive, low-cost coaches. BR aim to move up market, looking for higher unit revenue rather than volume, based on rapid, more reliable, better quality services.

Conclusion

No Government intervention is required.

JOHN WYBREW

CONFIDENTIAL

PRIME MINISTER

BR AND LRT FARE INCREASES

I think that you and colleagues may like to be forewarned how matters are shaping up on fare increases on British Rail and London Regional Transport. Increases are needed in January, 12 months after the last round and in both cases, though the boards' have not taken their final decisions, their general approach is now clear.

London Regional Transport will need to announce their plans in late September, because it unavoidably takes them a long time to alter all the mechanical ticket issueing equipment - this will be much easier in a couple of years time when they have the new equipment I have recently approved. As they see it, they will be going for an increase of just under 7% on average. There will of course be variations around this. I believe an average increase of that level is very well-justified. LRT are convinced that it fully meets their need to get towards the very tough objective we have set them for reducing revenue support.

The British Railways Board are able to defer their announcement until a good deal later and plan to make it in early November. They will be going for a wide spread of increases adapted to the objectives we have set them in widely different markets. The spread is such that it will be difficult to express them as a single overall figure. On the London commuter services the increases would average out at about 7½%, but on the long distance and inter-city services where they have certainly been underpricing, to the detriment of the coach market, they will be going for increases averaging 10%, and more for first class travellers. I am sure it is right for them to take this strongly market directed course; the lack of progress in reducing the deficit on the inter-city

CONFIDENTIAL

services has been very worrying.

I will discuss with Sir Robert Reid nearer the time how he intends to handle the presentation of what is bound to be a somewhat complicated package.

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

NICHOLAS RIDLEY
3 September 1985

CONFIDENTIAL

CC AD

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPT
DRS
3/9

The Rt Hon Peter Walker MBE MP
Secretary of State
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

3 September 1985

Dear Peter

Thank you for your letter of 22 August about the possible effect of industrial action on BR on coal stocks at power stations.

The guards' vote has of course transformed the situation. But it is worth saying that Bob Reid is alert to the importance of maintaining the movement of coal by rail to the power stations. I know that he will do all that he reasonably can to continue BR's very high coal carryings in recent months. But if BR were to be faced with, for example, unofficial guards' action despite the vote, or with action by ASLEF drivers, they could obviously give no guarantees about coal traffic being uninterrupted. The only way to ensure uninterrupted coal traffic would be to tell Bob Reid to back down completely in the face of actual or threatened action: this would be quite the wrong message. — and it's largely academic now.

I am copying this letter to the Prime Minister, Nigel Lawson, George Younger and Sir Robert Armstrong.

Yours ever

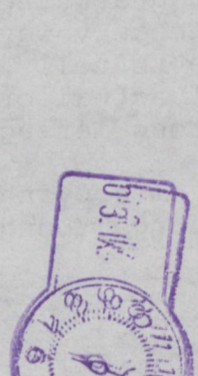
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

Transport Pt 8

B. R.



85/8

RESTRICTED

c. Mr Wiles (No 10)

COPY FOR

Y0981

Brigadier Budd

MR UNWIN

Railways and Power Stations

1. You might like to see the attached copies of items from today's Daily Mail - pointers for the future perhaps?

2. I understand that the Secretary of State for Energy will minute the Prime Minister in the next few days on the likely effects of industrial action in the power supply industry. You may be aware that the TUC have stated their intention of organising a day of action by all their members if any union member at GCHQ is sacked and two unions (EEPTU and NUPE) have said they will ballot their members to seek authority for a 24 hr strike as their contribution.

R. Unwin

Tom Budd

BRIGADIER J A J BUDD

30 August 1985

- The concern about guards is precisely the personnel point that B.R. have not so far responded to convincingly. There is genuine concern among (mainly female) travellers & commuters, & B.R. ought to be doing more to allay this. You told me that Dept Transport had this point well in mind. But I should be grateful if you would express further concern to them.

RESTRICTED

30/VIII

GUARDS: Sorry BR I'm not convinced

by DIANA HUTCHINSON
WOMAN'S EDITOR

THE NEWS that British Rail plan at least 12 more routes with one man trains will have brought no comfort to the hundreds of women who wrote to me in praise of the old-fashioned guard.

Speak to Sir Robert Reid, the austere, forthright Chairman of BR, and you find him concerned, but quite unapologetic. 'I detect some undercurrent here because we are men talking to you . . .' he told me.

Sorry to seem sexist. But can a man ever understand the difference in the climate of fear for a man and a woman travelling on certain trains, on certain routes, at certain hours?

He sees our fears for our safety as something fanned by misguided and possibly malicious trades unions. And though he showed me unpublished figures that prove more than 3,000 crimes of violence and sexual offences are reported last year on trains, and confessed the figures are rising slightly, his faith is in the new technology to be our knight in shining armour.

'The Victorian railway guard might have gone into our culture as a friendly figure,' he thundered, 'But have you seen some of our guards on television during the Glasgow dispute?

'Are they the type you would feel confident will look after you? There was never any question but that they would always be on the trains and yet they walked out . . . Is that the friendly caring guy you want?

'And the driver will not be locked in. You can walk through and speak to him. He can talk from the train to any signal box and the signal man talk back directly to the customer on the phone. Police could be waiting at the next station, help could come far more quickly.'

Petrified

He pointed out the quaintly nicknamed Bedpan line, Bedford to St. Pancras where the smart new technology has already been in service. The Chairman of the commuters group, a man of course, did have safety reservations, but apparently has no longer.

Unlike one of our readers, a 'Bedpan' passenger who recently found herself petrified, surrounded by drunken yobs and quite incapable of speech, let alone running swiftly up the train to attract the attention of the driver.

Sir Bob told me he is recruiting 'jumpers'—travelling ticket inspectors to leap on and off such trains: 'We need them because if the public can get away without paying its fare, it will. Today there is far more chance that you will come face to face with a ticket collector? If you are in trouble you should tell him.'

But is this man the embodiment of comfort and helpfulness? And will he be there at the right time? Ticket collectors have homes to go to. I have honestly never met one on the 10.39 p.m. out of Blackfriars.

The final security I was told was: 'You can always pull the communication cord.' It hardly seemed worth mentioning that at 5ft. 2in., a fairly average height, I can only reach it with my fingertips fully extended or by standing on the seat.

'Oh, dear, you surprise me,' said Sir Bob, 'In all my years at the railway I have never heard of that.'

But at least the menace of yobs putting their dirty boots on the seats has been solved. BR proudly announce LOOSE COVERS which can be washed each day. At least until they are stolen.

WHAT YOU SAY

Ever since British Rail announced its plans to run more driver-only trains, letters have been pouring into the Guards' union, the NUR.

These letters support the union's case for retaining Guards – by over 40 to 1.

Rail users say they want Guards on passenger and freight trains. They want someone to be on board to deal with accidents, fires, sudden illness and vandals.

They are angry that Guards were sacked for trying to protect the service and they reject BR's claim that the BR Board only want to do away with Guards on 'some trains'.

The NUR remains convinced that there is a continuing role for the Guard and welcomes growing public support.

We have to persuade BR to think again.

The argument for retaining Guards can be won.

For the NUR knows what rail users know – that with Guards on board, trains are safer – and the public is happier.

And safety and customer satisfaction must surely take priority over the few pence per ticket BR say they could save.

"

...My son is soon to attend a hostel for handicapped people. He is wheelchairbound, but if he is put on a train in the care of a Guard he could come home on his own – *Mary Buggy, Merton.*

...Sometimes a child or a very old or disabled person may have to travel on the train alone; without a Guard there will be no-one to keep a friendly eye on them – *Steven Spencer, London, NW3.*

...What of the deterioration in safety levels that will result from the absence of any back-up to the driver when accidents occur? – *Tony Burton, London, W3.*

...The future of driver-only trains needs to be aired before the public and seen as patently absurd. Any such decision by airlines would soon be scotched – *P. Lloyd, Horley.*

...We deplore the concept of driver-only trains and consider it essential to maintain the Guard system for safety, security and the reassurance of the travelling public – *Ruth and Esther Dunstan, Falmouth.*

...Being a young woman, I would feel very insecure travelling on a train with no Guard. By the time the driver is able to assist me it may be too late – *C.J.A. Baker, Bedford.*

...Suppose a freight train is derailed and demolishes a signal? I consider it more essential to have a Guard on freight than on passenger services – *Michael Down, Epping.*

...If drunks start to fight each other there is no-one to stop them. The Guard is an important member of the train – *Mr. and Mrs. T. Tighe, Solihull.*

"

How you can help

Together we can win the argument for retaining Guards...

1. Write to Jimmy Knapp, General Secretary of the NUR, and tell him of any relevant experiences you have had on rail journeys
2. Write to your local MP (c/o the House of Commons, Westminster, London, SW1) and insist you want Guards retained on BR's trains.
3. Campaign with us. Write for free booklets explaining the Guards' case and free lapel stickers like the one on the right. Distribute them to your friends and colleagues.
4. Help support the families of those Guards already sacked by contributing to our welfare fund. (Make cheques and postal orders payable to the NUR at the address below)

National Union of Railwaymen,
Unity House, 205 Euston Road, London, NW1 2BL

Daily Mail
Friday 30 August 1985

CONFIDENTIAL

CC NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

David Norgrove Esq
10 Downing Street
LONDON
SW1

30 AUG 1985

Dear David.

BRITISH RAIL INDUSTRIAL RELATIONS

I enclose a short note by the Department which covers recent developments and updates the note I circulated on 27 August.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Employment, Energy, Scotland, Trade and Industry and Wales, and to Richard Hatfield (Cabinet Office).

Yours,
Richard.

R A ALLAN
PS/Secretary of State

29 August 1985

CONFIDENTIAL

2

Prime Minister

DCV
30/8

Note by the Department of Transport

BRITISH RAIL INDUSTRIAL RELATIONS

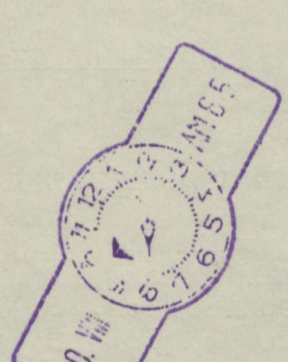
1. The result of the National Union of Railwaymen (NUR) guards' ballot has compelled the union to recall its Annual Delegate Conference, the only body which can overturn the existing prohibition on productivity talks.

2. The BR Board met NUR leaders this morning. The NUR said that progress on driver-only-operation (DOO) of trains was contingent on the recalled Conference (probably mid-September) changing their policy. In the meantime the NUR would endeavour to secure the resumption of the 3 original freight DOO trials (see Annex A to the Departmental note of 27 August) and normal working of DOO-modified passenger stock at Glasgow and Kings Cross provided that BRB reinstated guards sacked for refusing normal duties. BRB rejected this as unacceptable; their position remains that the question of the dismissed guards may be considered only when the NUR has formally agreed to the Board's proposals. BRB will be continuing firmly with their plans to switch other services to DOO.

3. The NUR Executive recently sanctioned strike ballots for two other NUR groups (Signalling and Telecommunications Technicians, and British Rail Engineering Limited workshop grades). The Railways Board doubt whether, in the light of the guards' vote, the union will now press either case to a ballot.

4. There are good signs that NUR unofficial action over DOO will fall off quickly. And ASLEF train drivers will have to decide whether there is now any point in persisting with sympathy action. BRB judge that some unofficial action by drivers and guards may linger but only in a very low key. But there is bound to be disruption to passenger services at Glasgow Central, and to some South Wales and Immingham freight services, until dismissed guards there have been either reinstated or replaced.

29 August 1985


30. VIII.

2

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

CONFIDENTIAL

Nigel Wicks Esq
10 Downing Street
LONDON SW1

27 August 1985

Dear Nigel.

Huw Hopkins wrote to Tim Flesher on 22 August enclosing a note on the current industrial relations problems on British Rail.

I now enclose a further note by the Department which sets out in fuller detail the background to the dispute, the action which BR and the NUR might take, and the financial implications. The note is for information, and does not ask for any decisions to be taken at this stage.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Employment, Energy, Scotland, Trade and Industry and Wales, and to Richard Hatfield (Cabinet Office).

Yours,
Richard.

R A ALLAN
Private Secretary

Prime Minister

DTp tell me that they have arrangements with BR that they would not take the sort of action described in §5 without informing the Dept. first.

No decisions required at this stage.

N.L.W.
27.8

BRITISH RAIL INDUSTRIAL RELATIONS

British Railways Board (BRB) Objectives

1. The National Union of Railwaymen (NUR) conference resolutions in 1983 and 1984 said, "We therefore absolutely reinforce this policy of the Union not to enter into any further talks on productivity and this to certainly include any proposals to extend 'Driver-Only-Operation' of trains". The main objective of BRB is to force the NUR into a position where it has to return to the negotiating table so that progress can be made on a wide range of issues. The Board anyway need to make progress on Driver-Only-Operation (DOO) of both passenger and freight trains. A background note on Driver-Only-Operation is at Annex A.

BR's Action To Date

2. The Board has pressed ahead with attempts to introduce DOO services in a number of areas, particularly in the freight sector, but with little success. (See the note of 22 August.) Drivers and guards who have refused to cooperate have been sent home without pay; about 260 guards who took unofficial strike action have been dismissed.

NUR Objectives

3. The NUR's objective is to delay any change, and to obtain the best terms for any concessions they eventually make. They have sought wide support through the TUC and, in particular, from the train drivers' union ASLEF, the NUM and the TGWU. ASLEF leaders have promised (unspecified) support, but their members know that they stand to gain financially from DOO - £7.32 a shift, currently. So the solid support of ASLEF train drivers is not inevitable. There is no reason to suppose that other unions will be able to deliver any more support for the NUR than they could for the NUM. The NUM have not indicated any specific action. They could call on their members not to load coal lorries.

4. The NUR cannot expect a national strike by guards to remain solid for long when strike pay is only £1 per day, but cannot afford to 'buy' this support by paying guards the NUR "hardship"

rate (£15.70 per day) in the event of a protracted national dispute - that would cost the NUR over £860,000 a week. So the NUR's preferred option must be to call for action short of a strike - a ban on overtime and rest-day working, selective area stoppages perhaps twice weekly - designed to maximise disruption at least cost to the union.

BRB Possible Actions

5. BRB have in recent days suggested publicly:

a. that if there is widespread disruption they would have to close the railway

b. that in this event, they could not continue to pay non-striking workers.

6. Under a 1919 agreement railwaymen have a guaranteed minimum week. Complying with the agreement, BRB have to pay the basic rate to those men who report for duty normally even though there is no work for them. They would need anyway to pay members of the white-collar Transport Salaried Staff Association (TSSA), whose conditions of service make it impossible for the Board to stop pay without up to six months' notice.

7. BRB's legal position on unilaterally suspending the guaranteed week was considered in 1982, during the ASLEF strike. The Law Officers' opinion then was that withholding pay could be viewed as constructive unfair dismissal and that the most that BRB could hope for is the short-term cash-flow benefit of deferring wages while litigation ran its course. It may be open to employees, or their representatives, to seek a pre-emptive injunction, which could well be granted.

8. The NUR would challenge the abrogation of the guaranteed week in the Courts, probably successfully. The Board would plead an attempt, which they would by then have made, to suspend the guaranteed week by agreement; the duress applied upon the Board and its finances by the NUR, leading to the Board being deprived of its abilities not only to earn revenue but also to fulfil

commitments to the Government to run a railway. They would argue also that the guaranteed week was framed in 1919 to promote the decasualisation of railway labour and that its use as a weapon to secure pay during a strike falls outwith the intent of the agreement. But the Board's practice has always been to abide by the agreement.

Financial Implications

9. The Exchequer grant paid to BR is in compensation for their obligation to run the passenger railway. The issue may arise whether to suspend payment of grant for the duration of any prolonged stoppage. This was done for two weeks during the ASLEF dispute in 1982. There is no precedent for withholding grant for periods of short-term or partial disruption. Suspending grant would increase BR's temporary borrowing requirement.

10. In normal circumstances, BR loses about £15m a week, which is covered by grant. The costs of selective action are inherently unpredictable, though less than those on an all-out strike. If the railway were completely closed as a result of a guards' strike, BR's loss before grant would be £30-35m if they paid fall-back pay to other staff, and about £15m if they succeeded in avoiding the minimum guaranteed pay for all NUR staff. £15m of these losses would be covered by grant if the Government continued to pay grant at the normal rate. The cash position would be different depending on timing of other receipts and payments and would be investigated in detail at the time. However, it is clear that BR would within days have to resort to temporary borrowing. They have about £60m headroom under their present temporary borrowing ceiling of £150m. If grant is suspended, and BR continue to pay all non-striking staff, they are likely to reach this ceiling within a fortnight. BRB are currently forecasting that they will be close to their 1985/86 EFL of £918m. Extra borrowing would take them over EFL.

11. Withholding grant during the strike will not necessarily mean a reduction in the total grant payable to BR for the year. In 1982 the operation of the grant mechanism entitled the Board to claim the full amount of grant allowed by the cash ceiling. It

would be necessary to decide later on whether to reduce the cash ceiling on the grant to prevent this from happening this time. To the extent that losses are not covered by continuation of grant, borrowing will increase and in the long run much of the interest cost will fall on the Exchequer. It is not necessary to decide at this stage how to deal with any such consequences.

12. Accordingly the financial decisions which Ministers may need to take in the next stages of the dispute are:

i. whether to raise the Board's temporary borrowing ceiling

ii. whether to suspend payment of grant if BRB close the network or NUR call a national strike.

Annexes

As further background, the following annexes are attached:-

Annex A - Driver-Only-Operation

B - Public Presentation

C - The Machinery of Negotiation

D - Facts and figures about the NUR

E - " " " " " ASLEF

F - " " " " " TSSA

G - The NUR ballot paper.

ANNEX A

DRIVER-ONLY-OPERATION

1. The duties of the guard can increasingly be undertaken by the driver as a result of advances in railway technology. In particular the introduction of fully air-braked wagons means that a freight driver can single-handedly brake a train from his cab and new suburban passenger rolling stock has sliding doors which can, again, be operated by the driver. The passenger stock also has a direct driver/passenger communication system which can be linked to the signalman where necessary. And modern track circuitry allows the signalman to monitor the progress of the train at all stages.

2. A survey in 1977 by Leeds University illustrated the need for DOO in the freight sector. This said, "British freight train crew productivity is very low by European standards, the major problem being that there are too many crew on each train". In fact, only the Italian railways had a worse record. BR estimate DOO savings of £15-20m pa by 1990, mostly in the freight sector.

3. Although Driver-Only-Operation (DOO) was first mooted in 1976 it did not form a part of BR's productivity drive until 1981. Twin ACAS Understandings on Pay and Productivity, which narrowly averted a rail strike that year, generated six productivity items of which two were associated with DOO: passenger and freight. DOO was touched on in later references to the Railway Staff National Tribunal who made recommendations on supplementary payments for DOO drivers on the Bedford-St Pancras passenger service and on the running of three trial freight train DOO services. The Bedford-St Pancras DOO service started in July 1983. BR decided to re-deploy some of the redundant Bedford/St Pancras guards as revenue collectors. They are not assigned to any particular train. The Board and NUR have still to agree on the precise number of ex-guards to be used as revenue-collectors. The 1984 BR pay deal included agreement on the principle of Bedford-St Pancras DOO, acceptance that BR would advance further DOO passenger proposals with a view to introduction from 1985 and a statement by BRB that they would want to "regularise" the operation of three freight DOO services, two of which had been piloted the previous year.

4. In 1983 the NUR Annual Conference barred its leaders from further DOO talks. This constraint was re-emphasised the following year despite the provisions attached to that year's pay settlements.

5. Given the satisfactory operation of the Bedford-St Pancras driver-only service BRB contend that the NUR have accepted the principle of DOO. BRB now have passenger rolling-stock which has been specially modified for DOO at Glasgow and Kings Cross. Guards have blacked the units and drivers (ASLEF) who have been asked to undergo DOO training have refused.

6. In the freight sector BRB ran month-long DOO trials at 3 locations:

Immingham-Santon (BSC Scunthrope) (1983)

Port Talbot - (BSC Llanwern) (1983)

Willesden-Garston (1984)

Since July this year BRB have tried to operate these three services permanently in the DOO mode, and to run further pilot DOO services from Barking and Thameshaven oil terminals, and from Westbury (Wiltshire). ASLEF drivers have refused.

ANNEX B

PUBLIC PRESENTATION

1. The NUR has deployed two main arguments in public. One has been to suggest that the question of DOO has not been fully discussed within the negotiating machinery, and that the Board is thus acting precipitately and outwith the railway's constitution. The suggestion has been that the NUR is ready and willing to talk. Their second argument has sought to gain public sympathy by creating anxiety about risks to operational and personal safety in running trains without guards.

2. The Board's main arguments have been that the principle of DOO has been settled, that the unions must face up to the need for change, and that the railways cannot be run by union conference resolutions. Further talks, even if the NUR was authorised to attend them, would be useless. A major campaign has also been directed at the guards themselves in an effort to sway the ballot result. This has included paid advertising in the National press, and personal letters (at least two) to every guard. There have been frequently repeated assurances that no guard will lose his job because of DOO. Considerable effort has also been devoted to reassuring the public (there are signs of disquiet) about the safety aspects, where in fact no problem exists. The News of the World on 25 August carried an article by Sir Robert Reid (attached).

3. From the outset, the Board selected Mr John Palette, Managing Director, Personnel, as the focus for their public presentation.

NEWS of the WORLD

BLOW THE WHISTLE ON THIS BOGUS FEAR

REID: "I'm fighting for the customer"

SUDDENLY the safety of passengers on trains has become a major talking point. Not a problem. A talking point.

It's happened in the last few days as the NUR's case for holding the public to ransom has crumbled under the pressure of exposure.

And so the leaders of the NUR avoid answering the question about how an agreement can be reached when their chief spokesman has an instruction which says—don't make ANY productivity deals.

Instead they play on the fears of the public and exaggerate the dangers of the transport system which gives them their livelihood.

Stark facts about the one-man train rumpus

By SIR ROBERT REID
Chairman of British Rail

War

In all my long experience of railway service, the NUR's campaign on safety is the most disgraceful example of misleading the public that I can remember.

Here are a few simple facts to hold on to as the war of words revolves around your heads.

FACT No. 1: The NUR flatly refuses to entertain, let alone negotiate, any further changes in working practices on BR.

FACT No. 2: Driver only trains have been operating safely, day in day out, for over two years on the Bedford/ St Pancras line.

When has the safety of our passengers been called in question during this time?

FACT No 3: Guards will still travel on all Inter-City trains and on rural services, where they have an active role looking after customers and selling or checking tickets.

FACT No 4: The only passenger trains which will lose their guards in the next two years will be Strathclyde suburban services in Glasgow and Great Northern suburban services from Kings Cross.

FACT No 5: Because stations in Scotland are "open" and there are no ticket barriers to pass, Strathclyde trains will all have a man on board to check tickets.

Where there are no open stations, a uniformed railway man will still travel on many trains to check tickets.

But trains will no longer be cancelled in the rush hour just because there isn't a guard.

FACT No 6: BR will ONLY operate trains without guards when all the required safety equipment is in place.

That includes open plan well-lit trains with sliding doors and a radio telephone so that the driver and signalman can talk to each other while the train is on the move.

FACT No 7: The bigger savings — £20 million a year—come from running many of our freight trains without guards.

The savings will not solve the financial problems of the freight business. But they are a healthy contribution.

Dispute

Already the NUR has been forced to concede the principle of this dispute once. In 1982. That's why driver-only trains run now between Bedford and St Pancras.

Unfortunately the NUR refuse to come to terms with this breach of its gospel "Thou Shalt Always Have a Guard on Every Train."

The traditional role of the guard of protecting the train has been performed with care over the years by loyal railwaymen.

But now, under the stringent safety conditions I have described, that role is carried out by others.

This frees men now employed as guards to be redeployed elsewhere doing much more worthwhile jobs, including looking after the passengers and protecting BR's revenue.

The NUR must come to terms with this change and sit down to negotiate agreements on how driver-only trains will operate, not whether.

To **GUARDS** my message is a simple one. You have a written guarantee of continued employment by BR in the event of driver-only operation.

You will certainly lose a lot of money and you could lose your job if the railway is disrupted.

To **CUSTOMERS** my message is an apology that once again you are caught up in a dispute about modernising the railway.

Reliable

The railway I am fighting to give you is a modern, clean, reliable railway, with service to the customer as its reason for being.

To get there we have to change the thinking of a union steeped in tradition. That's not easy, but it has to be done.

'The NUR campaign over safety is disgraceful'

SUNDAY AUGUST 25, 1985

ANNEX C

NEGOTIATION MACHINERY

The objectives which were set the Chairman in 1983 referred to the need to improve the machinery of negotiation so as to speed up the process of change. So far, separate negotiating machinery has been agreed for all BR's subsidiaries (including BREL) which excludes provision for a reference to the Railway Staff National Tribunal (RSNT). Such a reference is still available to the main railway business, although the Board has put forward proposals for streamlining the machinery which include the replacement of the RSNT with joint, binding, access to ACAS. The Board would be totally opposed to this dispute going to RSNT, as it would imply that the principle of DOO remains to be accepted, contrary to their present assertion. Although Lord McCarthy ceased to be Chairman of RSNT 18 months ago, the Board and the unions have not agreed on a replacement; Lord McCarthy thus continues to take the chair on an ad hoc basis when required.

ANNEX D

NATIONAL UNION OF RAILWAYMEN (NUR)

1. The NUR has a membership of approximately 135,000 covering staff in British Railways, London Regional Transport, National Bus Company and the road haulage and ports industries.

2. On the railways the union represents some 89,000 staff covering such grades as guards (11,000), signalmen (6,200), workshop staff, miscellaneous salaried and train and station catering. The NUR also represents about 800 BR drivers, although many of these are believed to have dual membership with the ASLEF.

Current Dispute

3. The NUR represents some 11,000 guards all of whom were balloted on 23 August. BR have sacked 260 guards at the following depots: Glasgow Central (147), Llanelli (32), Margam (44) and Immingham (37).

Earnings

4. Although guards basic rates are relatively low, premium payments (eg for unsocial hours) and high levels of overtime bring them more into line with the national average.

Typical earnings figures are:

	Basic Rate	Average Earnings	Average Hours Worked
Guard	94.65	163.99	48.5
Signalman 'A'	89.00	152.55	51
Signalman 'F'	137.50	246.51	50.8

NUR Assets

	Total Assets	£19.5 million	
including	Fixed Assets	£9.1 "	
	Investments	£9.1 "	
	Current Assets	£1.3 "	(£0.3m cash)

Strike Pay

5. During a national strike the NUR would normally provide strike pay of £1 a day but in the current dispute those guards taking strike action have received £15.70 a day - the "hardship" rate.

ANNEX E

ASSOCIATED SOCIETY OF LOCOMOTIVE ENGINEERS & FIREMEN (ASLEF)

The Union

1. ASLEF is a small Union with a membership of approximately 25,000. The Union represents the vast majority of BR's drivers, their assistants and trainees, about 20,400 in all, as well as about half of London Regional Transport underground train drivers. Of BR drivers, only some 800 are members of the national Union of Railaymen (NUR) but about 200 of these are thought to have dual membership with ASLEF.

Earnings

2. Typical earnings figures are:

	Basic Rate	Average Earnings	Average Hours Worked
Train Drivers	121.00	188.90	45
Drivers Assistants	84.10	122.85	43.4
" " (After 18 yrs)	102.55	166.85	43.6

Assets (As at 31/12/84)

	Total Assets	£2.32m
including	Fixed Assets	£1.2m
	Investments	£0.9m
	Current Assets	£0.2m

Strike Pay

3. ASLEF does not pay strike pay although it is understood that they are currently making up the pay of drivers sent home for refusing DOO.

ANNEX F

TRANSPORT SALARIED STAFF'S ASSOCIATION (TSSA)

1. The TSSA has a total membership of approximately 50,000 of which about 28,000 work for British Rail. The union represents Senior Officers, management staff, clerical, supervisory, traffic controllers and miscellaneous salaried staff.

2. The TSSA is seen as a moderate union. The union's Executive Committee has the power to call industrial action, and any withdrawal of labour must have their consent.

Assets (As at 31/12/84)

	Total Assets	£5.5m
including	Fixed Assets	£3m
	Investments	£1.8m
	Current Assets	£0.7m

Strike Pay

3. The TSSA EC has the discretion to pay strike pay.

NATIONAL UNION OF RAILWAYMEN

DRIVER ONLY OPERATION: GUARDS' BALLOT

The NUR Executive Committee strongly urges you to support its decision to resist Management's attempts to impose Driver Only Operation and to demonstrate your support in the fight to protect Guards' jobs by voting YES.

The reference to a Breach of Contract in the question set out below is a requirement to protect the Union against legal action under the Trade Union Act 1984. It does not alter the previous position since most forms of industrial action have always been a Breach of Contract.

We urge you to vote YES to support your Executive Committee.

Do you agree to oppose the imposition of Driver Only Operation by the British Railways Board and to take industrial action including strike action if necessary which involves you in Breach of your Contract of Employment?

Yes ☐

No ☐

You must make a Cross (X) in one, and one only, of the two spaces provided above, otherwise your vote will not be counted.

If you are voting by post it must reach Head Office by Monday 2nd September 1985.

E.R.

2

PRIME MINISTER

INDUSTRIAL ACTION ON THE RAILWAYS

You asked about the Transport Minister's availability on Tuesday and Wednesday in case you wanted an urgent meeting.

Mr. Ridley is in his constituency at Cirencester on Tuesday which is 2-3 hours from London. He will be in London on the Wednesday.

The NUR ballot results are expected on Tuesday afternoon or Wednesday.

N.U.M.

N.U.R.

23 August 1985

CONFIDENTIAL

10 DOWNING STREET

From the Principal Private Secretary

23 August 1985

INDUSTRIAL ACTION ON THE RAILWAYS

The Prime Minister is aware of the efforts of the British Rail Board to publicise their case in the dispute with the guards and she quite appreciates that today, ballot day, may not be the time for maximum publicity effort. But she does wonder whether the Board are deploying successfully their strong case. She considers this very important, especially if the ballot goes the wrong way.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

NW

Andrew Melville, Esq.,
Department of Transport.

JB

CONFIDENTIAL

Nigel Wicks.

You may wish to be aware of the state of play as at yesterday. MLEA 23/8

PRIME MINISTER

RAIL INDUSTRIAL ACTION

You will wish to note the latest position on industrial action on the railways. Attached are notes by:

Flag A - the Cabinet Office about the contingency plans which are being made.

Flag B - by Dept of Transport summarising the current state of play.

Flag C - by Department of Energy on the implications for power supplies.

At this stage there is little we can do other than note the position with the NUR vote taking place on Friday. The result will be announced on Tuesday when the NUR will also decide what to do with their vote. Transport are suggesting a stock-taking meeting on Wednesday. If you are at Scotney then I suggest that this might slip to Thursday. Caroline will raise this at the diary meeting you are holding tomorrow.

D.

22 August, 1985

CC/NO

70972

M E ADDISON ESQ
Private Secretary to the Prime Minister

Possible Industrial Action on the Railways

1. I understand that you will be receiving notes from the Department of Transport and Energy either by close of play today or early tomorrow to bring the Prime Minister up to date on the present situation, the prospect of industrial action by railway guards next week and on the effects of recent unofficial disruption by the guards on coal supplies to power stations. I also understand that the Secretary of State for Transport is likely to provide a more comprehensive assessment of the present position and future prospects early next week.

2. You will already be aware that the Civil Contingencies Unit (CCU) has requested Departments to provide early warning of the possible effect of a railway strike on the supply of essential goods and services (CCU(85)6). A meeting of the CCU at official level is being arranged on a contingency basis for the afternoon of Thursday 29 August, to take stock of the position once the outcome of the railways guards ballot is known (on either 27 or 28 August) and the National Union of Railwaymen (NUR) Executive Committee has announced what, if any, action is to follow.

3. The need for a meeting of the Official Group on Coal (Misc 57) will be assessed once the likely effect of any industrial action by guards next week is clearer.

4. Enquiries made by telephone to a number of Departments yesterday and today reveal that:

a. the disruption so far has had little impact, except for inconvenience to passengers in a number of places;

b. some rail fed oil distribution terminals in the Thames Valley are out of stock but supplies to users are being maintained by road tankers, drawing product from alternative depots;

c. it is considered unlikely that food or animal feed supplies will be affected in any way by a rail stoppage;

d. enquiries about the possible effects on certain sections of industry, particularly iron and steel, chemicals, some petroleum products and some building materials are being pursued in low key, in view of the need to maintain the position that there is no direct Government involvement in the dispute;

e. the possible involvement of other unions is being assessed in the light of events and relevant trade union legislation;

f. the capability of the road haulage industry to carry loads normally carried by rail is being reviewed, especially in view of the late harvest and the demand for additional transport for harvested crops being concentrated into a shorter period than usual - no insoluble problems are anticipated;

g. preparations are in hand to implement, if necessary, plans made after the last rail strikes in 1982, to ensure that essential Government Department staff can travel to and from work in Central London;

h. the need for additional car parking facilities in London is being kept under review - although it will probably not prove necessary whilst London Underground trains and buses are working.

All these matters and any others that arise will be reviewed at the CCU meeting next week.

5. There is background material on railway strikes in Section I of the Cabinet Office Civil Emergencies Book if you wish to read it. A copy is held in No 10.

6. You may wish to use the contents of this note in briefing the Prime Minister on her return from holiday.

BRIGADIER J A J BUDD

22 August 1985

PRIME MINISTER

EFFECT OF BRITISH RAIL INDUSTRIAL ACTION ON COAL DELIVERY TO CEGB POWER STATIONS

I thought it would be useful to give you a progress report on the effect of the present industrial action by British Rail guards on the coal restocking programme for CEGB power stations. To date 4 trains have been affected, losing only some 4,000 tonnes of coal destined for Didcot power station, and this has had only a minimal effect on the delivery programme. As at the end of last week coal stocks at CEGB power stations were 18.2 million tonnes, which is some 600,000 tonnes above our original target to achieve 23 million tonnes by the end of October.

However, at present about two-thirds of the deliveries of coal to the power stations (some 1 million tonnes per week) is being carried by rail and any national stoppage on the railways will obviously have a major effect on the delivery programme. Given that some 350,000 tonnes of coal a week are already being transported by road the CEGB's view is that they will be unlikely to be able to increase this by more than 300,000 tonnes a week, leaving a shortfall in deliveries of some 700,000 tonnes a week. Even this level of continued deliveries will be dependent on whether or not the miners are prepared to load to road coal that would normally have gone by rail. This is likely to be difficult in both Yorkshire and South Wales.

I am keeping in close touch with the CEGB and the NCB as the situation develops to ensure that any necessary action is taken to try to maintain coal deliveries to the power stations. The CEGB are already taking action in a low-key way in the regions to secure some additional road transport and the NCB are taking steps to ensure that facilities are available to load coal to road at as many pits and opencast sites as possible, even those which do not normally load coal to road.

The full implications of any worsening of the dispute are only likely to become clear after the result of the ballot has been announced on Tuesday 27 August and it is known what action the union intends

to take. But it is already clear that there is a real risk of significant damage to our coal restocking programme. I have asked the CEGB to consider the need for increased oilburn to preserve stocks. I will keep you informed as the situation develops next week.

I am copying this minute to the Chancellor, George Younger, Nicholas Ridley and to Sir Robert Armstrong.

Yours sincerely

pp Secretary of State for Energy
(Approved by the Secretary of State and signed in his absence)

22 August 1985

conqueror

CC NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Tim Flesher Esq
Private Secretary
10 Downing Street
LONDON SW1

22 August 1985

Dear Tim,

I attach a note on the current industrial problems of British Rail, reporting events since my Secretary of State's minute of 18 August to the Prime Minister. A further paper on the financial and procedural constraints on BR, and on possible future developments, will be circulated next Tuesday.

On the assumption that the Prime Minister would like to review the position, my Secretary of State would be happy to attend a meeting next week. The results of the NUR's ballot of guards should be known on Tuesday, so Wednesday 28 August would be an appropriate day.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Employment, Energy, Scotland, Trade and Industry and Wales, and to Richard Hatfield (Cabinet Office).

Yours sincerely,

HUW HOPKINS
Private Secretary

CONFIDENTIAL

BRITISH RAIL: INDUSTRIAL ACTION

Note by the Department of Transport

The British Railways Board (BRB) are trying to extend Driver-Only-Operation (DOO) with modern rolling stock to suburban passenger services in Strathclyde, and from Kings Cross, and freight trains to BSC Llanwern and BSC Scunthorpe. At Glasgow Central (Strathclyde) and Kings Cross guards have refused to operate trains which had been converted for DOO. The conversion consists of putting into the driver's cab buttons to operate the sliding doors and a microphone so that the driver can use the address system to speak to passengers, and radio communication with signal boxes. At Margam (which serves BSC Llanwern) and Immingham(which serves BSC Scunthorpe) guards refused to be rostered on other guard duties. When men were sent home, the Kings Cross men banned overtime and rest-day working, and the Glasgow Central, Margam and Immingham guards went on unofficial strike. Guards at Llanelli struck in sympathy with their Margam colleagues - again unofficially. ASLEF drivers refused to run trains without guards at Margam and Immingham and refused to undergo DOO training at Kings Cross.

The strike at Glasgow Central and the overtime/rest-day ban at Kings Cross disrupted suburban services south of Glasgow severely and reduced services to Hertfordshire. The strikes in South Wales and at Immingham halted rail traffic to the steel plants.

On 13 August BRB wrote to each of the guards on unofficial strike - 180 at Glasgow, 32 at Llanelli and 58 at Margam to say that the Board would consider dismissing them unless they resumed normal working by Friday 16 August. One hundred and forty seven of the Glasgow guards voted to defy the Board and were dismissed, notwithstanding an appeal by the NUR leadership for a return to work. Guards at Llanelli and Margam initially agreed to return to work but subsequently voted to continue their strike under pressure from members of the NUR Executive. The 32 guards at Llanelli and 58 guards at Margam were dismissed on 19 August. Striking guards at Immingham were given until 22 August to resume normal working, or face dismissal. Their dismissal notices were sent today.

CONFIDENTIAL

There have been sporadic unofficial, 24-hour sympathy strikes at some twenty guards' depots - notably on 19 August when 10 depots in the Southern Region were strike-bound causing considerable disruption to services to and from Victoria, Charing Cross and London Bridge. There has also been intermittent disruption to services from Paddington, Cardiff and the north of Glasgow.

The NUR's position reflects a resolution of its annual delegate conference in 1984 (which amplified a decision taken the previous year) which said: "We therefore, absolutely reinforce this policy of the Union not to enter into any further talks on productivity and this to certainly include any proposals to extend 'Driver-Only-Operation' of trains." Although the action is unofficial the NUR are paying strikers £15.70 per day "hardship" allowance; official NUR strike pay is only £1 per day.

BRB met NUR leaders on 20 August and said that reinstatement for dismissed guards could be considered only if the union agreed arrangements for the progressive introduction of Driver- Only-Operation (DOO) of passenger and freight trains, and undertook to discuss further productivity measures. The NUR have not replied formally. They have forwarded the guards' ballot on industrial action which had been scheduled for 29 August. The ballot will now be held on 23 August with the result known probably next Tuesday (27 August). The question on the ballot has been carefully drafted to comply with the Trade Union Act 1984; it seeks support for industrial action up to, and including, a strike.

The NUR have sought to persuade the public that Driver-Only-Operation is unsafe and have accused BRB of abrogating the railway negotiating machinery. BRB and independent experts have explained that there are, in fact, no safety issues. BRB have made clear that there is little point in bringing extension of DOO to the negotiating machinery when the NUR refuse to discuss the subject and the principle is already settled. The Board have ensured that they have a single spokesman(Mr John Palette - Managing Director, Personnel) to act as a focus for the presentation of their case. Mr John Prescott and Mr Robin Cook MP have publicly accused the Government of interfering. Their allegations have been rebutted by Ministerswho have avoided any further public comment.

Transport Pt 8
B.R.

10 DOWNING STREET

After I had conveyed the PM's reactions to Transport, Tony Bridd (CO) spoke to me to explain that the point about an working group of officials should already be covered by:

- the Civil Contingencies Group who keeps working diet on matters of this kind
- A MISC group on coal, which should cover the points about delivery by lorry.

There seemed no need for a further group. MLEH 13/8

DW420

SECRET

PRIME MINISTER

MANUFACTURING AND MAINTENANCE FOR BRITISH RAIL

Nicholas Ridley wrote to you on 2 August outlining the proposals to be included in the forthcoming report by Bob Reid. The proposals seem sensible and I have no objection to them, provided that all the options for privatising BREL are kept open and that the four core works are organised so that they are clearly identifiable as separate entities. I know from discussions Norman Lamont has held with major private sector railway equipment companies that there is interest in buying individual works. I think this may well be the best way of securing three objectives - competitive sourcing of BR's needs in the UK; consolidation of the home base for the export activities of the existing private sector manufacturers; and of course privatisation itself. Privatisation of BREL as a whole could create too many competitors for the amount of work BR has to offer, and fragment the base for exporting. I was glad to see, therefore, that the option of privatising the four core works separately will be kept open.

2 I appreciate that the changes involved are considerable, and that it may be mid-1987 before much can be done on privatisation. But I hope the possibility of earlier action on particular works will not be excluded : we need to be ready to respond flexibly if any offer is made to purchase one or more of the BREL works before 1987.

3 I am copying this to Nigel Lawson, George Younger, Tom King, Nicholas Ridley and Sir Robert Armstrong.

NT

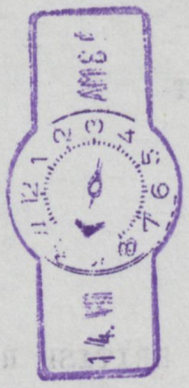
N T

12 August 1985

Department of Trade & Industry

999-49

Transport; British Rail Pt 8



CONFIDENTIAL

CC Jenkins
CCNO

PMJ views relayed
to DTp. MBT 12/8

Prime Minister

At least the NUR are holding a ballot. They wouldn't even have dare that without the 1984 Act.

This could go wrong - if so we shall have to rely on lorries to deliver coal

PRIME MINISTER

BRITISH RAIL: POSSIBLE INDUSTRIAL ACTION

9/8

Colleagues may like to have an assessment of the present industrial relations problems being faced by British Rail. I discussed them this afternoon with the Chairman, Sir Robert Reid. I have already written to you about BREL, where the NUR proposes a ballot in early September. This therefore deals with the potentially more serious threat posed by a ballot of NUR guards, to be held on 29 August, in opposition the Board's proposals for Driver Only Operation (DOO).

To deal with the facts first, the Board announced some time ago its intention to extend DOO, already in successful operation on passenger services from Bedford to St Pancras/Moorgate, to passenger services on the Great Northern Line out of Kings Cross, and services in the Strathclyde area, both in the autumn. As instructed by their union, drivers have so far refused to start training on the Great Northern Line, and are being sent home without pay. This, coupled with an overtime ban by guards, is resulting in the cancellation of some trains each day. Furthermore, unofficial action by 200 guards in Glasgow, who are refusing to work on trains already converted for DOO, has also resulted in cancellations in the Strathclyde area.

The Board also announced its intention to reintroduce the three earlier freight train trials of DOO, again on a trial basis, and to instruct local managers to identify other services which might be suitable for similar trials. The first trial which the Board attempted to reintroduce was between Immingham and Santon (BSC Scunthorpe). Drivers have refused to cooperate and are being sent home without pay, as are the guards for refusing alternative duties. The second trial, between BSC Port Talbot and BSC Llanwern, has met with similar resistance but in this instance guards at BR's Margam and Llanelli depots are also taking unofficial strike action. The third trial,

on Freightliner services from Willesden (London) to Garston (Liverpool), was attempted this Monday, but with only limited success. Further DOO trials scheduled to start by 2 September involve stone and some oil traffic on BR's Western Region, oil trains from their Ripple Lane oil terminal (Barking) and coal trains to West Burton and Cottam power stations in the East Midlands. In all cases the majority of drivers (ASLEF and NUR members) have refused training but, with the exception of the Western Region, scheduled (freight) services have been unaffected. Without trained drivers BR will of course be unable to bring their new DOO services into operation, and they should therefore continue to operate normally. In the weeks ahead the number of DOO services rostered on both the Immingham and Willesden routes will increase, so the number of men sent home is also likely to rise.

The Board has already embarked on a communications exercise in an attempt to sway the NUR ballot result, not least by pointing out that their plans will affect a maximum of 2,000 of the present 10,000 guards, where the age profile indicates a natural wastage of 4,000 in the next 4-5 years. The Board will thus remain net recruiters, and there should be no need for redundancies, compulsory or voluntary.

Sir Robert is hopeful that the NUR may not achieve the necessary majority for either industrial or strike action (the wording of the ballot question is still under debate by the NUR). Whatever the result, the NUR Executive is in a difficult position, faced as it is with a conference resolution forbidding it to discuss productivity with the Board. It has thus been impossible for the Board to seek agreement for its new proposals on DOO, and the Union is powerless to intervene on behalf of its members who are on unofficial strike or being sent home without pay. Sir Robert's judgement is that the NUR will have to reconsider its position, perhaps by calling a special delegate conference in October in an attempt to overturn the earlier embargo, as a precursor to fresh talks. ASLEF, in the meantime, sits on the fence. It is broadly receptive to DOO, as its drivers receive bonus payments for operating trains without guards. Nevertheless, its members are refusing to be trained for DOO, and are being sent home without pay.

CONFIDENTIAL

Given the very clear objectives we have set him, I am sure that Sir Robert Reid has no option but to push forward with the productivity changes that the Railways need. The existing NUR conference resolution may well mean that he cannot do this without being prepared to risk some disruption of rail services. I doubt very much whether any national stoppage would prove to be at all lengthy. Sir Robert Reid will handle what is bound to be a series of difficult decisions in the way best calculated to minimise the damage. Meanwhile I think it would be prudent for the Cabinet Office to arrange for a small ground of Officials from the Departments most concerned to keep developments under review and to be ready to report on any major potential problems with coal stocks or elsewhere.

I will keep you informed of any developments for the worse. Copies go to Nigel Lawson, Peter Walker, George Younger, Nicholas Edwards, Norman Tebitt, Tom King and Sir Robert Armstrong.

R.A. Allan.
(Private Secretary)

for NICHOLAS RIDLEY
(approved by the Secretary of State + signed in his absence.)

8 August 1985

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

8 August 1985

Dear Richard.

The Prime Minister has now seen your Secretary of State's minute of 2 August about manufacturing and maintenance for British Rail. Subject to the views of colleagues, she was content with the approach proposed by your Secretary of State.

I am copying this to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), David Normington (Department of Employment), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

Yours ever

Tim Flesher

Richard Allan Esq
Department of Transport.

CONFIDENTIAL

2159/02

SECRET

FRO.

CC [illegible]

NBPM 9

FROM: IAN STEWART
DATE: 7 AUGUST 1985

PRIME MINISTER

BR MANUFACTURING AND MAINTENANCE

I have seen the minute dated 2 August to you from Nicholas Ridley. with TF?

2. On the face of it, the proposals Sir Robert Reid has in mind to put forward look sensible, but I am concerned that the way in which it is proposed to handle this report will commit us to his favoured option without giving us the chance to consider the detailed arguments. The Reid proposals rule out any early privatisation, as well as privatisation of "non-core" BREL activities. These are important decisions as is the implicit decision that the "core" activities are likely to be candidates for privatisation in due course. Moreover, there is nothing in Nicholas Ridley's minute about how the proposals would be financed.

3. If we proceed as he proposes, therefore, I think that it should be made clear that we are agreeing to the BR proposals only in broad outline and that final decisions on the structure as well as on the division of work between the depots and the BREL core must depend on detailed study by Government of the report and on reaching suitable arrangements for financing them.

4. I am sending copies of this to the recipients of the Secretary of State's minute.

IS

IAN STEWART

SECRET

BR Fares: TRANSPORT A8.

PRIME MINISTER 5 August 1985

BREL

For decades the building, rebuilding and maintenance of BR's rolling stock has been a cosy, in-house activity, cocooned from external market forces, unresponsive to the need for progressive adaptation and therefore endemically inefficient. The first draught of fresh air was introduced in 1983 when, on becoming Chairman, Bob Reid was given the objective wherever possible to procure new rolling stock by competitive tender. As a logical extension of this new philosophy, he was also asked to review the strategic options for BREL with a view to privatisation.

The report shortly to be submitted formally to the Government marks the belated fulfilment of that remit. Nicholas Ridley forewarns us that a new 'industrial logic' is now driving this aspect of BR's operations towards greater efficiency and productivity. In the front is not the privatisation of BREL, but a radical new strategy for the maintenance of BR's rolling stock.

It is tempting to be cynical. Why is it only now after the privatisation of BREL has been proposed that the industrial logic of a new maintenance strategy becomes evident and compelling? Surely this is no more than a ruse for stalling the troublesome task of privatising BREL? Yet in spite of these reservations, we are drawn to the same conclusions as Nicholas Ridley. The underlying industrial logic is sound. The fact that it has only recently become obvious is probably rooted in the fundamental change of BR's business culture, brought about over the last two or three years.

We now have a Chairman and a management team who see their primary role not as building, running and maintaining trains, but in providing an efficient, appealing

transportation service for consumers; a management which recognises that railways face increasingly tough competition from other forms of transport, and that they have no pre-ordained right to a share of the market. The objectives set by the Government in 1983 reinforce this market-orientated approach; so does the restructuring of BR into discrete business sectors, each accountable for its integrated business performance.

Given this radically different framework, the new industrial logic falls readily into place:

- Trains can no longer, as it were, be regarded as thoroughbred horses, each needing individual attention at specialist workshops. Like any other industrial plant or equipment, they are assets which must earn a return through high utilisation. Today's fleet of rolling stock achieves less than 70% availability for operational service, whereas BR should be aiming for at least 90%.

- When BR changed from steam to diesel and electric traction roughly 25 years ago alternative designs from many different manufacturers were put into service with the minimum of prior evaluation. Little thought was given to maintenance, overall life-cycle costs and, for example, the benefits of standardisation. Nor was it felt necessary to restructure BREL from a huge manpower intensive relic of the great days of steam.

- However, the forces of change are irresistible. BR's new diesel multiple units, for example, require 50-60% less maintenance. Modern designs are modular so that defective components can easily be replaced in BR's front-line maintenance depots. The benefits are compounded by the fact that defective rolling

POTENTIAL DEMAND FOR NEW LOCOMOTIVES

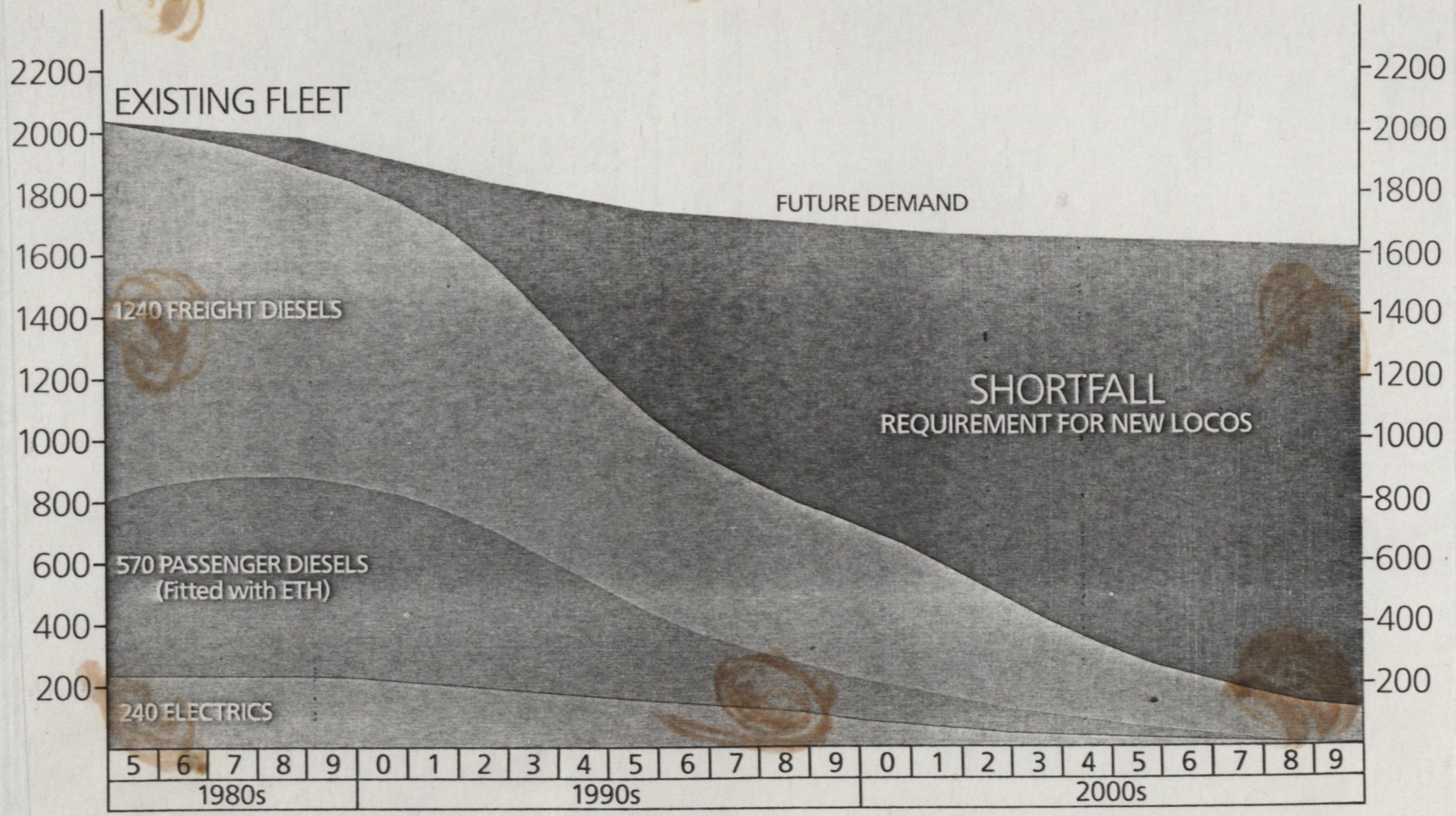


FIGURE 1

stock can thereby be put back into service in hours rather than being sent away for weeks to a specialist BREL workshop.

- So far these considerable advantages apply only to the new generation of rolling stock. But the motley collection of rolling stock which replaced the old steam trains is progressively due to be replaced by modern equipment. (See figure 1 facing).

- This means that if the potential benefits of low-maintenance rolling stock are to be realised in full, BR's maintenance strategy must be brought up to date.

The proposed approach is right. Integrate front line maintenance with operations and make the same manager responsible for maintenance and operations, ie for maximising the availability of his fleet. Achieve this by adopting a system of rapid parts replacement in front-line maintenance depots. At the same time place the responsibility and cost of holding spare parts on operations managers, and use modern computing techniques as an aid to efficiency and cost saving. Segregate the core of BREL's resources for building and rebuilding rolling stock. Tender competitively for all new build and rebuild contracts. Privatise BREL to compete freely in this market and, from that springboard, win overseas business on competitive merit.

Conclusion

In the case of BREL the principal aim of privatisation is not revenue to the Exchequer or wider share ownership. It is the achievement of a big step towards reducing BR's costs through modern rolling stock design, efficient maintenance techniques, and above all competitive tendering in this

field. The proposed maintenance strategy is sound; so too is putting the implementation of that strategy before the privatisation of BREL. What is more, the maintenance before privatisation approach is less likely to run foul of union opposition on doctrinaire grounds. We would let BR formally submit their report.

JOHN WYBREW

SECRET COPY NUMBER 1 OF 6. CC 90

1600

Prime Minister

Prime Minister
An interesting Policy Unit commentary is attached. Agree that BR submit their report as proposed by Mr Rayner and endorsed by the Policy Unit

AT 2/8

MANUFACTURING AND MAINTENANCE FOR BR

When we gave Bob Reid his objectives for British Rail we asked him to conduct a review of the options for the future of British Rail Engineering Limited (BREL), including the options for privatisation. We subsequently agreed that the scope of the review should be widened to take in the whole of vehicle maintenance in BR, including the substantial share that is done in the regional Depots, and also BR's system of spares handling and control.

Bob Reid is now ready to submit a further progress report on the work to date. Once a formal report is submitted he feels he will need to tell his Unions what it says - since otherwise they would use the opportunity to claim to their members that he is hiding something. At that point his recommendations could become public, and so the purpose of this minute is to warn colleagues of the key points that are emerging, in advance of the formal submission of the Report from Bob Reid.

I have discussed this whole maintenance strategy with Bob and his Board members, and I am persuaded that the package proposed is the most sensible way forward. I attach a note prepared by officials giving a summary of the detail of BR's findings. Basically the key points come down to the following.

BR have identified 4 of the works within BREL which could ultimately be candidates for privatisation. They would have the right combinations of capacity and skills to achieve a competitive future serving BR and export markets. But before they can be privatised BR will need to sort out the system of controlling and supplying spares, which is currently handled by BREL on behalf of the whole railway. That is a very substantial task and although BR are already employing consultants to do it, there is no prospect of its being completed before mid-1987.

SECRET

BR have also concluded that savings of at least £20m/annum in maintenance costs, and better standards of service, can be obtained if they move to a system of exchanging parts at local depots, rather than maintaining complete vehicles at a distant BREL works. The parts can then be sent away for repair, and that can be made subject to competition.

In view of the declining workload for maintenance - most of which must be expected to occur in any case because of fleet changes - BR's consultants have reached the view that the BREL "core" of the 4 works is the largest new-build/re-build organisation which would be viable in the longer term. But under their revised maintenance system BR will need some additional capacity in the depots to carry out the exchanges of the parts. BR intend therefore to use several of the existing BREL works for that limited purpose, so making best use of existing capital equipment, and avoiding the need for complete run-down of the non-core works. Glasgow (Springfield), Wolverton, Eastleigh, and Doncaster will all be absorbed into BR for this depot role, although they will need substantial slimming in their staffing to bring capacity into line with the new workload. Swindon will be closed, as has already been announced.

Overall the changes will involve a further run-down of maintenance staff within BR of some 2500-3000 men, (additional to the reductions already announced for BREL), and there will need to be additional investment in new capital equipment for depots of about £12m. Against that there is the projected saving of £20m/annum continuing thereafter.

Because the rationalisation that will be needed before 1987 will require a good deal of change from the workforce, both in the numbers employed at different works, and in the nature of the work that they do, Bob Reid and I are agreed that it would be counter-productive to declare now a public commitment to privatisation. That would merely provide a focus for Union opposition to the whole process of rationalisation. I have therefore told Bob that he must proceed with the rationalisation, and the separation of the core works, in such a way as to keep

SECRET

open all the different options for the method of privatisation, including the possibilities of selling the core works either separately, or together as a unit. Provided he does that, we will be able to decide nearer the time what will be the best way to carry out the actual privatisation.

Unless you or those to whom I am copying this minute see any objection, I propose to tell Bob Reid to submit his recommendations on these lines within the next couple of weeks. BR have a lot of work to do to implement the next stage of their proposals. They also see that there may be some industrial-relations advantage in being able to let the workforce know during August how they propose to reorganise maintenance work. The NUR are proposing to ballot their members in BREL and the BR maintenance depots in early September on industrial action against supply of rolling stock by private manufacturers. A strike which extended to the maintenance depots would have a much more rapid and damaging effecton rail services, including freight trains, than one restricted to BREL. Bob Reid would like to have available the card of being able to release the reorganisation proposals, if it seemed that that would help him in persuading the depot workers not to support industrial action.

For the reasons I have mentioned, the report itself will remain silent on the question of privatisation. But BR will have to be ready to handle the questions from their workforce. They will say that no decision has been taken on the future ownership of BREL core. The change in maintenance strategy will be presented on the basis of its industrial logic - and it will be emphasised that it is a matter for management decision by BR and not by Government.

In view of the sensitivity of the industrial relations issues, I am giving this letter only a limited circulation, to Nigel Lawson, Norman Tebbit, Tom King, George Younger and to Sir Robert Armstrong.

R.A. Allan (Private Secretary)
for Nicholas Ridley (approved by the Secretary of State and signed in his absence.)
2 August 1985

SECRET

SECRET
CONFIDENTIAL

OPTIONS FOR BREL

BACKGROUND

1. The Government's objectives for BR asked the Chairman to complete the rationalisation of BREL excess capacity as soon as possible, and to complete a review, by the middle of the next year [ie 1984] of the options for the future of BREL, including the options for privatisation. The objectives went on to say that 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.

2. The Chairman provided a progress report in November 1984, which explained that the work was taking longer than had been envisaged. It had been found necessary to broaden the scope of the review to cover maintenance of rolling stock undertaken at the railway Depots, (which are not part of BREL), and also to consider the treatment of spares. He said therefore that he intended to submit progress reports from time to time as particular aspects of the study were completed, and meanwhile to continue with the rationalisation of BREL without closing options for the future.

3. We understand that the Chairman is now almost ready to submit such a further progress report, and this note summarises what we understand it is likely to say.

THE PRESENT POSITION

4. At present BR undertakes the maintenance of its rolling stock in two main ways. Day-to-day maintenance, and replacement of minor spares eg. brake-blocks, is undertaken at Depots which are scattered geographically over the country, and are managed as part of the railway. More major maintenance, and repair work, is undertaken at the various BREL works. Each works deals with particular fleets of vehicles and will carry out the full

range of repair and maintenance work for that type of vehicle.

5. Vehicles are sent to BREL, every 2-3 years, on the basis of a pre-planned programme, and at that stage components are maintained, or replaced, according to a specified schedule, irrespective of their actual condition. Because the vehicle will not be returning to BREL for another two years, any parts that might be likely to fail during the next two-year period will be replaced. Because the vehicles have to travel to the relatively distant BREL works from their normal service location, and because of the wide range of different jobs to be carried out at each such overhaul, they will be kept out of service for a time measured in days and weeks rather than in hours.

6. BREL at present is also responsible for controlling and handling all the spares for the railway, including the spares for the Depots. The spares inventory is exceptionally large, amounting to about 300,000 items (cf. Austin-Rover with 70,000).

THE REVIEW

7. BR have looked across the whole range of activities conducted by the Depots and BREL, including spares handling, and have tried to identify separately those kinds of activity that could in principle be controlled entirely by a contractual relationship between BR and a supplier, and those kinds of activity that need of necessity to be under the day-to-day control of the railway.

TIME-SENSITIVE ACTIVITIES

8. The railway is a complex and integrated system which depends critically on the availability and reliability it gets from its vehicles. It cannot afford to have many of its vehicles unexpectedly out-of-service because of mechanical failures. Thus an ability to get the vehicle back into service very quickly - within a matter of hours - is a major requirement, and

that is inevitably something that needs to be under direct railway management control. If BR were relying on a contractor for this kind of work, and he fell down on the job, there would be no time to start looking round for another before the railway was in serious operational difficulties.

9. BR have also reached the conclusion that it is not cost-effective to have whole vehicles out of service for several weeks during a BREL overhaul. They have therefore decided that it would improve their system if they were to provide facilities for replacing more major components, at the normal service locations of the vehicles, ie the Depots, and then sent only the components away for repair. That would have two advantages. It would get the vehicle back into service in a matter of hours, and it would allow the timing of the component replacement to be governed by the particular condition of that item when it was inspected, rather than being tied to a pre-determined cycle imposed by the 2-3 yearly visit to the BREL works. Some - fairly limited - additional investment would be needed in the Depots to provide the facilities for this component exchange.

10. It would be an essential feature of this system that spares were controlled by BR and not, as now, by BREL, and that they could be distributed rapidly and efficiently to the Depots as they were needed. Since some of the items would be major components, careful control of the spares inventory would be important in financial terms.

NON-TIME-SENSITIVE ACTIVITIES

11. On the other side of the coin, for all those activities that do not require the very rapid turn-round time, BR see the opportunity to take advantage of competitive tendering, since they could rely on contracts to control their relationship with a supplier. In such cases, if the supplier failed to meet his contract terms, BR would have sufficient time in which to make alternative arrangements before the railway ground to a halt.

12. These non-time-sensitive activities comprise firstly the repair of the components replaced in the Depots, and secondly the major rebuilds of complete vehicles, which are currently undertaken every 8-10 years by the BREL workshops. BR also recognise that retention of ownership of the workshops carrying out these activities would make it that much more difficult to achieve genuine competition.

13. Although the control of the Depots would need to be tied in with the day-to-day management of the railway - for the reasons noted above - that would not preclude the possibility, in the longer term, of encouraging better management of the Depots by competition for a management contract.

SEPARATION OF MAINTENANCE FROM NEW BUILD/REBUILD

14. As a result of all these studies BR have reached the conclusion that BREL's existing activities can, and should, be separated into maintenance, and new-build/rebuild, and that while the time-sensitive maintenance activities must remain within the control of the railway, the new-build/rebuild should be separated out in a way that would permit BR to divest itself of those activities, if that is decided to be the right way forward.

15. As has been mentioned, each BREL works currently contains a mixture of each of these kinds of activity, because they cover all the levels of maintenance for particular fleets of vehicles. BR's study has shown that in making the separation it would create the most efficient units if new-build/rebuild is concentrated into four specialist works, which they have called the BREL 'core'. These are:-

Crewe - loco building and rebuilding;

York - multiple units and coaching stock building and rebuilding;

Derby Litchurch Lane - multiple unit and coaching stock building and rebuilding;

Derby loco - diesel engine maintenance, and bogie manufacture and maintenance.

16. The remaining BREL works would either be closed (Swindon), or taken back into BR. Some (eg Springburn) would be substantially reduced, and adapted to form part of the system of specialist Depots needed to undertake the component replacement works. Some others (eg Eastleigh and Doncaster) would continue with their existing pattern of maintenance work during the transitional period while the existing fleets are still in use and the new system of maintenance is not fully operative. Eventually they would need to be run-down, or adapted to new uses. As a result of the immediate changes there would be dramatic reduction in the overall number of existing BR depots, and a sizeable saving in staff [2,000 to 3,000 more than currently planned from BREL numbers]. BR estimate that adopting the new system would save some £20m per annum in maintenance costs; would produce a reduction in fixed costs, because of improved fleet utilisation; and would provide a better and more reliable service.

THE NEXT STEPS

17. BR will need to announce the change in maintenance strategy, and to effect the separation of new-build/rebuild within BREL from the rest. They will also need, in parallel, to set up a new, and reliable spares organisation, under BR control, which will be operational on the same timescale as the BREL changes. There is no latitude for shake-down time, because of the railway's need to maintain the availability of its vehicles. So the changes must be made to work first time. BR are satisfied that this could not be done before the middle of 1987, and in view of the major changes required, that looks a realistic timescale.

18. Thus although the core-BREL works will be being restructured in a suitable form to permit their sale, they will not be separate, and capable of being sold until the middle of 1987.

19. BR will face difficult industrial relations problems in achieving the change in maintenance practice, since it will result in a transfer of jobs from one part of the organisation to another. Although privatisation of the core is recognised to hold a number of attractions, the view of the BR Board is that it is not an immediate option until separation is achieved, and there would be no advantage in reaching a formal decision and announcing any such aim publicly at this stage, since it would merely provide a political focus for union opposition. It would be better to leave that as an open question for people to draw their own conclusions about: the changes can then be presented purely on the grounds of their industrial logic.

20. However in setting up the separation the ultimate opportunity for privatisation needs to be kept clearly in mind. For example, when the point of considering a sale is reached, it could well turn out that it would be preferable to have the ability to offer the 4 core works as separate entitities, rather than as a single whole. That might attract a better overall price, and it could help to achieve more competition in the railway supply industry for the longer term. BR therefore intend to keep all such options open by arranging the process of separation of new-build/rebuild from maintenance, in such a way that the individual entitities are separately identified from the outset. The precise means of doing that will require further study, which BR are about to commence. One possible model would be to create a core BREL holding company with 4 operating subsidiaries.

RA51

9 July 1985

CONFIDENTIAL

P 01631

From: J B UNWIN
31 July 1985

MR TURNBULL - No 10

cc Mr Hatfield
Brig Budd

POSSIBLE INDUSTRIAL ACTION ON BRITISH RAILWAYS (BR)

I thought that, under my CCU hat, I should let you know that there are some slightly more worrying signs of trouble ahead on BR.

2. As you probably know, the National Union of Railwaymen (NUR) is currently conducting a ballot of all members on the future of their Political Fund and is also considering a ballot of all members about industrial action in support of their opposition to the forthcoming closure of certain railway workshops. In addition, they already have authority from the Executive to ballot their guards about industrial action in support of their opposition to one person operation (OPO) of trains. A strike by guards would almost certainly result in total closure of BR.

3. The present assessment of officials in Department of Transport is that:

(a) the NUR are unlikely to arrange any other ballots (ie including the ballot of guards) until the Political Fund result is known - probably by about the end of August;

(b) industrial action is in any case unlikely until after the TUC Conference is over ie not before Monday 9 September;

(c) there is a possibility that the NUR might coordinate industrial action with their members in London Regional Transport if pay negotiations currently in progress are not completed beforehand;

(d) there is still, however, considerable scope for further talks between the NUR and BR Board, which are expected to take place;

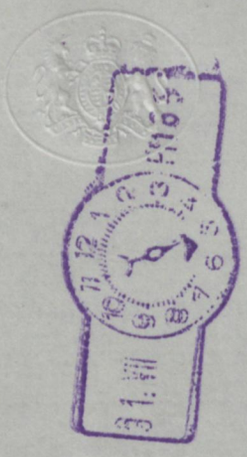
(e) there is also a possibility of an inter union quarrel between the NUR and the Associated Society of Locomotive Engineers and Firemen (ASLEF) who, unlike the NUR, are in favour of OPO as it could mean more money for their members.

CONFIDENTIAL

4. This is still all very uncertain, and I understand that the Transport Secretary does not propose to write to the Prime Minister at this stage. He will, however, do so when the picture is clearer, though this may take some little time. In the meantime we shall be keeping a close watch on developments in view of the implications for the movement of coal to power stations as well as for commuter travel, and will keep you informed as necessary. Brigadier Budd will be here during my absence on holiday in August and if you have any queries, I suggest you have a word with him or with Mr Ridley's office if need be.

J B UNWIN

Cabinet Office



CC NP

CONFIDENTIAL

P.01543

PRIME MINISTER

British Rail (BR) Corporate Plan
(E(NI)(85)4)

BACKGROUND

The Secretary of State for Transport circulated a review of British Rail's 1984 Corporate Plan with his letter of 28 February. He suggested that collective discussion of BR's strategy should be postponed until 1986, when the current Chairman's term ends, with the aim of setting new medium term objectives in the light of the 1985 Corporate Plan (which would take into account the impact of the miners strike.) Your Private Secretary's letter of 18 March recorded your wish for an early E(NI) discussion, in particular of BR's proposals for greater efficiency and for manpower.

Proposals

2. Mr Ridley's paper, E(NI)(85)4, takes account of recent developments, such as the ending of the miners'strike and the BR pay settlement, but otherwise sticks to the same line as his earlier letter. Essentially he argues that the BR Chairman, Mr Reid, is doing a good job, that progress is being made towards the achievement of the current targets, that the 1984 Plan is now rather overtaken by events, and that Ministers should therefore postpone formulation of new medium-term targets until 1986, when they can be discussed in the light of the 1985 Corporate Plan.

MAIN ISSUES

3. No-one has suggested that BR's main current targets (to reduce the Public Service Obligation (PSO) grant to £635m in 1983 prices by 1986, a reduction of almost 25% in real terms; to earn a 5% real return on capital in the Freight business by 1988; to earn a 5% real return on

Inter-City, and remove it from subsidy by 1988/89) are too soft. Rather the worry is that they will not in the event be met. The Freight target is particularly vulnerable, given the reduced traffic and reduced rates likely to follow on from the miners strike, but the Inter-City target is also in danger from low traffic growth. Mr Reid has not asked for any revision, and has said that BR will strive to meet the targets. Assuming that Ministers accept that there is little extra that can be done immediately, that the current targets should run their course, and that new targets should not formally be set until next year, the main issue is what guidance Mr Reid should be given in preparing the 1985 Plan on:

(i) the future of the Freight business;

(ii) the development of Inter-City;

(iii) the financial performance and future size of the provincial sector;

(iv) pay and productivity:

(v) the timing of the review of BREL;

(vi) other disposals, particularly property;

(vii) the longer term.

The Freight Business

4. BR's market share is down to about 3%; it faces effective competition for the remaining business. The miners' strike cost BR £250 million in lost revenue. Mr Reid has ordered a review of the prospects for the freight business which is still in progress; it may well conclude that BR will lose further coal and other traffic to road haulage, and that the CEGB will squeeze BR's

margins in the forthcoming negotiations on power stations coal. This two-way squeeze will make the 5% return target difficult to achieve unless further cost savings can be found; both productivity improvements (eg driver only trains) and capacity reductions are likely to be needed. Cost allocations between BR's business sectors, which share common infrastructure, are notoriously difficult, but care will need to be taken to prevent costs simply feeding back into the passenger business as a consequence of any freight cutback. An increase in road freight volumes, whether a result of deliberate BR action or not, is likely to be a tricky political issue.

Inter-City

5. The present target is based on over-optimistic revenue forecasts, but Mr Ridley argues that it should be retained as a spur to efficiency. The main hope for improvement lies in reducing costs; there is little or no scope for real increases in the general level of fares, which simply result in lost business because of the tough competition BR faces from long distance coaches. It is too early to assess the impact of BR's new advertising campaign and its recent simplification of its fare structure.

The Provincial Sector

6. Rural services are a serious drain on BR's resources. Income covers about a quarter of costs; the sector absorbs around half the PSO grant. There is little scope for fare increases, and BR must look to improved efficiency if the grant burden is to be reduced. The main area for cost reductions probably lies in bus substitution (where BR have identified scope for replacing up to 75% of provincial services.) As Mr Ridley says, this will need careful handling and a gradualist approach, but can be presented positively - buses should provide a more flexible and frequent service than the trains they replace. Bus deregulation will lead to important changes in the market,

and provides an opportunity for BR to introduce changes which could be more difficult once the market has settled down.

Pay and Productivity

7. BR achieved a reasonable settlement as a result of their decision to decouple pay and productivity for the first time for some years. As noted above, improving productivity is a key requirement if BR's financial performance is to improve. Despite a 20% reduction in manpower since 1975, BR's annual wage bill for railway operations is about £1½ billion, roughly three times the current level of capital expenditure. 6,000 administrative staff have been removed over the last 18 months, but union attitudes have hampered progress on the industrial front. The four major areas outstanding from those identified in 1981, and listed in the Annex to E(NI)(85)4 show how far there is to go. The 1984 Corporate Plan envisages an 8% reduction in manpower over the next 5 years, but the real reduction in total costs is projected to be more than offset by improved pay and conditions. It must be doubtful whether traffic growth warrants such an increase in real labour costs.

8. Mr Reid's approach is, following the failure of national negotiations, to seek improvements through local management action, whilst strengthening BR's industrial relations side with new blood from outside. It is difficult to assess how successful this is likely to be; the essence of such a strategy is that it must be gradualist and opportunistic, as well as cumulative. But the alternative is to provoke an early confrontation with the unions which Mr Reid does not want, and which BR may be unable to carry through. There is of course a risk that a confrontation will arise anyway over a local productivity initiative, but BR would be able to respond more flexibly than in the case of a dispute initiated at national level.

BREL

9. The future of BREL is to be discussed separately before the summer recess. Mr Reid's review, which has yet to be received, has been delayed by the miners' strike and by uncertainty within BR about the future generally. The main alternatives may prove to be further painful slimming of the workforce, followed by privatisation (either as a monolith, or of individual units), or simply closure (because even a slimmed down BREL would be an unattractive proposition given the UK's basic engineering overcapacity.)

4,850 redundancies announced today.

Other disposals; property

10. Now that Sealink, Seaspeed and the BR Hotels have been sold, the main scope lies in further disposals of BR's considerable property holdings. The Monopolies and Mergers Commission Report due to be published shortly is critical both of BR's performance, and the effect of Government pressure on disposal proceeds. Some of BR's land is difficult to sell, but there should be scope for improvements following on from the MMC report.

The Longer Term

11. The aftermath of the Serpell Report effectively suspended discussion of more radical options for the longer term. Ministers are considering the future privatisation programme at today's E(A). BR is one of the industries where the Chancellor is suggesting further work should be done to examine the options. Mr Ridley may expand on private operation (paragraph 12) at the meeting.

HANDLING

12. You will wish to invite the Secretary of State for Transport to introduce his paper. The Chief Secretary will wish to probe efficiency savings that could influence this year's Investment and Financing Review, and the prospects for further disposals, particularly BREL, but also of BR property holdings.

[redacted]

CONCLUSIONS

13. You will wish the Sub-Committee to reach conclusions on the following.

(i) The timing of further discussion of new medium term targets, either next year, in the light of the 1985 Corporate Plan, or on some other basis;

(ii) What, if any, guidance should be given to Mr Reid in preparing the 1985 Plan on:

(a) the Freight business (productivity, capacity);

(b) Inter City (cost savings);

(c) the provincial sector (cost savings, bus substitution);

(d) pay and productivity generally;

(e) the review of BREL;

(f) other issues, eg property disposals;

(g) the longer term.

PLG

P L GREGSON
15 May 1985

PRIME MINISTER

15 May 1985

REVIEW OF BR'S PERFORMANCE AND 1984 CORPORATE PLAN

On the basis of heroic assumptions, BR's 1984 Corporate Plan foresaw that the target 20% real terms reduction of the Public Service Obligation (PSO) grant would just be achieved by 1986/7. The return to profitability of the Inter City sector (target 1988/9) and the Freight Sector (target 1988) were in sight, but delayed a year or two. This year's Corporate Plan is currently under preparation, presumably still based on optimistic assumptions. Even so, Bob Reid is more than £60 million short of getting the PSO grant down to £710 million by 1986/7. His managers have been told to go back and look for more savings, whilst BR's commitment to the target has been re-affirmed.

Are Bob Reid and Nicholas Ridley whistling in the dark?

The 1984 Corporate Plan projected:

1. a 5% increase of passenger-miles (9% Inter City, 3% London and SE, 7% Provincial) over 5 years;

2. average unit receipts constant in real terms;

3. reduction of loaded train miles by 3-4% over 5 years.

This would be better than the long-term trend of a constant volume of business, constant real receipts and rising real costs.

Moreover, the competitive outlook for BR is not promising. The number of cars in use is expected to increase by as much as 40% over the next 15 years. From 1950 to the early 1980s, the share of freight traffic taken by road increased from 40% to 85% and continues to rise, stimulated by the steady improvement of our network of trunk roads, the growing containerised and roll-on-roll-off lorry trade with Europe, and not least the recent coal dispute.

Express coaches have leapt in popularity since being deregulated in the 1980 Transport Act. National Express, for example, have gained over 40% more passengers, following a trend of steady decline prior to 1980. The average cost per seat mile by express coach is about half that by rail - and today's coaches offer video, toilet, refreshments and a hostess service. Coaches are even making inroads into BR's most robust market, London commuter services. At the top end of the Inter City market, BR is additionally exposed to competition from deregulated domestic air services; Department of Transport expect these to capture roughly 100% more business over the next 15 years.

Whereas BR's 1984 Corporate Plan projects a 4-5% real increase of income over 5 years, the competitive environment is such that BR will be doing extremely well to maintain the long-term trend of constant real income. Hence, the only scope for reducing the PSO Grant lies in tackling the cost side of the equation. This is dominated by the £1.3 billion paybill (excluding BREL) - 5 times this year's level of

capital expenditure. BR is so manpower-intensive that staff costs account for well over 50% of the total, including depreciation. Small wonder that so much emphasis has been placed on industrial relations, increased productivity and manpower reduction - so far with limited success.

Nicholas Ridley refers to Bob Reid's adroit handling of this year's pay negotiations (4.85%) and speaks hopefully of the decision to decouple productivity initiatives, pursued mainly at local level, from the annual wage round. Can this achieve substantially more than was foreseen in the 1984 Corporate Plan?

Despite low increases of basic pay scales, average staff earnings have increased by 14% in real terms over 1979-84, compared with the national average of 12.3%. In shedding staff, and introducing productivity initiatives, BR have moved towards a richer mixture of staff, paid them for working more efficiently, reduced the standard working week and increased the annual leave entitlement. BR see this trend continuing in line with the national average - so that the planned 8% further reduction of staff would do no more than offset the real increase of average earnings over 5 years!

The E(NI) Meeting

1. We suggest that you major on paybill, productivity and the scope for manpower reductions. We need more than the 8% in 5 years which forms the basis of the 1984 Corporate

Plan. Many in BR would regard that target as boldly optimistic. But they are long-serving railmen who have grown up with the rigidities and inefficiencies of established custom and practice, and who have few, if any, external benchmarks of performance. They need to be challenged to break out of that mould.

The coal dispute starkly exposed the inefficiency of BR's 12,000 waggons normally delivering 60 million tonnes of coal pa to power stations under the merry-go-round (MGR) system. When it was introduced 20 years ago, this system was regarded as a breakthrough in productivity. Yet we now learn (CEGB writing in Railway Gazette), that BR's MGR waggons average only 3 trips a week, whereas tipper lorries make 3 trips a day. On the face of it, a fleet of 40 lorries is no match in cost-effectiveness for 1 locomotive and 30 waggons of equivalent capacity. The rub is that the lorries have 5 times the productivity for a tenth of the capital outlay. Not surprisingly, the CEGB are looking with fresh eyes at their contract with BR.

A similar pointer is provided by James Sherwood, the new owner of Sealink. He is hoping to operate ferries on the short Channel crossing with 3 crews instead of 5. You might ask Nicholas Ridley why BR's remaining productivity aims are centred around operational train crews, when such staff account for less than a quarter of the total.

2. BR's Provincial Sector - its equivalent of uneconomic pits - is perhaps the next most important topic for discussion. BR anticipate having to reduce fares in real terms, yet already costs exceed revenue by 4 times, and cumulative losses of some £1.8 billion are foreseen over the next 4 years.

The last Manifesto rightly precluded a substantial closure programme and has laid to rest for the time being the spectre of a Beeching axe. Nonetheless, big savings can be achieved on the margin. For example, Serpell estimated savings approaching £200 million pa through a marginal 4% reduction of passenger miles in the Provincial network. Now we are much closer to having a credible, low-cost alternative in the form of deregulated buses, coaches (already a great success), or licensed taxis.

What is happening about sensitive closures of the worst lines and bus substitution? BR should see bus substitution as an opportunity as well as a threat.

3. BR see limited scope for further achievement in disposing of property or generating non-rail income from their operational assets. As with productivity and the further scope for manpower reductions, they are probably conditioned by a narrow, pessimistic view of the rewards for imagination and initiative. The MMC report underlines this. BR should be urged to draw on private-

sector expertise and ideas in return for a share in the proceeds from property development; franchising and new business development.

4. Even some favourable recasting of the figures for Inter City cannot conceal the softness of a market where income growth relies on traffic growth in an increasingly competitive business environment. BR's newfound emphasis on consumer-orientated marketing will have to be pushed harder. Further cost reductions cannot be shirked.

5. Nicholas Ridley will not want to be drawn into discussing BREL's future, until Bob Reid has reported and specific proposals prepared for consideration by colleagues. You could remind Nicholas Ridley of the Government's enthusiasm for privatisation as a means of releasing BREL's 24,000 staff into the private sector, simplifying the management of BR, and encouraging BREL to develop new business opportunities.

6. You might like to conclude by reinforcing Nicholas Ridley's intention not to relax BR's current objectives. If that discipline is not maintained, the taxpayer will end up footing the bill for the Government's achievements in improving roads, and liberalising buses, coaches and domestic air services.

JOHN WYBREW

Note. Spoke to Richard Allan
D Tsy. Suggested a E(NI) paper
updating projections & permit
comparison with targets, plus
discussion of issues suggested

CONFIDENTIAL

MR TURNBULL

24 April 1985

2514

REVIEW OF BR CORPORATE PLAN

The questions E(NI) should look at are:

1. Will we hit the PSO target of under £700 million? Will we be faced with a bigger than expected bill in 1986-7?

2a. Pay and productivity; are we making any progress in reducing BR's £1.3 million paybill? Will there be a strike?

2b. Bus substitution.

3. The future of BREL.

4. The Freight Sector.

5. Property development, disposal and new business development on stations.

We are roughly midway through Bob Reid's current 3-year term as Chairman. BR's performance should continue to be judged against the medium-term objectives set in 1982 when he was appointed. Nicholas Ridley proposes to formulate BR's new objectives during 1986 in the light of BR's 1985 Plan and their progress against the existing targets. Increasingly, however, it will be necessary when facing strategic questions

to look beyond those targets into the late 1980s and early 1990s.

The long-term core of BR's business consists of three sectors - Inter City, London and South East commuter services, and Freight. The Parcels Sector is an optional extra. That leaves the moribund Provincial passenger network, where costs exceed revenue by 4 times and cumulative losses of some £1.8 billion are foreseen over the next 4 years.

When the current medium-term objectives were set, the radical options for tackling the problem of the Provincial Sector were left in abeyance to give Bob Reid and his management team the chance to show what could be achieved by applying hard-headed business principles. However successful they are it is difficult to see the PSO Grant being brought much below £700 million pa without getting the radical options back onto the agenda. Assuming that the NCB is now moving towards break-even or profit in the late 1980s, BR will stand out as the remaining public expenditure blackspot.

In many cases, buses are the key to meeting the needs of the consumer cost-effectively. For example, Serpell estimated savings approaching £200 million pa through a marginal 4% reduction of passenger miles in the Provincial Sector. Now, of course, we are much closer to having a credible, low-cost alternative in the form of deregulated buses, coaches, or licensed taxis. The minibus experiment in Exeter is proving a great success. Even in the London area, where road traffic

congestion is a major handicap, commuter coaches are rapidly winning new business.

BR's recent pay settlement (around 5%) was decoupled from higher productivity through modified conditions of service. BR believe that they can get further and faster by pursuing individual productivity initiatives at local level. They may still have to pay for these, as foreseen in the 1984 Corporate Plan. The unions will no doubt be ready to pounce on any local initiative thought to breach the principle that revised conditions of service have to be negotiated at national level. Will BR's management duck and weave in the interest of keeping the business going and rebuilding customer confidence? Can they afford a set piece confrontation? Is any one measure worth standing and fighting for? On the other hand, is there a danger that continued skirmishing, where necessary followed by retreat, will provoke union resistance and end up with the unions extracting too high a price - or blocking progress? Are the six national initiatives now dead?

Exposing BREL to competition has demonstrated how fat and over-resourced it is; BREL currently employs 25,000 staff. We are still awaiting BR's proposals for BREL, but the signs are that BR and Transport favour rationalisation and slimming as a precursor to privatisation. Why not consider early privatisation, warts and all, and leave it to the would-be purchasers to reshape the organisation and resources in accordance with their commercial judgement?

The prospects of the Freight Sector suffered a severe setback from the coal dispute. Customer confidence was lost. Major customers like the CEGB and British Steel have had their eyes opened to the cost-effectiveness of road haulage and will be tougher in negotiating future rates. The return to profitability can only be achieved by productivity improvements (at most one man to a train and not 2-3), or reduction of the Freight Sector down to a core of high-volume repetitive movements. Jobs will have to go. Is BR seriously facing up to such tough options? (Refer to attached newspaper feature.)

Is there still significant scope to contribute towards BR's commercial objectives by pressing ahead with property disposal and business development on stations?

Nicholas Ridley's note of 28 February 1985 commenting on BR's 1984 Corporate Plan pre-dates the end of the coal dispute and BR's recent pay settlement. It no longer provides a satisfactory basis for E(NI)'s discussion. How about asking the Department of Transport to update the key projections for comparison against the medium-term objectives? They might also care to address the issues outlined above.

JOHN WYBREW

t was ...er praise for
e other new indus-
structure and top-
book is published
ir Guardian writers
Chapman — toured
es of reports in the
v Industrial World
conclusion.

f Asia

impact of this adaptability is
international communications.
communications.

But technological change is also breeding social change, and there things do not look so certain. Even Japan is now getting itchy on several levels, though not to the extent of the Singapore Establishment's fear of "Western values" damaging national unity. Union concern is growing in Japan that both the job-for-life guarantees for about a quarter of the work-force in the multinational corporations and the philosophy of deliberate over-manning in internal service industries may not survive the emergence of the peopleless factories and the automated offices in an ageing society.

It needs to be remembered also that — Japan apart — the prosperity of the new Asian powers is, in individual terms, only a richness relative to their immediate pasts. The gap between rich and poor in our sample countries is greater than it is in most West European nations. And the poor are poorer.

However, the final common theme is the most powerful of all. It is a fierce pride in national resurgence, which sometimes has its roots in history but which takes its current driving force from each nation's transformation within less than three decades. That pride could well be enough to retain national unity amid the social changes now beginning. It might even teach the rest of the world how to achieve personal liberty without divisiveness. We shall see.

PULAR
RIA
CAL AND
ES
E NATIONALE DES

Driverless trains will put BR on right track

British Rail's freight business has been ravaged by the coal strike. RICHARD HOPE writes that customer confidence has been undermined by secondary action which diverted oil and iron ore to road, and now 38-tonne tipper lorries are attacking the very core of Railfreight's traffic — power station coal

A YEAR AGO, Pitstone cement works in the Chilterns was taking three 1,000 ton trainloads of coal a week from Daw Mill pit near Nuneaton. The miners' strike had begun, but Daw Mill was still working and so were local railwaymen. Then the pickets moved in and the trains stopped. Now the strike is over, but the 70 mile coal haul has stayed on the roads.

The pattern is repeated nationwide. Six weeks after the strike ended, coal trains had built up from 40 to 200 a day; there were 300 a day before the strike. Many mines have yet to resume full production, but BR will be lucky to carry 120 million tonnes of freight in their new financial year which started on April 1. In 1983 the trains moved 145 million tonnes, so 5,000 railwaymen's jobs have been sacrificed.

The coal strike cost BR £240 million in lost revenue, but the real damage to Railfreight's future stems from the £60 million worth of coal, oil and steel traffic which the rail unions diverted to road in support of the miners. "Our customers are not likely to forget that we left them in the lurch," BR's business manager for oil Brian Burdsall remarks bitterly.

Far more serious is the discovery by major customers like British Steel and the Central Electricity Generating board that heavy flows of bulk materials can be handled just as cheaply by road. Colin Driver, who took control of Railfreight this month told BR's staff newspaper Rail News: "We have allowed road transport to get hold of our core traffic and have given them a year to perfect methods of carrying it better than we do."

So Railfreight is in a two-way queeze: much traffic has been lost, pushing up unit costs for the remainder by worsening utilisation of staff and assets, and at the same time customers are demanding (and getting) rate reductions.

Rank and file railwaymen are baffled, as are outraged members of the public who assumed that the stream of strike-breaking juggernauts past their front door would cease when the strike was officially called off. They share with some BR managers who ought to know better the simplistic notion that one locomotive hauling 1,000 tons in 30 wagons must be more economic than 40 lorries with 40 drivers carrying 25 tons. The truth is very different.

Writing in my own journal this month the CEGB engineer, responsible for coal transport Charles Smith points out that before the strike 12,000 wagons delivered 60 million tons a year to his power stations under the merry-go-round (MGR) system introduced 20 years ago.

MGR was a real breakthrough in productivity. Instead of shunting interminably in marshalling yards, complete trains of hopper wagons shuttle direct between mines and power stations where they run round a loop and unload without stopping — hence the name.

Even so, Mr Smith's 12,000 MGR wagons average only three trips a week where tipper lorries make three a day. So one train consisting of a locomotive and 30 wagons costing perhaps £2 million is replaced not by 40 lorries but by eight, costing one-tenth as much.

An over-simplification, certainly, but you take my point: BR managers still don't understand the meaning of the word "productivity" as applied to capital assets.

There is worse to come. Because freight train crew productivity is so poor — 10 times worse than lorry drivers in terms of miles driven per man-shift — the penalty in extra wages of using road is far less than the casual observer would expect. No way does "a crew of three in charge of one train do the work of up to 172 lorry drivers" as another BR publication Western Traveller boasted recently.

In fairness to BR, the board has tried for five years to convince the unions that freight trains crewed only by the driver are essential if rail is to hold its miserly 3 per cent of the freight market, let alone make a comeback. The National Union of Railwaymen refuses to budge, and management has once again chickened out by not linking productivity agreements to this year's 5 per cent pay rise agreed earlier this month.

In the chilly competitive dawn that has followed the long night of the coal strike, even driver-only trains would not suffice. Since January, far-sighted planners and engineers at BR headquarters have been examining an even more drastic option — unmanned trains. A model for this type of operation can be found in Ohio, where 15-wagon driverless trains have been shuttling coal from Muskingham mine to a power station safely and economically since 1969.

It is not just a matter of saving wages. Freed from the constraints of crew scheduling, short trains can be run. That means less delay loading and unloading; the wagon fleet could be halved, and the number of locos cut by at least 30 per cent.

The technology for driverless trains was fully developed at Wilmslow in Cheshire eight years ago, but it was expensive and BR officials could see no need for it. Now the work is being taken up again, this time using far cheaper methods based on the radio signalling introduced in the Scottish Highlands last autumn.

The aim is to try it out on a freight-only line, such as the 12-mile link between Bevercotes colliery and High Marnham power station in Nottinghamshire. Once safety and reliability had been demonstrated, unmanned freight trains would be introduced on passenger lines.

With crew wages eliminated and vastly improved rolling stock utilisation, the intrinsic advantages of rail over road — such as reduced energy consumption — could be exploited to the full.

BR's share of the £19-billion-a-year freight market would still be modest because so many destinations are out of reach, but even £1 billion would be riches compared to the £350 million earned last year. Far from destroying jobs, there would actually be more railwaymen required to maintain the track and rolling stock than the present traffic requires with a driver and guard on each train.

Without such a quantum jump in the productivity of men and assets, the future for Railfreight is bleak indeed.

Richard Hope is editor of Railway Gazette.

M04

CONFIDENTIAL

NRSM
AF 27/4

CC NO

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

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1

22 April 1985

Dear Nick

BR PAY

Thank you for your letter of 28 March. I understand that the NUR and ASLEF have both now accepted the Board's offer and that TSSA is seeking non-binding arbitration, but that Bob Reid is confident that he can avoid making any concessions on that front.

This is a very satisfactory outcome. However, it leaves in the air the issues of how BR will make progress on the various outstanding productivity issues without costly concessions on pay and when they expect to remove the Railway Staffs National Tribunal. These are issues which we shall want to discuss in E(NI) at an early opportunity.

I am sending copies of this letter to the Prime Minister, Peter Walker, Norman Tebbit and Tom King, and to Sir Robert Armstrong.

Yours ever
Nigel

NIGEL LAWSON

TRANSPORT: BR Pay: Pt 8

23 APR 1985

23 APR 1985

CC NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

2 April 1985

Dear Peter

BRITISH RAIL: PERFORMANCE AND CORPORATE PLAN REVIEW

Thank you for your letter of 25 March about BR's Performance and Corporate Plan Review. There will be an opportunity to discuss the detailed points when we meet in E(NI) to discuss the Review, but there are two issues on which I think I should comment straightaway.

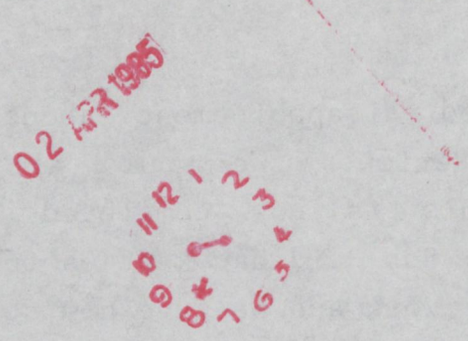
The first is the timing of the BR Plan. As you acknowledge, BR deserve credit for the major improvements to their planning system. The Plan derives its credibility from the fact that it is an internal management tool - the blue-print for running the business - and not something prepared by a group of central planners to satisfy Government requests for information. Of course, BR must give us the most up-to-date information for the IFR. They are able to do that from the draft Plan. It would be quite wrong for us to lay down a timetable for the Plan just to suit the IFR process. That would increase the likelihood that the Plan will be out of date by the time its first year begins and would weaken the management's commitment to the Plan. Moreover, we would push BR back towards a planning system whose primary function was seen as being a bid for Government resources rather than the mechanism for driving the business to achieve the objectives we have set them.

Second, you expressed disappointment about the delay in completing the BREL Review. We would all agree that it is essential that this is now completed as soon as possible. But, through me, Bob Reid has kept us fully informed of how he was handling the work and we gave him strong support for treading very carefully during the miners' strike because of the Review's industrial relations sensitivity. So I think it would be wholly unjust to blame him now for delay.

I am copying this to members of E(NI) and to Sir Robert Armstrong.

NICHOLAS RIDLEY

Transport: BR 478



CC NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

R/PSO/4322/85

28 March 1985

Prime Minister:

To note

Dear Nigel

BR PAY

Thank you for your letter of 27 March. As you know, it arrived less than an hour before BR were opening their talks with the unions and it was not possible, therefore, for me to pass on your views.

In any event, I do not think that it would have been possible for BR to wait until after our discussion in E(NI). I shall be on an official visit to India after Easter, and so the BR Corporate Plan and Performance Review will presumably not be dealt with until the E(NI) meeting planned for 25 April. BR could not wait until after that: the settlement date is 15 April.

You will want to know the report I have received on yesterday afternoon's meeting with the unions. The Board began by emphasising that the immediate priority is to restore customers' confidence in the reliability of the railway. Changes will be needed over the coming year and the co-operation of the workforce and the unions will be essential to success. Because of the miners' strike and the unions' blacking of coal movements by rail, it is exceptionally difficult for the Board to finance a pay increase this year.

As planned, the Board opened with an offer just over 4%. This was not acceptable to any of the unions. Finally, the Board offered a maximum of 4.85% plus a small addition - worth about 0.1% of the pay bill - for the lowest paid workers. They made it clear to the unions that this was their final offer and that there was no more money. They said that a settlement by Easter would be important to help restore confidence. So they called on the unions for a reply by next Wednesday at the latest.

The unions agreed to refer the offer to their Executives. The NUR made it clear that they had been looking for more.

But the Board are clear that their response to any further demands should be that they have made their final offer.

I am sending copies of this letter to the Prime Minister, Tom King, Norman Tebbit and Peter Walker, and to Sir Robert Armstrong.

NICHOLAS RIDLEY

TRANSPORT: British Rail: Pt 8

29 MAR 1985

8.68 CONFIDENTIAL

CC NO

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

27 March 1985

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Transport

NBPM

Dear Secretary of State,

BR PAY

You wrote to me on 25 March, reporting that Bob Reid intends to make an opening offer of just over 4 per cent when negotiations with the unions open today and that he plans to separate pay from productivity issues.

As you know, we are to meet in E(NI) to discuss BR's corporate plan, and efficiency and productivity on the railways are bound to be important topics. While I would not by any means rule out decoupling the pay and productivity issues in due course and I do not ask that Bob Reid press a pay productivity link at national level, I should be grateful if he would avoid making this concession until we have considered these points in E(NI) and have assessed fully the risks and costs of industrial action including the potential effect on coal movement. I would question whether it would be tactically wise to make such a concession at the beginning of negotiations. But the understanding that BR do not offer to separate pay from productivity today, I am content with the opening offer Bob Reid proposes to make.

Meanwhile, I should be grateful if you could let me have a fuller picture of how BR would pursue productivity issues at local level. Do they think they would have to make local payments, in addition to national pay settlements, to achieve the improvements they seek?

Finally, I recall that last year, the BR Board made proposals to overhaul the negotiating machinery, and in particular were keen to abolish the Railway Staffs National Tribunal. I understand the reasons why this has not been taken forward so far. When do you judge we might expect to see some progress?

Copies of this letter go to the Prime Minister, Tom King, Norman Tebbit and Peter Walker and to Sir Robert Armstrong.

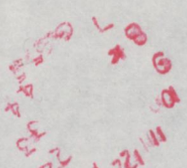
Yours sincerely,

Philip Wynn Owen

pp NIGEL LAWSON

(approved by the Chancellor and signed in his absence.)

Transport: BR - Pt 8.



27 MAR 1984

CONFIDENTIAL

CC WSO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

25th March 1985

Prime Minister:
To note
26/3

Dear Chancellor,

BR PAY

BR will open their negotiations with the Unions this Wednesday afternoon. Bob Reid has told me how he plans to handle them.

First, he intends to separate pay and productivity. Previous attempts to use the annual pay negotiations to achieve productivity gains failed. Indeed, Bob Reid has concluded that the way to increase efficiency comes from firm and unrelenting management action - locally or nationally - and not from seeking agreement with the union leaders at national level.

For example, in the last 15 months BR has shed nearly 6,000 men, worth £80m a year, by removing an entire tier of management. Not a day's work was lost by union disruption. By contrast, the six productivity items which featured in Peter Parker's 1981 pay and productivity deal with the Unions have made disappointing progress. True, one of the items, "Open stations" has been introduced successfully. A second one, flexible rostering, is also in operation but only after a messy strike which cost BR a £170m in 1982, inconvenienced passengers and damaged customer's confidence in the railway.

So the Board plan to de-couple the remaining four items from the current pay negotiations. (A short note on the remaining items is attached.)

Bob Reid's approach to pay is business-led. He needs to recruit and retain staff quite as much as to invest in the right equipment at the right price. He also needs to rebuild his customers' confidence in the stability of the railway, while contributing all he can to restocking of the power stations. He judges that most of his men do not want trouble and will respond well to a reasonable offer. The union leaders, however, are seeking confrontation and will seize upon any excuse to cause disruption.

So Bob Reid's tactic is to open with an offer just above 4%, to make clear that the Unions' past actions have made even this difficult to finance, and to settle as low as possible and certainly not above 5%. Throughout the negotiations he will maintain his own communications with his workforce (the / enclosed draft extract from the BR newspaper is an example of how he will do this).

It seems to me that Bob Reid's approach is based on a sound business judgment and I have told him that we will support him in taking a firm stand with his Unions.

I shall, of course, keep you and the colleagues fully informed of significant developments.

/ I am sending copies to the Prime Minister, members of E(PSP), and to Sir Robert Armstrong.

Yours sincerely,

Richard Allan.

(Private Secretary)

NICHOLAS RIDLEY

(approved by the Secretary of State + signed in his absence).

REMAINING ITEMS FROM THE 1981 PAY AND PRODUCTIVITY AGREEMENT

There are four remaining productivity items. They are as follows:

(i) "Easement of single manning": the aim here is to dispense with the second man in the cab except on high speed trains or in other special circumstances. BR have taken this through the formal negotiating machinery and have now reached the final stage - reference to arbitration by Lord McCarthy at the Railway Staff National Tribunal. The Board plan to tell the Unions that they will be referring the issue to RSNT, which BR expect to rule in their favour.

(ii) "Driver only operation of freight trains": BR have successfully completed three trial schemes, which involve dispensing with the guard on the back of freight trains. The NUR are strongly opposed to this move. The Board plan to tell the Unions that they will repeat the 3 experiments, hoping for agreement in the process, and that, meanwhile, Regional General Managers will begin preparing further schemes and talking to the men locally about them.

(iii) "Driver only operation of passenger trains": BR already have one service - Bedford/St Pancras/Moorgate in operation. The next services on which DOO is due to be introduced are Great Northern suburban passenger services and Strathclyde. The converted rolling stock will begin to be delivered for the Great Northern over the next few months and BR will tell the Unions that it expects drivers to

take part in the necessary retraining from mid-July onwards, with a view to introducing DOO just before the end of the year. They will send home drivers who do not co-operate. This may be the issue that provokes local trouble. But BR are determined to stand firm on it.

(iv) "The train-man concept": this provides a single channel of recruitment and promotion to driver and other train crew. Progress on it depends on the successful introduction of easement of single manning and DOO.

Railnews

No 267

Newspaper of British Rail

APRIL 1985

The 1985 PAY CLAIM

BOB REID writes

THE NUR and ASLEF have tabled a pay claim which, if conceded, would cost the railway some £480 million a year. No one seriously expects the Board to meet such a claim in full, or anywhere near it.

When the claim was formulated at union conferences in the heady summer days of 1984 the railway had just come through a year which had ended with BR reporting a small surplus.

We were on course to break even again this year. We were actually lending money.

The situation now is very different. We face losses of some £240 million due to the coal strike. We have had to borrow £XXm, and that has added £XXm to the interest we have to pay every year from now on, until the debt is paid off.

Of the lost revenue, £60 million was there for the taking, but some NUR and ASLEF members refused to move the traffic. So we are £60 million worse off than we might have been if we had carried all the traffic on offer.

That is the background against which the Board must now consider what it can afford in terms of improved pay and conditions in 1985. No-one's expectations should be high. But two things will help — getting the traffic moving again and doing all we can to restore customer confidence that the movement of their trafic by rail will not be disrupted again.

I read newspaper reports recently claiming that the Board had decided to offer a two per cent pay increase. NOT TRUE. I know it was guesswork because I know the Board has still to decide what it can afford.

We will be assessing the effect in revenue of the return to work in the coalfields, and just how much traffic — coal, steel, iron ore, and oil — comes back to rail.

Some newspapers also gave the impression that all railwaymen had refused to move coal. NOT TRUE. Only some refused. Others moved up to 40 coal trains a day and saved an even more serious situation from developing in the industry.

Other railwaymen TSSA and BTOG members — have co-operated in the removal of an entire level of management and the closure of 21 divisional offices; men and women have moved their homes and their families in order to work at the new Western Region HQ at Swindon; others are moving now to work at the new London Midland HQ in Birmingham.

The Board must also think of them and their loyalty to the industry when it considers the pay claim.

I also read reports that trade unions would not trade jobs for higher pay through productivity. But no one will be put out of work by the changes in working practices which are still being negotiated.

Not a single guard has been made redundant because of one-man operation on the Bedford/St Pancras services, which have been operating for over two years.

The rate of retirement from this industry over the next five years means we will be hard pressed to recruit the 25,000 people we will need to run the railway.

Of course jobs will go if we drive our customers away by strikes or by excesssive costs. That's why it's so important to finalise negotiations on the productivity issues already in the machinery. This will enable us to challenge the prices which our more efficient competitors have been charging.

The most disturbing reports of all that I have read recently are those which suggest confrontation is inevitable in the railway industry. Cartoonists have depicted union leaders climbing into the ring for a fight to the finish.

I hope railwaymen and women do not see the situation in that way. I want to lead a railway industry that is prosperous and can afford to pay higher wages. The last way to achieve that is through a damaging conflict.

The Board will be deciding in the next few days on the pay offer which it is able to make in all the circumstances.

Then it is up to you.

STTC

12-5 x 2

021/112

CONFIDENTIAL

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP
Secretary of State
Department of Transport
2 Marsham Street
London
SW1P 3EB

25 March 1985

Dear Secretary of State

BRITISH RAIL: PERFORMANCE AND CORPORATE PLAN REVIEW

Thank you for your letter of 28 February to Nigel Lawson. I look forward to the discussion at E(NI) which the Prime Minister has now suggested, and I thought it would be helpful to set out my own views as a preliminary to this.

I endorse your view that Bob Reid seems to have been a good choice as Chairman, and BR deserve credit for progress in a number of areas, including the introduction of sector management and of a credible planning system. The 1984 Corporate Plan has of course now been partly overtaken, but I would like to comment on some of the issues raised by your letter and the attached Review.

The test of BR's success will be the delivery of the three financial targets which are now in place. The PSO grant target is an important symbol of change in BR's financial and business management, but we must not lose sight of the fact that this represents a long overdue reduction in the cost of the railways to the taxpayer, and I am glad to see that BR have already identified further cost savings beyond the target year. I agree that we should set the next medium-term target in the light of the 1985 Plan; but I think it important that this should be available rather sooner than the 1984 Plan, in order to assist the investment and financing review in the public expenditure round as well as our consideration of a new medium-term target.

The freight target now looks unattainable unless BR can cut out some of the loss-making freight activities. The CEGB contract is up for re-negotiation early next year and BR must expect both reduced volume and a reduced profit margin as a result of the electricity industry's experience

CONFIDENTIAL

with BR during the miners' strike. I hope that we will continue to insist that BR make the necessary reductions in the freight business if this is necessary to comply with their target. We must ensure also that infrastructure costs do not feed into the passenger business as a consequence of any freight cutback, and if this happens I would like to see additional savings in the passenger business to offset the increase.

The Inter-City target looks particularly vulnerable, since revenue is currently below target, there is no serious sign of growth in receipts, and the business environment for Inter-City remains highly competitive. A tough line on costs will be required, since there is no scope for real increases in fares across the board.

I believe that you are also right to identify as a particular problem the financial performance of the provincial sector. It absorbs some £400 million of grant every year at present, and all the financial improvements in this sector too will have to come from cost reductions. I am glad to see the powers for bus substitution in the Transport Bill, but I am concerned that BR should get the right message on this. Although bus substitution will only come in as an adjunct of rail closure procedures, and will certainly call for careful handling, I believe that early and substantial progress in this area is in the interests of all parties concerned. It could save a significant sum for BR and the taxpayer while maintaining the network of services covered by the Public Service Obligation; the scale of savings available should enable BR to offer through bus contractors a better service than is at present available by train; and since bus deregulation will in any case tend to draw passengers away from BR, this is the ideal opportunity for them to make progress with bus substitution while the bus passenger market is in transition.

So long as we require BR to maintain the present network of services, it is right that we should expect to subsidise loss-making passenger activities in the provincial sector. But the cost to taxpayers of the railway looks set to continue at a high level, particularly when compared with many of the other nationalised industries which have improved their financial performance and now make little or no call on external finance. We should expect BR to continue to take every opportunity to reduce costs, but we must expect the continuing cost of the railway to present a serious issue in public expenditure priorities in future years.

One of the objectives set for the BR Chairman was to secure improvements in the industrial relations machinery, which has slowed the pace of change. Little has yet been achieved in this area. The unions have played a successful

hand in stalling major progress on certain productivity issues in the past two years. These issues will come up again in the imminent pay round, and they will be an important test of BR's management since the manpower savings which they will bring are assumed in the Rail Plan.

I am disappointed at the lack of progress on BREL. The BR Chairman has failed to meet the objective which was set him, and now expects to report a year later than we had asked. I think it essential that he should be required to report to Government on the options of the future of BREL before the Summer Recess, as you suggest. We cannot decide how to deal with over-capacity at BREL until the problem is quantified, but it is important that we do so quickly. BREL has a contribution to make to the privatisation programme, and it is more than time to take a realistic view of this.

I am copying this letter to members of E(NI) and to Sir Robert Armstrong.

Yours sincerely

fc PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL

MJ2 AFH

cc CO
CDLO
DE
DN
CS HMT
DTI
SO
DOE
HMT

10 DOWNING STREET

18 March 1985

From the Private Secretary

The Prime Minister has seen the Secretary of State's letter to the Chancellor of 28 February about the BR Corporate Plan. She would be grateful for an opportunity to discuss the Corporate Plan, and in particular its proposals for greater efficiency and for manpower in E(NI).

I am copying this to the Private Secretaries to members of E(NI) and to Sir Robert Armstrong.

Tim Flesher

Henry Derwent Esq
Department of Transport.

CONFIDENTIAL

ECL

Prime Minister ①
To note. Agree BR should be brought to E(NF)?
Yes ✓ AT 15/3

pps please.

CONFIDENTIAL

PRIME MINISTER

14 March 1985

BRITISH RAILWAYS

Belatedly, Transport Department have initiated a review of BR's recent performance and the 1984 Corporate Plan. Meanwhile, Bob Reid is approaching the mid-April deadline for this year's pay negotations, with the unions' 33% claim on the table.

The fact that BR is beset by serious problems is not to belittle Bob Reid's achievements in propogating a hard-headed, businesslike approach to its management. The basic restructuring into business sectors - each a separate profit centre - is right. The internal chemistry is improving. However, BR's problems go deeper than the setbacks caused by the coal dispute, the losses from which are broadly estimated to be £250 million.

Bob Reid, we believe, will want to be judged as a business manager, not the custodian of our Victorian heritage. The sort of problems which would keep him awake at night are as follows:

1. In October 1983, Reid was given three key objectives:

   - to reduce the Public Service Obligation (PSO) grant by more than 20% in real terms by 1986;

- to bring the freight sector into profitability (5% real return) by 1988;

- likewise, the Inter-City sector by 1988/9.

The 1984 Corporate Plan was taking shape around the middle of last year. Assumptions which were optimistic then, and now look heroic, yielded forecasts that the first objective would be achieved - just. The return of the freight and Inter-City sectors to profitability were in sight, but delayed a year or two. That prospect begins to look more like a mirage.

2. The real bar to progress is rigidities on the industrial relations front. BR's wage bill for railway operations is running at £1.3 billion - roughly eight times the current level of capital expenditure. The scope for manpower reductions is enormous, probably tens of thousands. Yet virtually no progress has been made in recent years, except the removal of a layer of 4,000 administrative staff, saving £80 million per year. The signs are (refer attached extract from yesterday's Daily Express) that even the benefits of flexible rostering have been thwarted by the unions.

The 1984 Corporate Plan sees no worthwhile progress in this area. Despite an 8% reduction of manpower through the removal of restrictive practices over the next 5 years, all the gains and more will be given away in

Very slow

improved pay and conditions, so that the wage bill will increase in real terms.

The question to be faced this Summer is whether to confront the unions in a set-piece battle for real productivity gains, or to pursue many separate initiatives at local level.

3. Some of the tough questions faced by the freight sector concern productivity. The volume of freight business irrecoverably lost through the coal dispute is still open to question, but major customers like the CEGB and British Steel have had their eyes opened to the cost-effectiveness of road haulage and will be tougher in negotiating future rates. The return to profitability can only be achieved by productivity improvements (at most one man to a train and not 2-3), or drastic reduction of the freight sector down to a core of high-volume shuttle movements.

4. BR's equivalent of "uneconomic pits" is the provincial passenger sector. Income covers only a quarter of costs. More than half the PSO - nearly £500 million - is being poured into maintaining a moribund rail service. Fare increases are counter-productive because they just drive the business towards cheaper and more efficient modes of transport.

Deregulated coaches and buses have a major role to play

in this area, but establishing the new liberalised regime will take time, and confidence must be built up if the politics of rail closures are to be overcome. Meanwhile, it seems foolish for BR to be putting more capital investment into this sector than any other over the next 5 years (£104 million in 1985/6).

5. Predictably, now that BR's engineering subsidiary (BREL) has been exposed to competition, it looks horribly fat and over-resourced - for example, 25,000 staff. A painful slimming course leading to privatisation must be faced.

6. With so many downside factors bearing on the Corporate Plan, Bob Reid will have to tackle the disposal of valuable assets and property not related to his core business with redoubled vigour.

It is not sufficient just to talk tough about the need for BR to hit their medium-term targets. They deserve a rigorous review of the realism and soundness of the 1984 Corporate Plan and a hard-headed appraisal of the options. You might like to invite Nicholas Ridley to do this in the forum of E(NI). We will report further on progress in official and interdepartmental discussions.

JOHN WYBREW

DAILY EXPRESS, 14 MARCH 1985

'Savings' plan is costing BR £100m a year

By PAUL WILENIUS Industrial Reporter

A £100 MILLION bonus farce is exposed today as British Rail heads for a major pay battle.

A Daily Express investigation shows that an efficiency scheme to slash rail overtime, has failed.

Overtime payments have increased by 50 per cent to more than £100 million a year. One source said the figure could be as high as £120 million.

Last night embarrassed rail chiefs were refusing to give details of the failure of the "flexible rostering" system, which BR forced in after three months of industrial strife in 1982.

FIGHT

Critics claim some workers have turned the system to their own advantage, deliberately running trains late so that they can claim overtime.

BR will soon be locked in a pay and productivity fight with leaders of 166,000 railmen who are demanding rises of up to 33 per cent.

Rail chiefs are expected to offer around 2·5 per cent in the next two weeks.

The railmen would have been offered at least 4·5 per cent, but the industry has lost £250 million through the year-long miners' strike. The unions refused to move coal trains.

A high-ranking official who blew the whistle on the overtime farce, said: "It is more than my job is worth to come out into the open on this."

EXPRESS EXCLUSIVE

The source complained that the system of flexible rostering — fiercely opposed from the start by the train drivers' union ASLEF — had been badly thought out.

An official of ASLEF confirmed his claims. He said many drivers were "laughing all the way to the bank."

They have been earning far more than they did before the system, which scrapped the eight-hour day and replaced it with shifts of between seven and nine hours.

Guards and other staff have also been making more money.

The major embarrassment for BR is that it has to pay overtime to drivers and guards when: TRAINS are running late. WORKERS are called in to cover for men who are ill—or late. SHIFT patterns do not match, and others workers have to work rest days and on Sundays.

DISASTER

Former BR chairman Sir Peter Parker had expected the flexible shifts to produce great savings.

Drivers were working on average four hours of overtime a week in 1980. This has risen to 5·8 hours a week.

Although drivers are obviously enjoying the benefits of the system, official ASLEF policy is still to oppose it.

Rail chiefs would find it too embarrassing to scrap the system altogether, but they have held a series of meetings with the union in recent months in an attempt to get it changed.

An ASLEF spokesman said: "BR have told us they want to get the rosters right, and want to tighten them up. But they will never get them right.

"The system is a disaster for the BR board. It is costing them millions of pounds a year.

BF || B/F with the response AT 4/3 SEMO

018

SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

28 February 1985

Dear Nigel

BR CORPORATE PLAN AND PERFORMANCE REVIEW

Two facts stand out from the attached note on BR's 1984 Corporate Plan and their recent performance. First, the choice of Bob Reid as Chairman has proved to be a good one. Second, our policy of setting clear formal objectives to nationalised industry Chairmen on appointment is proving an effective and valuable discipline for BR.

Review of Performance

Between 1979-82, BR's financial performance deteriorated seriously. Since 1983, that trend has been reversed and BR are making steady progress towards the medium-term grant target we set them in October 1983. There has also been good progress on privatisation and asset sales - Sealink, the BR Hotels and the Hovercraft subsidiary are now in the private sector and over £300m worth of property has been sold. All new types of traction and rolling stock are being acquired by competition; and new criteria for the introduction of competition for the supply of support services (eg catering, track maintenance) were published in December. The management of the industry has received a radical shake-up. The old "custodial" attitude is under attack and the emphasis now is on improving the bottom-line and putting the customer first. Bob Reid and his Board have committed themselves publicly to achieving the objectives we gave them. He and his managers have shown skill, sensitivity and determination in moving coal during the miners' strike despite the efforts of the NUR and ASLEF to frustrate their efforts.

All this is encouraging. But there is still a long way to go. BR is a huge and widely dispersed organisation. The "custodial" attitude is deeply ingrained and slow to change. Moreover, the objectives we have set cannot be achieved without some consequences that will be unpopular (e.g. more freight on the road, passenger service reductions and closures). So it will be essential for us - through our statements and decisions - to go on making it plain to the managers, the workforce and the unions that we shall hold BR firmly to the objectives we have set and that the Board can count on our support for the action required to achieve them.

The 1984 Plan

The main issues that arise from the 1984 Plan are:

(a) BR are tackling over-capacity and excessive overheads (e.g. in BREL and in administration) with determination and to good effect. But the Board must make more progress in reducing the basic costs of operating the railway itself. Bob Reid accepts this and it is being pursued by my officials with BR. In particular, there has been little progress in securing changes in working practices. BR intended to press the issue last year but - with our agreement - they did not do so because of the miners' strike. The NUR and ASLEF are a major brake on achieving the changes that are needed. The Board will need to weigh up carefully the benefits and risks of a confrontation during the coming year.

(b) The Plan implies that the total rail paybill will rise slightly in real terms over the Plan period despite an 8% reduction in manpower. According to the Plan, the manpower cuts and the removal of restrictive working practices would be more than offset by the improvements to pay and conditions that would need to be given to the remaining staff so as to achieve change without incurring even greater costs from industrial disruption. I believe this is an unduly pessimistic view of the future levels of pay that BR will need to offer in order to recruit, retain and motivate staff of the right calibre where they are needed. Bob Reid and I have already discussed this. He is in no doubt about the importance we attach to maintaining the downward pressure on the paybill.

(c) BR's freight business is heavily dependent on coal traffic. If the CEGB's and the BSC's experience of road haulage during the miners' strike leads them to switch some traffic away from rail permanently or, more likely, enables them to negotiate lower prices from BR, this could seriously weaken the finances of the rail freight business. Because of reduced scope for cross-subsidy between commodities within the business, they might find that they needed to shed large volumes of non-coal traffic to the road system in order to get back onto their commercial target. I have encouraged Bob Reid to press ahead with a strategy study of the options; this has now begun and the Board hope to complete it by about Easter.

(d) BR are putting a lot of work into their "customer-first" campaign. But too many trains are still dirty, overcrowded and late. That represents poor value for money for the customer and the taxpayer. Bob Reid recognises this and is putting strenuous effort into getting the message across to his workforce that if they cannot satisfy their customers at reasonable cost, the customers will go elsewhere and railwaymen's jobs will be lost. I shall continue to press the Chairman on this issue.

BREL Review

We asked Bob Reid to report to us by mid-1984 on the options for the future of BREL. In the event, he has needed more time to do the job radically and thoroughly. He now plans to send me his conclusions by the Summer Recess. My impression is that his review will point to privatisation - but I do not think he has yet reached even preliminary views on the extent and timing of it. I shall, of course, consult colleagues when I receive Bob Reid's report. Meantime, I am in no doubt both that the issues will be complex and that they will require very skilful handling with the private sector and the unions.

Rolling Forward the Targets

We gave Bob Reid comprehensive medium-term targets when he took office in October 1983. His current appointment expires at the end of 1986. That will be the time to give him - or his successor - a new set of objectives, including a demanding 3-year target for the PSO grant. I propose, therefore, that we should formulate the new objectives during 1986 in the light of the 1985 Plan and BR's performance against the present targets.

I am sending copies of this letter to all members of E(NI) and to Sir Robert Armstrong.

NICHOLAS RIDLEY

BRITISH RAILWAYS BOARD:
PERFORMANCE AND CORPORATE PLAN REVIEW

1. This note reviews the British Railways Board's (BR's) recent performance and their 1984 Plan for the next five years. (The condensed version of the Plan is attached.)

THE CHAIRMAN'S OBJECTIVES

2. In particular, the note relates BR's performance and the Plan to the objectives the Government gave Mr Reid in October 1983, following his appointment as Chairman. The main objectives are:

(a) to run an efficient railway, providing good value for money, and a good service to customers;

(b) to reduce the PSO grant requirement in 1986 to £635m in 1983 prices - a reduction of over 20% in real terms compared with 1983;

(c) to earn a 5% real return on the capital assets of the Freight business by 1988;

(d) to earn a 5% real return on the capital assets of the Inter-City business - and to remove it from subsidy - by 1988/89*;

(e) to continue to achieve a fully commercial return on the Parcels business;

(f) to make Sealink ready for privatisation;

(g) to rationalise excess capacity at British Rail Engineering Ltd (BREL) and complete a review of the options - including privatisation - for the future of the company;

(h) to introduce more competitive tendering and private sector participation in BR's activities;

(i) to submit early views on the practicability of providing bus services in substitution for rail services.

PEFORMANCE AND ACHIEVEMENTS 1979-84

3. **Financial Performance:** BR's financial performance deteriorated sharply between 1979-81, partly as a result of the recession and partly because of increasing competition, exacerbated by the Board's failure to adjust output to demand and to control costs. The demand for PSO grant rose. In 1981, the Board published a document claiming that without substantially increased grant , they would eventually be unable to comply with the PSO Direction and would need to close 3000 miles of railway; they called for a review of railway objectives and finances. Contrary to the Government's express requirement, the Board produced a claim for grant in 1982 even higher than the revised claim for 1981. The Government accordingly rejected the claim, imposed its own grant figure and - in April 1982 - appointed the Committee on the Review of Railway Finances under Sir David Serpell.

---

*This objective was set in July 1984 following completion of the Inter-City Strategy Study.

4. 1982 was the crucial year for BR. Mr Reid, as Chief Executive, pioneered the introduction of sector management (see below); the Board stood up to the unions' refusal to accept new working practices (and BR sustained unsubsidised losses of £170m as a result of strike action); and BR was forced, in preparing its evidence to Serpell, to identify realistic opportunities for cost reduction.

5. Publication of the Serpell Report in January 1983 provided the catalyst for change. It destroyed BR's claim of a massive backlog of investment and demonstrated the scope for major savings in grant by 1986 provided the Board were given financial help with the transitional costs. The Government at once made clear that the Board should set about achieving these savings but allowed time for public debate and examination of the long-term options for the future of the railway. In September 1983, Mr Reid was appointed Chairman and was set his objectives (see para 2 above) the following month.

6. Since then, BR's performance has steadily improved. The improvement has been achieved from reductions in costs, high asset sales and adjusting supply to achieve a better fit with demand (eg in May 1984, train frequencies on the Central Division of Southern Region were reduced by 4%); receipts have shown little growth.

7. The PSO grant figures for the last 5 years illustrate the points made above;

PSO GRANT REQUIREMENT, 1980-84, £m					
	1980	1981	1982	1983	1984
1984 Prices	768	894	905	894	837*
Cash	576	749	817	855	837*

* Subject to audit and final settlement

8. Manpower Reductions: BR has cut its total manpower by over 20% since 1975. This is illustrated by Figure 6 on page 11 of the Plan. In June 1981, the Secretary of State endorsed BR's own target of reducing railway staff (i.e. excluding those employed by subsidiaries) by 38,000 by the end of 1985. The Board are on course to achieve this before April.

9. "Sector Management" was introduced in 1982 to give the railway a stronger business orientation. A Sector Director was appointed for each of the five main railway businesses or sectors - Inter-City, London and South East (commuters), Provincial passenger

services, Freight and Parcels. Each Sector Director has bottom-line responsibility for all the costs and revenues of his business. This is seen by Mr Reid as an essential step towards changing the management culture of BR; it emphasises the primacy of the businesses over the engineers and - for the first time in any national railway - introduces accountability for the financial results at a level lower than the Chief Executive himself.

10. **Quality of Service:** BR recognise that their business-like approach demands not only more economical operations but services which are attractive to passengers. Each sector has, therefore, formulated quality of service objectives. These constitute performance aims for local managers. This is welcome because, currently, the cleanliness, reliability and punctuality of many trains is not satisfactory. BR are now putting - and not before time - a lot of effort into making their services more attractive. This is an important aspect of value for money.

11. **Privatisation and Asset Sales:** In accordance with the policy statement made by the Secretary of State (Mr Fowler) on 14 July 1980, the Board have:

(a) sold Sealink for £66m (July 1984);

(b) disposed of British Transport Hotels for a total of some £60m;

(c) disposed of the loss-making Seaspeed hovercraft operation;

(d) raised £300m (gross) from property sales since 1979.

The income has been retained by BR and used to reduce their requirement for borrowing.

12. **Competition for Traction/Rolling Stock Construction and Maintenance:** The Board are now putting out to competitive tender all orders for the construction of new types of traction and rolling stock. This is being extended to vehicle maintenance, starting in the spring with wagons. This is consistent with and supportive of the Board's decision to put BREL onto a full arm's length relationship with the railway as part of the arrangements to ensure fair competition with private manufacturers. The private sector have already won some construction work (in June, the Scottish firm Walter Alexander won an order for 50 railbuses) and BREL's costs and efficiency have been sharpened up by the competitive pressure. Tender invitations have just been issued for 240 Diesel Multiple Units.

13. **Competition for Supplies and Support Services:** BR have long bought most of their supplies by competition. After discussion between the Secretary of State and Mr Reid, the Board are now committed to extending competition to the procurement of "support services" (such as catering, architectural services, cleaning, track maintenance etc). Short and simple criteria to establish fair and equal competition between in-house and private sector suppliers have been produced. Mr Reid has made it his immediate priority to apply these criteria to the provision of station and rail catering; a programme for the extension of competition to other support services is now being developed by BR.

14. **Bus Substitution:** In January 1984, Mr Reid came forward with constructive proposals for legislation to facilitate the substitution of bus services for rail services. Provision for this purpose is included in this Session's Transport Bill, with BR's full support.

THE FUTURE: THE 1984 CORPORATE PLAN

15. **The Planning System:** In the last 2 years, BR has introduced a comprehensive new planning system. It is designed to remedy the serious deficiencies found in the previous system by Serpell and by Price Waterhouse (BR's own consultants).

16. Under the new planning system, the lead in formulating the Plan is taken by the Sector Directors. This reinforces the business-led approach to which Mr Reid has committed the railway. Forecasts of costs or revenue improvements are included in the Plan only if they are under-written by the responsible line managers, and backed up by "action plans". As a result, the Plan does not claim credit for improvement for which managers see scope but for which they have not yet developed specific action plans.

17. There is no doubt that the 1984 Plan is better than any previously produced by BR. But the Department are critical of the planning system's treatment of revenue forecasts, the paybill and basic railway costs. They are discussing with the Board ways of strengthening the analysis of these and other aspects in the 1985 Plan.

18. **Future Financial Performance:** The Plan shows the passenger business falling short of the PSO grant target by only £9m in 1986/87. The Board remain totally committed to achieving the target. But, for the reasons given in paragraph 15 above, they would not forecast that it would be achieved in full until specific action plans for closing the gap had been developed; these are now being prepared.

19. The Department considers that it remains feasible for the Board to achieve the target. But the task, never easy, will be the more difficult because the Plan's revenue forecasts may prove optimistic by as much as £30-40m and the Board will need urgently to find off-setting reductions in costs. In any event the Department considers that, over the Plan period, further reductions in basic railway costs are practicable.

20. The Department and BR have reached agreement about the treatment of the transitional costs needed to rationalise BREL in 1986/7 and subsequent years. It has been agreed that these costs should not be met from grant but, rather, should be treated as a business investment by BREL, financed from profits and borrowing, and recovered over a period of years from BREL's charges to the railway.

21. The Plan forecasts a continuing reduction in the PSO grant requirement after 1986/87 without either substantial closures or a decline in the standards of service. The Secretary of State has already told the Board that they should be aiming for at least these further reductions in grant, leaving the establishment of a new medium-term grant objective until the 1985 Plan has been considered and likely performance in 1986 can be judged with reasonable certainty.

22. Paragraphs 2.7-2.9 of the Plan forecast a fall in BR's External Financing Requirements. This is consistent with the planned reduction in PSO grant. The Board also aim to fund all investment from depreciation, asset sales and other internal sources from 1987/88. These aims will be the more difficult to achieve because of the longer-term effects of the miners' strike. It has already lost BR over £200m of freight revenue; will force the Board to exceed their EFL for 1984/85; and is likely to require an increase in BR's temporary borrowing limit by April.

23. Paragraphs 2.14-2.16 forecast that BR's Corporate Investment will peak at £480m in 1985/86 and drop to £430m a year thereafter (at 1984/85 prices) for the rest of the Plan period. The early bulge in investment is caused by the need to replace a large part of the multiple unit fleet which is contaminated by asbestos. The Plan levels of investment look realistic but the introduction of competitive tendering and cheaper new technology, coupled with sector directors' drive to reduce costs should help to produce economies in the investment programme. From 1990 onwards, i.e. just beyond the end of the Plan period, BR will face the problem of replacing much of the traction and rolling stock built in the 1950s and early 1960s. The Plan makes no allowance for any BR investment associated with the Channel Fixed Link or for rail links to London's airports: any such schemes would need to earn a commercial return and to find a place amongst the Board's investment priorities.

24. **The Rail Businesses:** Chapters 3 and 4 of the Plan summarise the prospects for each of the railway businesses. The key points are:

(a) Inter-City is forecast to operate without subsidy by 1988/89 but to be £29m short of the profit required by its commercial target. In commencing the 1985 Plan cycle, the Board have told the Sector Director to show how the shortfall is to be eliminated.

(b) London and the South East forecasts an encouraging reduction in its share of the PSO Grant and a welcome emphasis on the achievement of quality of service objectives. The Department believes there is scope for further reductions in the grant requirement through tighter control of engineering expenses and staff costs.

(c) The Provincial Sector; major cost reductions will be required to achieve the levels of the sector's grant requirement forecast in the Plan. This is because the sector's costs are 4 times the size of its receipts. New rolling stock - particularly the replacement of the DMU fleet - will help. But the sector will face increasingly fierce competition from private transport and bus competition following deregulation.

(d) Freight; the Plan shows the sector achieving its commercial target in 1988/89. But, as a result of the miners' strike, BR may have lost permanently to road transport competitors significant amounts of coal and steel traffic. The Board have, therefore, begun a major review of the sector's prospects and the means to achieve the 1988/89 target.

(e) Parcels; the sector is forecast to continue making substantial profits. It is operating in an intensely competitive market and is urgently seeking the further cost reductions required to meet the profit targets set by the Board.

CONCLUSION

25. BR has made encouraging progress over the last two years. Their 1984 Plan has overcome many of the deficiencies found in the Board's earlier planning system by Serpell and Price Waterhouse. The Plan is firmly directed to achieving the objectives set for the Board by the Government in October 1983. The Department considers that it remains feasible for BR to achieve the PSO grant target in 1986/87.

26. The Department also considers, however, that the Plan's passenger revenue forecasts - particularly for Inter-City - are vulnerable; that the assumptions about the likely levels of pay required to recruit and retain staff are too high; and that further action is required to reduce the basic costs of operating the railway. Moreover, a thorough review of the freight business is now required to assess the medium and long-term effects of the miners' strike and the means to get back on course to achieve the target of a 5% real return on capital assets in 1988/89. All these points have been put to the Board and will be pursued by the Department in discussions with BR in the course of the preparation of the 1985 Plan. The Board have already begun the review of the freight business.

British Railways Board

Corporate Plan 1984

1984 CORPORATE PLAN

CONTENTS

		Page No.
Foreword	by R. B. REID, CBE, Chairman, British Railways Board.	2
Chapter 1	Introduction	4
Chapter 2	Key Issues	6
Chapter 3	The Rail Business	13
	InterCity	14
	London and South East	16
	Provincial Services	18
	Freight	20
	Parcels	21
Chapter 4	Other Businesses	23

The production of the Board's Corporate Plan is a process which is updated each year, to provide a framework for the direction and control of the Board's railway and other businesses in the five years that lie immediately ahead. In the case of a nationalised industry like the railways, it also gives the Secretary of State information about the future plans of the industry, so that policy issues can be discussed in good time for decisions to be made. The 1984 Corporate Plan differs from those of previous years in that its forecasts are now based not on the calendar year, which formed the basis of the Board's accounting arrangements until 1983, but on the fiscal year. Its forecasts therefore cover the years 1985/86 to 1989/90.

NOTE: all figures quoted in this booklet are given in average 1984/85 prices, unless otherwise stated.

British Railways Board

October 1984

FOREWORD

British Rail's 1984 Corporate Plan provides an essential framework within which the performance of our various businesses can be seen in the perspective of the longer term future of the industry.

It presents a picture of that future which identifies both problems and opportunities: problems of managing change with due regard to the effect on those working in the industry; opportunities, through investment, to open up new markets and new job prospects from increased competitiveness and service to the customer.

It predicts that the railway can be in much better shape at the end of the decade and ready to go on with the major task of earning the money to invest in the continued replacement of assets.

A key point to be made about any Corporate Plan for any major industry is that producing the Plan itself does not guarantee that the results will emerge as forecast. Its value lies in the signposts it offers on a general path that needs to be followed. It only has merit if it can be adapted to meet changed conditions, and still take the industry towards meeting its objectives.

Success depends, in the end, on a lot of hard work by a lot of people, to ensure that action plans are carried through on time and on budget.

The Plan is revised every year to take account of actual results, and the most up to date view of the economy.

The 1984 Corporate Plan indicates a course for the railway and its subsidiary businesses to take over the next five years to make major progress towards BR's financial and quality of service objectives.

When I became Chairman of British Rail in September 1983, the Secretary of State for Transport, for the first time, gave the Board a clear set of objectives. The1984 Corporate Plan indicates significant progress towards meeting those objectives:

- the forecast reduction in the requirement for financial support of the pasenger railway will reduce the call on the taxpayer by about 25%, and is expected to be within about £9m. of the target set by Government.
- The InterCity Sector expects to be in profit from 1988/89, but with further improvement needed to achieve its £34m. profit target.
- the Freight Sector will need to take vigorous action to recover from the disastrous effects of the NUM strike, but is forecast to reach its profit target of £36m. by 1988/89. It is, however, very difficult to see the future clearly whilst the strike is unresolved and customer reaction not yet defined.
- the Parcels Sector is expected to continue in profit.

The Plan also shows the Board's subsidiary businesses making considerable progress – for example, British Rail Engineering Ltd. in responding to workload changes and the development of an arms-length relationship with the railway businesses: Freightliners Ltd. in implementing new strategies to promote growth markets.

During 1984, the emerging forecasts of the 1984 Plan have been discussed with the railway trade unions at a series of meetings. Last month, following more discussions about the future of the industry, it became clear that more time needs to be given to explain and bring out the positive aspects of the Plan in terms of investment in new equipment, service improvements, and increased competitiveness, rather than the negative aspects of manpower reductions on which so much attention tends to focus. I welcome this closer involvement by the trade unions and hope that it will lead to a greater understanding of the progress we are making in securing job opportunities and a long term future for the railway industry.

Four key messages about the prospects for railways emerge from the 1984 Corporate Plan. Provided we continue to carry out the action plans we have set ourselves:

- we will continue to receive Government support at a level which enables us to plan an expanding business on a network only slightly smaller than the present one.
- we will continue to make sensible economies in the size of our workforce and tackle the recruitment of some 25,000 people to replace those retiring or moving to other jobs.
- we will continue to earn the money to invest some £2.2 billion in modernising the system over the next five years.
- we will continue with our drive to improve service to the customer by better deployment of staff, by better information services, better training for staff dealing with customer needs, and by achieving the defined standards of quality of service.

Above all, we will retain the confidence of the customer and the taxpaper, and this secures our future.

R. B. REID
Chairman

October 1984.

CHAPTER 1

Introduction

Purpose of the Plan

1.1 This Plan updates the Plan produced in August 1983 and incorporates the principal developments which have occured since that date, both in terms of reactions to the 1983 Plan by Government and in refinements to methodology.

For the first time, the Plan is produced in fiscal years, corresponding with the recent change in the Board's accounting years. Its forecasts cover the years 1985/86 to 1989/90 with 1984/85 as the base year.

Board Objectives

1.2 The 1983 Plan was the first to be produced under the new planning process, with full commitment to action plans by those responsible for their achievement. This produced a significantly enhanced credibility for the Plan, not only at all levels within the business, but also within Government. This credibility gave rise to an improved dialogue with the Department of Transport on strategic issues and provided the basis for the challenging target set by the Secretary of State of reducing by 25% the call on the taxpayer for the Public Service Obligation (PSO) grant by 1986.

1.3 A clear indication that the government accepted the general strategy outlined in the 1983 Plan was the production by the Secretary of State in October 1983 of objectives which he wished the Board to pursue and reflect in the 1984 Plan. These included the requirement to bring forward to 1986 the timescale for the reduction in the PSO grant to £635m. (1983 prices) and a re-statement of a financial target for the Freight business dated 1988.The Government also asked the Board to come forward with proposals for more private sector finance and participation in the development of stations and railway services, and to continue to pursue a vigorous policy of property development and disposal. In August, the Secretary of State, stated the InterCity objective which should be achieved in 1988/89 and that, from that year, the InterCity Sector should not consume any part of the annual PSO grant. Quality of service objectives have also been confirmed and these form an integral part of the Board's Plans.

1.4 The 1984 Plan records significant progress towards achievement of the Secretary of State's objectives and, where detailed action plans have already been produced, incorporates the results in the forecasts.

Internal Targets

1.5 The Plan also reflects a number of internal targets for all businesses and sectors, either where no external target exists at present, or to supplement financial objectives with service quality targets.

Key Assumptions

1.6 At the outset of the Plan, certain major planning assumptions were made, in particular that there would be a continuation of present Government transport policies and little change to the size of the network. The Plan period would contain the major part of the asset sales programme, with further steps towards the involvement of the private sector in support activities.

1.7 Electrification of the East Coast Main Line to Edinburgh, authorised by the Secretary of State on 27 July 1984, was assumed to start during the Plan period, in addition to the electrification projects included in the 1983 Plan. The Liverpool Street/Broad Street development was assumed to begin in 1985 with completion by 1992. Neither the Channel Tunnel nor the Third London Airport Link was assumed to occur during the Plan period.

1.8 The general economic assumptions underlying the Plan forecasts were that the slow growth in the UK economy would continue, with GDP rising by a maximum 1.5% per annum during the Plan period with industrial production broadly in line and consumer spending increasing at a slightly greater rate for the last three years.

The Way Forward to the 1990's

1.9 The Plan incorporates further improvements in forecast results compared with the 1983 Plan and most of the Rail sectors achieve their financial targets by the end of the Plan period, with each Sector Director actively developing measures to ensure achievement of these targets, within the required timescale.

1.10 The subsidiary businesses too, demonstrate considerable progress in preparing themselves for the future. The major rationalisation of British Rail Engineering Ltd. workshops, to meet future workload and more commercial relationships with the Rail business, is set out in the Plan. Similarly, Freightliners indicate the progress that has been made so far on implementation of new strategies for the business.

1.11 Overall, the various businesses of the Board will be in a much better shape by the end of the Plan period in terms of manpower and other resources to meet effectively the challenge of the 1990's, when the Board must prepare for a major programme of asset replacement, in particular, of Diesel Locomotives and Electric Multiple Units.

1.12 The 1984 Corporate Plan continues the commitment by BR management, expressed in the last Plan, that it can achieve the planned improvements.

CHAPTER 2

Key Issues

2.1 In terms of performance, the Board's achievements and plans can be examined by reference to eight key issues: –

(1) Public Service Obligation (PSO).
(2) External Financing Requirement (EFR).
(3) Customer Care.
(4) Electrification and InterCity/Freight profitability.
(5) Investment trends and forecasts.
(6) Manpower trends and forecasts.
(7) Productivity and Performance.
(8) B.R.E.L. capacity reductions.

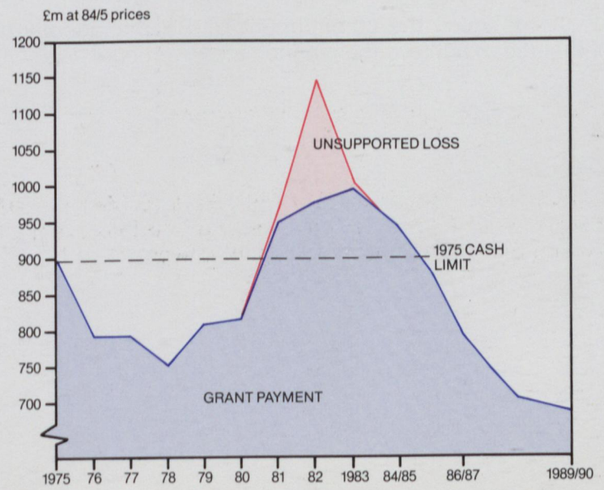
2.2 Before consideration of these issues, mention must be made of the 'transitional' costs which are incurred to enable the Board to restructure its businesses to meet changes in customer demand and to improve productivity. These outlays are at the heart of the continuing improvements in the 'bottom lines' contained in the Plan. Since the PSO target was set, additional worthwhile transitional costs have been identified and discussions are proceeding with Government on the appropriate means of funding these costs. These amounts have therefore been omitted in making comparisons in the Plan between the forecast results and the targets, whether externally or internally set.

PSO

2.3 The total passenger grant comprises the central government PSO payment and grants from PTEs. Figure 1 indicates the level of past passenger grant payments and planned requirements measured against the original cash limit which was based on the 1975 results.

FIG. 1

FALL IN PASSENGER GRANTS (INCLUDING PTE's)

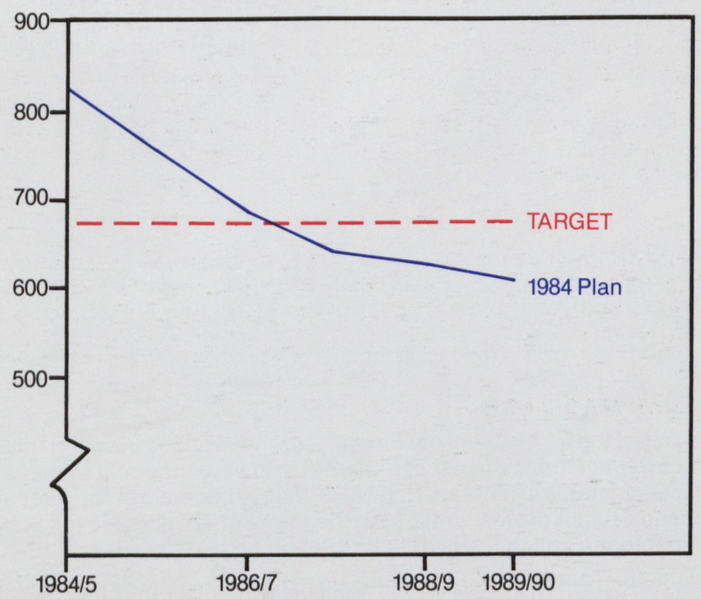


2.4 In the early years, the grant payments were well below the 1975 based targets. However, it was not possible to offset this against the later losses, caused by the economic situation and coach competition. The 1982 'unsupported loss' was brought about by the ASLEF dispute and has been borne by the Board.

2.5 Figure 2 shows the forecast requirement for the central government PSO set against the Secretary of State's objective to the Board to bring forward by two years to 1986, the reduced level of payment forecast in the 1983 Plan for 1988. This requirement was based upon the acknowledged fact that the 1983 Corporate Plan did not contain some £70m. of cost saving initiatives that were in the pipeline because they had not been developed to the required degree of 'action plan' readiness.

FIG. 2

FALL IN PSO REQUIREMENTS



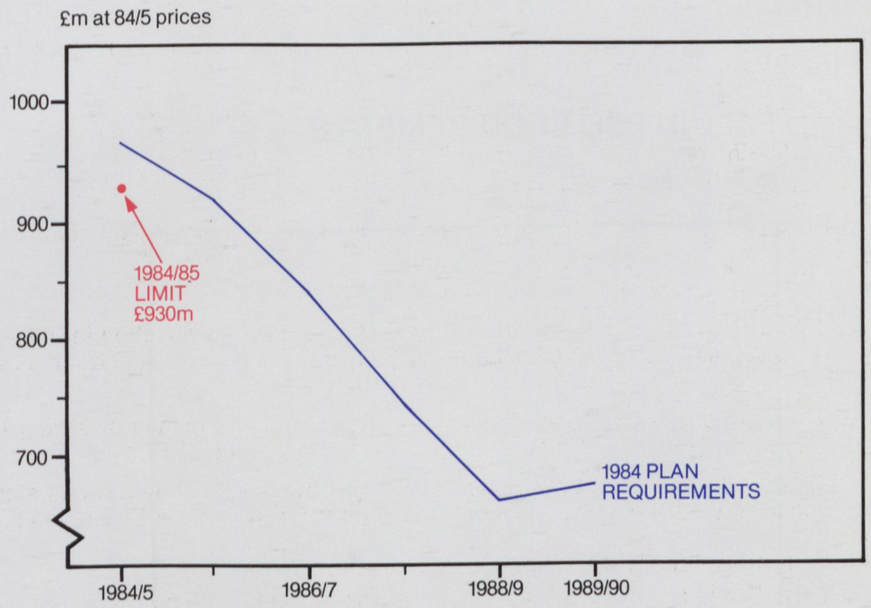
2.6 At 1984/85 price levels, the PSO objective for 1986/87 is £677m. (£635m. in 1983 prices) and the PSO forecast is now within £9m. of that objective. This improvement is mainly the result of including these further cost saving initiatives.

External Financing

2.7 The External Financing Limit (EFL), which is set by Government as part of the overall Public Sector Borrowing Requirement, has not been advised beyond 1984/85. Figure 3 shows the reducing External Financing Requirement (EFR) for the corporate business over the Plan period, and the comparison with the 1984/85 EFL.

FIG. 3

EXTERNAL FINANCE



2.8 As a direct result of the NUM strike, the Freight loss in 1984/85 causes the Board requirement for External Finance to exceed the EFL. However, the requirement is forecast to drop considerably in all years to 1988/89, mainly because of the forecast PSO reductions and Freight profits. In 1989/90, the effect of an increase in capital investment is expected to cause the EFR to rise slightly.

2.9 The External Financing Requirement is forecast to be met mainly by grants, with the balance, if any, representing the Board's Borrowing Requirement: this amounts to some £30m. in 1985/86 and 1986/87, but is forecast to be eliminated thereafter.

Customer Care

2.10 A review carried out recently has established the need for better co-ordination of passenger marketing activities for a sharper focus on the needs of customers. The intention is to ensure that maximum opportunity is taken to relate the products offered to the market needs.

2.11 Preparation of a full Passenger Marketing Plan is in progress and, in future years, it will provide an input to the Sector Plans. For 1984/85, the key action points are: –

(a) A Customer First programme to carry forward initiatives started in 1983 in profitably meeting customer needs by: –

- adopting of best practice in customer service more widely through the system.
- deploying manpower resources to best customer advantage.
- improving internal communications of customer needs.
- developing the customer care staff training programme.
- reviewing and enhancing information provided for customers before and during travel.
- achieving defined standards of quality of service.

(b) Preparation of a new and simpler fares structure for introduction in 1985 to embrace all Sectors, highlighting to customers cheap travel opportunities at other than peak times.

(c) A review of the present cost and effectiveness of the means of selling to customers through salesmen, stations, BR travel centres and Travel Agents.

(d) Development of new standard ticket-issuing machines for stations and trains, reducing time spent on accountancy and increasing customer contact time.

Electrification & InterCity/Freight Profitability

2.12 The Board decided from the outset of the current planning cycle that the electrification of the East Coast Main Line would be included, because it was considered that satisfactory performance in the InterCity and Freight Sectors could be demonstrated, together with achievement of further improvements in the PSO in the early years of the Plan.

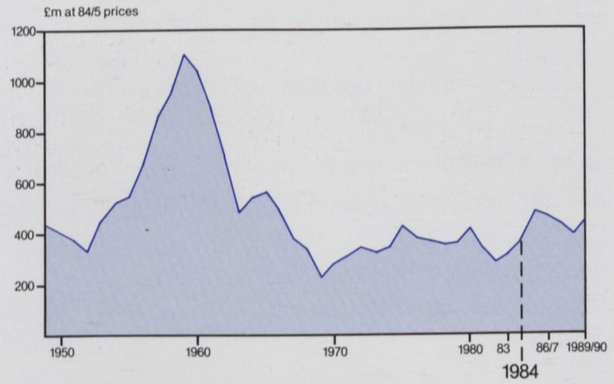
2.13 This has been justified by the recent decision of the Secretary of State to authorise the project. The 1984 Corporate Plan, therefore, provides for work on the East Coast Main Line to begin in 1984, with the first electric services on the route being introduced in 1988. The completion of the Anglia schemes, a number of small extensions and linking projects, together with some third rail extensions on the Southern Region, are also included in the Plan.

Investment Trends & Forecasts

2.14 Figure 4 indicates the present and forecast levels of investment. In the late 1950's a massive programme of investment in infrastructure and rolling stock was initiated over a period of a very few years. Replacement of these assets will take place over a longer period in the late 1980's and 1990's and, because of the technological and productivity improvements, will be at a lower overall level. Renewal of the DMU fleet, which has recently begun, will continue over the next few years, and that of InterCity vehicles is planned to start in the later years of the Plan period, followed by major renewals of the locomotive fleet in the 1990's.

FIG. 4

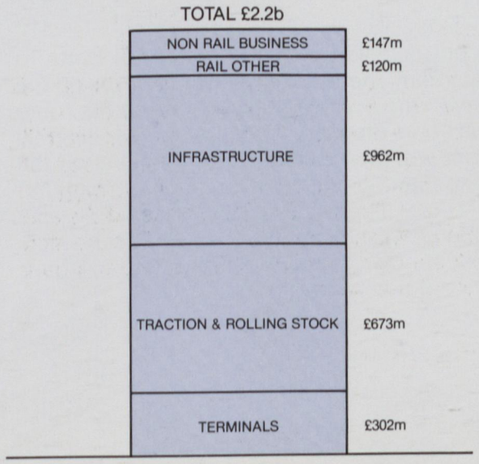
INVESTMENT 1950 – 1989/90
(CORPORATE)



2.15 Investment spending by category is shown in Figure 5 and totals approximately £2.2 billion in the Plan period, representing what the Board considers to be the appropriate level of investment consistent with the achievement of its objectives, stategies and Plan forecasts. Major spending will be concentrated on renewing traction and rolling stock (£673m.) of which £527m. is for the Passenger Sectors, Infrastructure (£962m.) and renewal of Terminal and Depot facilities (£302m.). Included in these figures is a significant level of investment in Electrification (£243m.).

FIG. 5

CORPORATE INVESTMENT 1985/6 – 1989/90



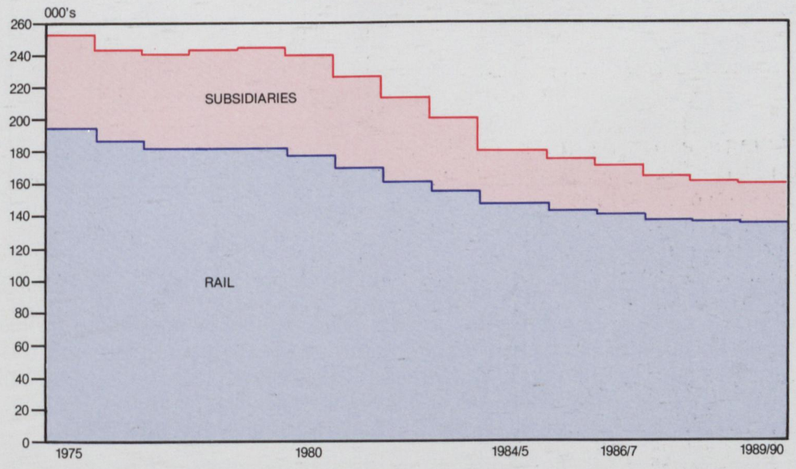
2.16 In the early 1980's shortage of finance caused the Board to restrict investment levels somewhat, but this Plan indicates higher levels of investment over the next few years, peaking in 1985/86 at £480m. and returning to an average of about £430m. per annum for the remaining four years. This level of investment is expected, over the period of the Plan, to be funded out of the Board's internal resources without recourse to borrowing. However, accomplishment of the planned levels of spending will require a sustained effort by all concerned, not only on the physical work, but also in terms of ensuring that the major individual projects pass smoothly through the Board's investment procedures for final authorisation, in the more significant cases, by the Secretary of State.

Manpower Trends & Forecasts

2.17 Figure 6 illustrates substantial reductions in Manpower already achieved by the Board's businesses since 1975 and shows the continuation of that trend, albeit at a slower rate of change, over the years of this Plan. The reductions shown in the figures include the staff transferred with the sale of BT Hotels (about 4000 between 1981 and 1984) and Sealink (about 9000 in 1984/85). The target, set by the Secretary of State in 1981, of a reduction in Railway staff of 38,000 posts by the end of 1985, is forecast to be achieved before the end of 1984/85.

FIG. 6

MANPOWER (PAYROLL)



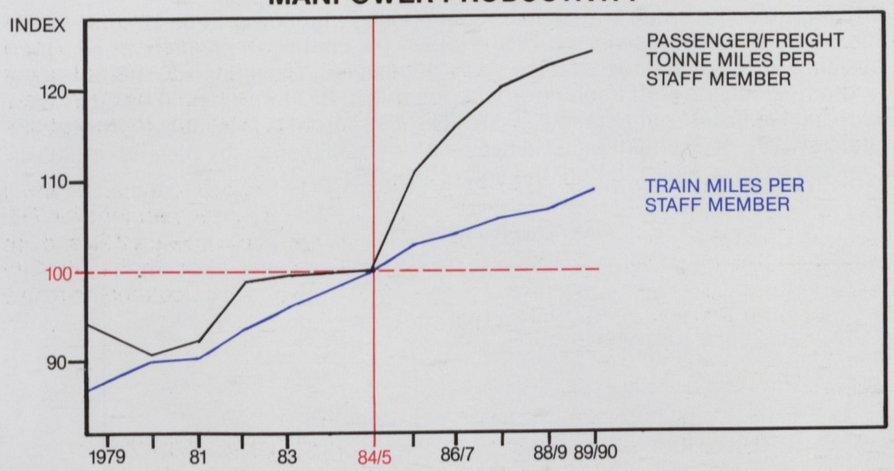
2.18 Most of the reduction in manpower in the current year is in Railway salaried staff following the successful implementation of the Administration & Organisation initiative. In the Plan period, there are significant savings forecast in the Railway Operations function and in BREL. However, the future trend of reductions is much less than that experienced in the past, even after allowing for the previous corporate reductions as a result of disposal of subsidiaries. At the end of the Plan period, the total Railway workforce will be about 137,000, and as the high level of natural wastage exceeds the reductions referred to above, there will be a need to recruit some 25,000 staff throughout the period.

Productivity & Performance

2.19 Railway passenger miles and freight net tonne miles are forecast to increase by 10% over the Plan period and an 11% reduction in average rail staff numbers is also forecast. The resultant improvement in staff productivity is shown in Figure 7 which demonstrates a 25% increase in passenger/freight tonne miles, and a 9% improvement in train miles per employee. It will be seen that the Plan forecasts follow a similar trend to recent years.

FIG. 7

MANPOWER PRODUCTIVITY



BREL Capacity Reductions

2.20 The plan for BREL continues to provide for the bulk of the rolling stock maintenance and new construction requirements of BR in accordance with the needs of the Rail business. However, the forecasts of workload to be undertaken on behalf of BR reflect the expected overall decline in fleet sizes and judgments about the size of the role that the private sector will play in competition with BREL.

2.21 The Plan provides for the continuation of rationalisation of capacity, with further reductions in manpower. Substantial transitional costs will arise as a result of these rationalisation measures. Major benefits are forecast in terms of reduced overheads and improved productivity, resulting in lower unit costs and greater competitiveness.

2.22 The Plan also reflects the steps being taken towards making BREL a more accountable and free standing Company. These include the introduction of 'arms length' relationships between BREL and BR in the areas of design, materials and parts procurement and also repair contracts.

CHAPTER 3

The Rail Business

3.1 Sector management continues to develop its customer and business orientated role in the management of the Railways, being supported by Regions and Functions, spanning both planning and current operations. The aim is to obtain value for money for customers and the nation as a whole by ensuring that financial and service quality objectives are paramount and achieved in terms of efficiency and effectiveness.

3.2. The Directors of the three Passenger Sectors face a special problem in this regard since grants are made by central Government and Passenger Transport Executives for benefits which the rail services bring to those who are not direct customers. The value for money of such benefits can only be judged by the elected bodies themselves while British Rail ensures the costs are kept to acceptable levels.

3.3 The forecasts of Passenger Grant are given in Table 1, showing the substantial reduction planned. These forecasts, which include the grant requirement for PTE services, are before deducting the transitional costs referred to in para 2.2., and are calculated on the present method of infrastructure cost allocation. In the InterCity section (para 3.6 *et seq.*), the comparisons with objectives are calculated on a new method of infrastructure cost allocation.

Table 1

SECTOR FORECASTS OF PASSENGER GRANT INCLUDING PTE PAYMENTS AND TRANSITIONAL COSTS (using current infrastructure allocation conventions)

£m @ 84/85 prices	1983	84/85	85/86	86/87	87/88	88/89	89/90
InterCity	184	188	166	133	111	95	90
L&SE	293	255	244	210	194	171	166
Provincial	528	492	465	450	442	436	434
Total	1005	935	875	793	747	702	690

3.4 The Secretary of State has accepted the Board's claim for the central Government grant for 1984 at £837m, subject to adjustment for certain factors to be settled with the Board. The claim is £25m. less than the cash limit for 1984 set last December, and £18m. less than the Board's final claim for 1983. The PTE grant for 1984 is estimated at £82m.

3.5 The Secretary of State set a number of objectives for the Board last October, the principal one of which was to reduce the central Government grant requirement to £635m. (in 1983 prices) in 1986. In order to compare the forecasts with this objective, estimates of the PTE grants (which are not cash limited) need to be deducted. It is assumed that the objective can be increased by 6.6% to £677m. for 1984/85 prices and taken to apply to 1986/87 now that the change has been made to fiscal-year accounting. Allowance should also be made for the additional 'transitional' costs. After taking account of all these adjustments, there is a forecast shortfall of only £9m. on the objective in 1986/87, followed by improvements over the target in subsequent years.

INTERCITY SECTOR

3.6 The commercial objective of the InterCity Sector, set by Government, is to earn a 5% return on its assets on a current cost accounting basis by 1988/89. At 1984/85 prices this means earnings a profit of £34m. The Secretary of State also requires that this Sector should not consume any part of the PSO grant from that year. The Sector has quality of service objectives for punctuality (85% of trains to arrive within 5 minutes of right time) and carriage cleaning (40% improvement in vehicles satisfactorily cleaned) and very low tolerances for cancellations, inadequately or wrongly formed trains and failure to provide correct catering facilities.

Strategy

3.7 InterCity has just completed a major review of its Strategy, looking at every aspect of its markets and its cost structure. The strategy input into this Plan draws on the results of this work, which will be published by the end of the year. Service restructuring is planned for each of the five Service Groups – the West Coast, East Coast, Midland and Western Main Lines and NE – SW. It starts with WCML in May 1985 and culminates in the electrification of the ECML as far as Leeds in 1989 (and Edinburgh by 1991). However, the whole basis of the changes is to match supply better to changing demand patterns and passenger volume is forecast to increase by 9% to over 8600m. passenger miles. Receipts per loaded train mile and loadings are both forecast to increase by 16%. Restructuring will involve reductions in loaded train miles, by 7% from 48.4m. to 45.1m, and vehicle numbers – a further 10% following the 26% reduction already achieved in 1982 and 1983.

3.8 The major policy developments which are designed to achieve these results are investment, pricing and customer care. New traction and rolling stock will be introduced on the WCML from 1986/87 and top speeds will be progressively increased from 110mph on selected trains to 125mph by the end of the decade. The East Coast route will be electrified, and will also benefit from new traction units and new coaches. The Midland and West of England routes will continue to exploit the potential of 125mph running with increased HST formation lengths.

3.9 Although there is no scope for across-the-board real price increases in the Sector, the major restructuring and simplification of fares to be introduced in 1985 will bring in more receipts by letter segmentation of the market between business and leisure sectors with a mixture of higher peak and lower off-peak prices. Customers will also benefit from increased investment in terminals, especially car park provision, Train Enquiry Bureaux and computer seat reservation systems and from improved stopping patterns for stations on the edge of the major conurbations. An extensive programme of refurbishment of Mark IIf and Mark III coaches will start this year and will include a new InterCity livery. On-train customer service will be improved by the Trainphone project and a new catering strategy based on modular vehicle systems and shore based food preparation.

Plan Forecasts

3.10 The forecast results for the Sector, including the costs of transition, show a substantial improvement during the Plan period with the loss falling from £188m. this year to £90m. in 1989/90. Total receipts are forecast to rise by £48m. and this combines with a £43m. reduction in working expenses and a £7m. fall in interest charges. The working expenses reductions are chiefly in the operating and maintenance functions (where unit costs fall by10%) and in civil engineering costs. Although this demonstrates major progress towards profitability, it is not sufficient to reach the Sector objective laid down by Government. After making allowance for the accountancy changes necessary to put the forecast results on the same basis as the objective, a loss of £69m. in 1989/90 is forecast.

3.11 However, not all aspects of the InterCity Strategy review are included in the present Plan, and further developments will be reflected in the 1985 Plan, notably changes to the treatment of infrastructure costs.

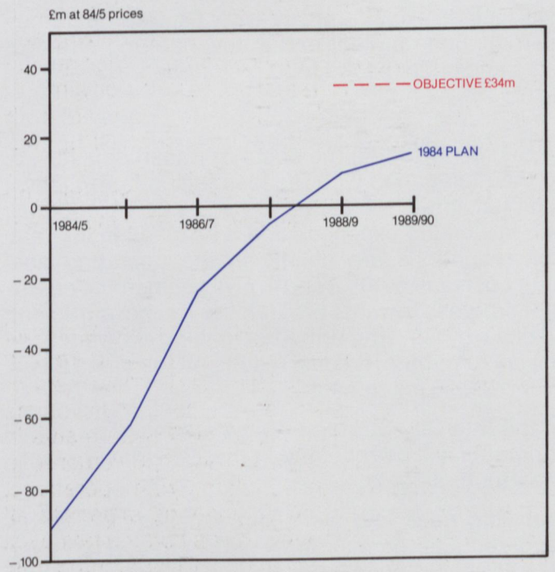
3.12 The present method of analysing track and signalling expenses takes the costs of the *existing* Railway and deducts the marginal costs of secondary user Sectors to obtain those attributable to the prime user Sector. The new method assesses the costs of track and signalling which would be required for the prime user Sector *if the Railway was being built now,* using the most appropriate forms of modern equipment to meet present day demands. The marginal cost of secondary user Sectors is then assessed, again assuming modern equipment to meet current demands. Any surplus of the cost of the existing Railway over the 'ideal' track and signalling is added back to the Sectors which have historically incurred them.

3.13 On this basis, the InterCity Sector would, by 1988/89, fall short of the profit objective of £34m set for it by the Government by some £25m.

3.14 The 1985 Plan will address the problem of how this remaining gap is to be closed and the Board remains determined and confident that the objectives will be achieved. The changes in infrastructure charges will impact on the other Sectors, and their objectives will need to be reviewed at the same time. The forecast of InterCity profits on this basis is shown in Figure 8.

FIG. 8

INTERCITY PROFIT/LOSS



LONDON & SOUTH EAST SECTOR

3.15 The London & South East Sector has been set the financial objective by the Board of reducing its grant requirement to £213m. (at 1984/85 prices) by 1986/87, as part of the overall PSO objective for that year. The Sector has agreed with the Department of Transport and the Central Transport Consultative Committee a series of quality of service objectives. Average level of cancellations should not exceed 1.5%; at least 87.5% of trains should arrive within 5 minutes of right time; load factors should not exceed 135% for sliding door and 110% for slam door stock with no passenger having to stand for more than twenty minutes. Additionally, it has laid down standards for carriage cleaning and response time at Train Enquiry Bureaux and required that staff levels should be sufficient to achieve them.

Strategy

3.16 The Sector aims to improve the service offered to the customer at costs which achieve its financial objective. This will be done by optimising use of existing resources; trimming back lightly loaded train mileage where it has least effect on passengers and redeploying the rolling stock saved on to newly electrified lines. Train mileage declines from 82.3m. to 78.9m. (4%) over the Plan period. The electrified area is being expanded, through investment of £50m, to include the East Anglian lines to Cambridge and Norwich, the Tonbridge – Hastings, Bedford – Kettering – Corby, Romford – Upminster and Bournemouth – Weymouth lines, the East Grinstead and Southminster branches, as well as the Hitchin – Peterborough section of the ECML. Improvements in rolling stock are planned for the Euston services and the Bournemouth/Weymouth services by 1987/88. The number of EMUs needed should fall by over 100 with a further 500 vehicles withdrawn from the DMU and loco-hauled fleets.

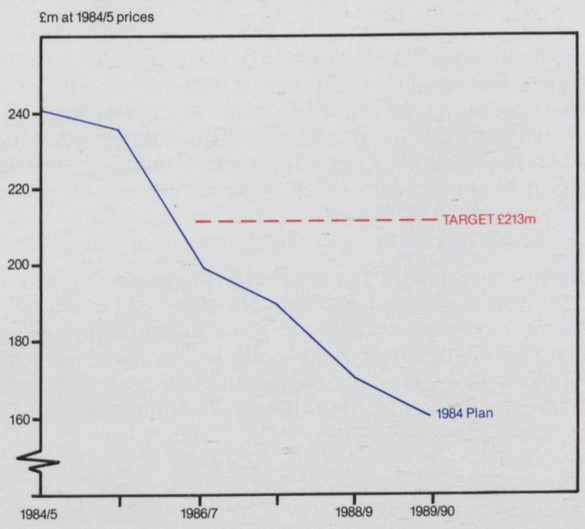
3.17 A major marketing development in the Sector has been the successful launch of the Gatwick Express service in May 1984. The Sector aims to exploit other traffic growth points and the travel possibilities provided by a network of regular interval services. The implementation of Open Stations and Customer First initiatives and the investment of over £13m. p.a. in terminals will also provide better service quality for the customer. Together with London Regional Transport, the Sector aims to provide a high standard of service for the Capital, giving value for money to both passenger and taxpayer. The overall effect of all of these changes will be that passenger volume is forecast to increase slightly to more than 8600m. passenger miles. Receipts per passenger mile are expected to go up by 4% and, together with the volume increases and the train miles reductions, lead to a 7% increase in train loadings and a 11% increase in receipts per train mile.

Plan forecasts

3.18 The results forecast for the Sector show that the target set by the Board should be met in 1986/87 and that the Sector's grant requirement, shown in Figure 9, is expected to continue to decline in the later Plan years. The total improvement of some £81m. is almost equally attributable to increased receipts, mainly in volume improvements, with modest real pricing in the early years, and to betterments in working expenses, interest charges and ancillary income. The improvements in working expenses are spread across all of the major functions with operations, maintenance (unit costs down 8%) and infrastructure engineering expenses all declining to a marked extent. In terms of value for money, the call on the taxpayer, when measured in terms of grant per passenger mile, is forecast to fall significantly over the Plan period.

FIG. 9

L & S E GRANT REQUIREMENT



3.19 In summary, the L&SE Sector has plans to meet its financial target by 1986/87 whilst operating its services to the required quality of service standards and with levels of output and demand only marginally different from now.

PROVINCIAL SECTOR

3.20 The Board has set the Provincial Sector the objective of reducing its grant requirement to £426m. (at 1984/85 prices) by 1986/87, as its part of the overall PSO objective in that year. Because of the nature of the Sector, quality objectives are being developed on a local area basis, for inclusion in the 1985 Plan.

Strategy

3.21 The Sector's strategy is based on the premise that its heterogeneous set of services can be best run locally with decision-making largely devolved to identified managers who will produce and implement plans meeting financial and physical targets agreed with the Sector Director.

3.22 With working expenses roughly four times as large as receipts, the Sector must look to cost reduction measures as a means of meeting its financial target. Train working costs, both operating and maintenance, will be directly affected by the Sector's fleet renewal policy. Over 75% of the Sector's investment of £480m. in the Plan is in new DMUs which will totally replace the existing fleet and, in the later years, substitute some DMU for loco-hauled vehicles. As a result of forecast improvements in utilisation, stemming largely from the significant investment in DMUs, the Sector fleet is forecast to fall by 700 to some 3000 vehicles, of which over half will be new DMUs built since 1983. This should lead to a 33% cut in maintenance costs per loaded train mile. In total, the output of the Sector is expected to reduce by less than 3% to 60.9m. loaded train miles and the greater efficiency of operation and fuel economy of the new vehicles means operating costs per train mile also decline by 4%. Further economies are being sought in infrastructure costs. New radio signalling systems will be installed on branch lines, and the civil engineering function will be making savings in the relaying of lightly used track and responding to the impact of low axle weight DMUs on maintenance patterns.

3.23 Whilst most of the drive of sector policy is directed at cost reductions, every opportunity will be taken to exploit changes in the market and to initiate policies to combat increasingly severe competition in order to secure revenue gains. The introduction of a new fleet, often liveried in local colours, will itself be a marketable item and can be used by local managers to best advantage in tailoring services more closely to local needs with appropriate fares and promotional activities. Overall, demand is expected to increase by some 7%, to 3200m. passenger miles, and average loadings by 11%. Very little change is expected in the real level of fares.

3.24 The Provincial Sector network in this Plan remains much the same as it is now, although some services, most notably Settle – Carlisle, are already in the closure machinery.However, this Plan contains no allowance for bus substitution of rail services as none of the schemes with *prima facie* potential for improving the Sector's results are sufficiently developed for inclusion in the Plan. Legislation for this purpose will be required and the Secretary of State has announced that he will be bringing forward the necessary measures.

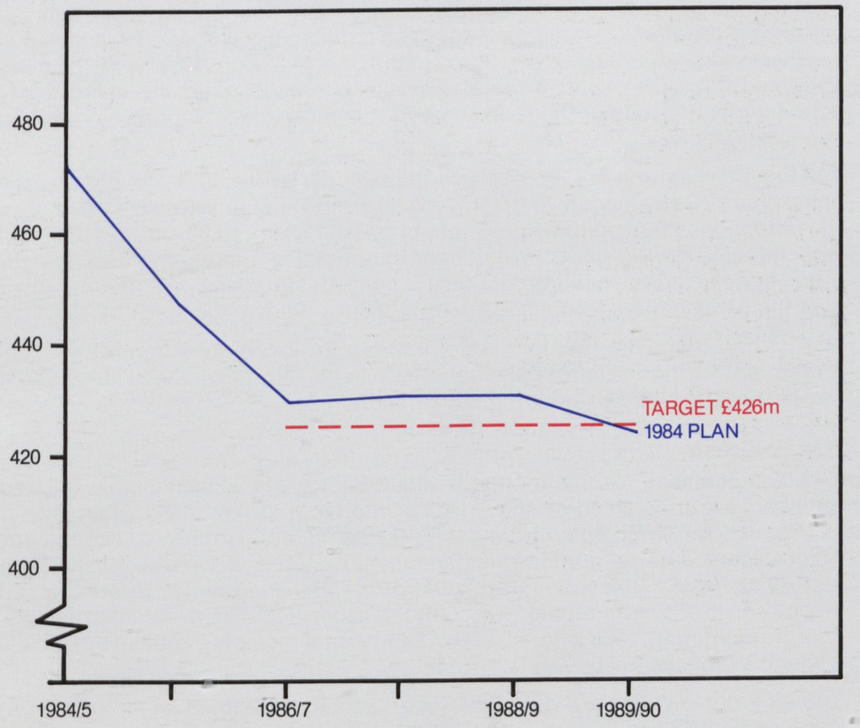
Plan Forecasts

3.25 The Sector forecasts show that total receipts, including ancillaries, should rise by £13m. and working expenses fall by £61m. The bulk of this is in the operating and maintenance functions with further worthwhile reductions in civil engineering expenditure. However, depreciation and interest charges increase by £29m. as a result of the new investment. In spite of this, the Sector is expected to achieve the Board's target by 1989/90, as shown in Figure 10. A reduction in grant requirement per passenger mile of the order of 18% is forecast in the course of the Plan and the Sector is identifying further areas with potential for cost reduction with the functions and regional management, with a view to developing initiatives for improving the forecasts further.

FIG. 10

PROVINCIAL GRANT REQUIREMENT

£m at 84/5 prices



FREIGHT SECTOR

3.26 The Freight Sector's financial objective, set by Government, is to achieve a 5% return in 1988/89 on its assets on a current cost accounting basis, equivalent to earning a profit of £36m. (at 1984/85 prices).

3.27 The Sector Director has specified quality of service objectives after examining the trade-off between costs of achieving them and the risk to receipts if they are not achieved. During the course of the Plan, the percentage of services run is planned to increase from 95% to 98% and punctuality (arrivals within 30 minutes of right time) from 82% to 92%, with improvements also to the percentage of arrivals within 60 minutes. Availability objectives require the present targets (Diesel main line locomotives 75%, air braked wagons 91%) to be maintained throughout.

Strategy

3.28 The start of this plan coincides with the final withdrawal of the Freight Sector from the national non-airbraked wagonload network. From now on, the Sector strategy will revolve round the maximum worthwhile development of Trainload and Speedlink products combined with cost reductions in every aspect of working expenses.

3.29 On the cost side, the Sector forecasts savings from ending the old wagonload system, improvement of diagramming and rostering productivity and the introduction nationwide of Automatic Vehicle Identification. Improved utilisation will enable the BR owned wagon fleet to be reduced by over 11,000 vehicles during the Plan and by 1989/90 over two thirds of the fleet of 32,000 wagons will be modern airbraked stock.The private owners' fleet is also forecast to decline in numbers but not capacity because of the replacement of smaller, older wagons by new higher capacity vehicles.

3.30 Freight volume in 1984/85 is at an artificially low level of 107m. tonnes as a result of the coal industry dispute and from 1985/86 onwards a fairly even profile of roundly 150m. tonnes is forecast, with receipts of about £560m. to £570m. p.a. Compared with 1985/86, 1989/90 shows significant increases in aggregates and Speedlink, offset by some compensating decrease in coal. Freight tonne miles increase by 7% over the same period, from 10,597m. to 11,360m, and average loads by 4%.

3.31 Other than the Sector's contribution to locomotive renewals, capital investment in the Freight business is very small. No new wagon investment is forecast beyond 1986/87 during the Plan period.

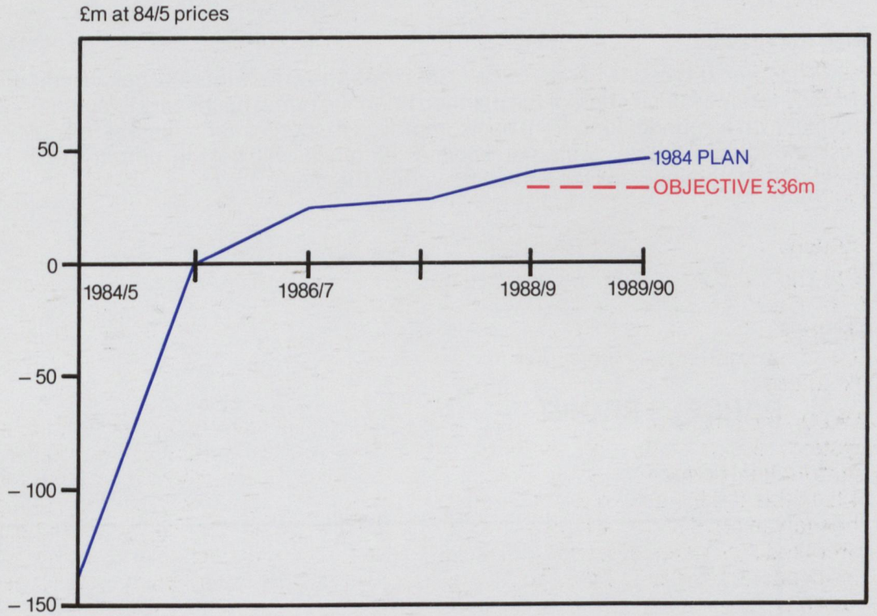
Plan Forecasts

3.32 The forecast results for the Freight Sector are shown below. All years' forecasts are influenced by the effect of the NUM strike on coal carryings, the enormous loss of receipts in the base year being largely the result of the strike. Future years' receipts are heavily dependent on assumptions about the level of restocking which takes place after the strike and the long term effects of the dispute on the overall market for coal and other traffic. The forecast shows an improvement from 1985/86 to 1989/90 of £49m. Total receipts increase by £23m. and working expenses fall by £26m.

3.33 As Figure 11 shows, the Freight Sector should meet its objective of a profit of £36m. in 1988/89 and exceed it in 1989/90.

FIG. 11

FREIGHT PROFIT/LOSS



PARCELS SECTOR

3.34 The Board has set the Parcels Sector the financial target of making a profit, before interest, of £16m. from 1986/87.

3.35 Service quality objectives have been set which relate to the punctuality of passenger train services and the performance of key parcels trains reflecting the essential service requirements of the major customers concerned, the Post Office and the Newspaper Publishers' Association.

Strategy

3.36 The opportunity for market growth in two major sub-sectors of the Parcels business, Post Office traffic and Newspapers, is very limited and the prime objective is to sustain maximum traffic volume levels within economic resource commitment. Quality of service plans and performance will be critical in responding to more exacting demands from customers for service improvements, and changes in technology will influence the forecast decline in volume by 1989/90.

3.37 Market growth potential to offset longer term adverse trends in Post Office and Newspapers lies primarily in the premium and non-premium parcels sub-sectors where more favourable economic trends are anticipated. Competition for market share, however, is intensive and significant improvements in marketing and product quality, together with the new pricing strategy introduced early this year, will be necessary to achieve the planned revenue gains.

3.38 Investment will be stepped up to accelerate modernisation of terminal facilities to improve customer service and further investment in the parcels vehicle fleet, involving re-bogieing and completion of conversion to air-braking, is expected to improve reliability and increase potential for 100mph running.

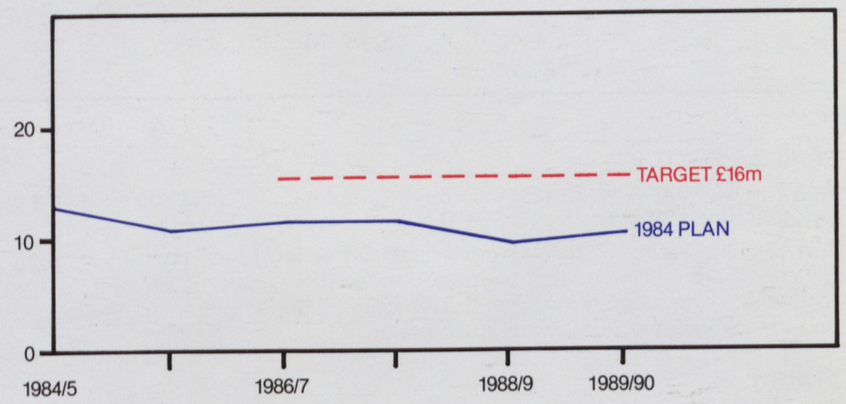
Plan Forecasts

3.39 The forecast results of the Parcels Sector as shown in Figure 12 below indicate overall margins falling short of the planned financial target necessary to sustain the business on a sounder long-term base. Improved resource management to achieve cost reductions within customer service tolerance will be the primary task in meeting the challenge of the forecasts within the plan.

FIG. 12

PARCELS PROFIT

£m at 1984/5 prices



3.40 Parcels train mileage is forecast to reduce by 2.6% over the Plan years but operations expenditure falls by only 1% over the same period with a consequent increase in operations unit costs of 1.5%. Maintenance costs are expected to rise in 1985/86 reflecting the increased modification expenditure on rolling stock referred to above. The overall trend of unit costs on maintenance expenditure, however, should reduce by 6% by the end of the Plan.

CHAPTER 4

Other Businesses

Introduction

4.1 The Board continues to use the planning process as a means of monitoring the performance of its ancillary businesses and guiding their overall direction. Each Other Business/Division has contributed to this Plan, addressing the business and financial objectives set to it at the beginning of the planning cycle. These include the specific requirements stipulated by the Secretary of State last October in respect of BREL, Travellers Fare and BR Property Board.

4.2 With the completion of the current programme of privatisation following the sale of B.T. Hotels Ltd. and Sealink UK Ltd., no separate contribution has been made by British Rail Investments Ltd. (BRIL). Instead, continuing sales of property are identified separately in the Property Board forecasts.

Summary of Results

4.3 The net profit forecasts for each trading Company/Division (except BREL for commercial reasons) are shown in Table 2.

Table 2

OTHER BUSINESSES – PROFIT/(LOSS)

£m @ 84/85 prices	1983	84/85	85/86	86/87	87/88	88/89	89/90
Freightliners	1	1	3	4	4	4	5
Non-Op. Property							
BRIL	16	8	5	4	4	4	3
BR Residual	(1)	(1)	(1)	(1)	(1)	–	–
Transmark	–	–	–	–	1	1	1

4.4 In addition, Tabie 3 shows the forecasts for Travellers Fare, Operational Property and BT Advertising (BTA) which are included directly within the Rail Plan figures, as are the repair charges to Rail from BREL. Research and Development expenditure is allocated to the businesses concerned, mainly Rail.

Table 3

NET RESULTS INCLUDED IN RAIL PLAN – PROFIT/(LOSS)

£m @ 84/85 prices	84/85	85/86	86/87	87/88	88/89	89/90
Travellers Fare						
Station Catering	3	3	3	4	4	5
Train Catering	(6)	(5)	(4)	(4)	(4)	(4)
Op. Property	36	43	48	50	52	55
BTA (Net Surplus to BRB)	5	6	7	8	9	9

British Rail Engineering Ltd.

4.5 The BREL forecasts demonstrate progress towards making the Company a more competitive business capable of exploiting future opportunities. This is reflected in the Plan forecasts which show improvements in productivity, lower unit costs to the Railway, and increases in profitable exports.

4.6 BREL started in 1981 to reshape the business and tailor resources to a realistic assessment of the future workloads; and to set up the necessary engineering company support functions to be able to compete more effectively for world railway rolling stock business.

4.7 The most significant activity of BREL, both in terms of sales and more particularly in terms of manpower, continues to be repairs for BR. This workload is expected to decline by approximately a third over the Plan period. This reflects reductions in fleet sizes and reductions in maintenance requirements resulting from increased investment in new traction and rolling stock (e.g. DMUs) and the impact of competition.

4.8 The Rail Plan contains increases in new construction workload, notably carriage investment, over the Plan period. BREL's expected share of this demand has been assessed with due allowance for the impact of competitive tendering.

4.9 The reduction in the total repair and new construction work forecast to be undertaken by BREL on behalf of BR is expected to be offset to some extent by increased sales to outside customers. A larger share of the world export market is confidently expected to be won based on the increasing success already being achieved by the new commercially orientated BREL organisation and the new range of products – including the Railbus, and the recently launched International Coach and its derivatives.

4.10 Overall, there is a decline in total BREL sales of 13% during the Plan period, from £413m. to £376m. (at 1984/85 prices).

4.11 Considerable progress has already been made towards implementing the Company's restructuring programme including the closure of Works at Temple Mills and Horwich (excluding the foundry) in 1983, and at Shildon in 1984. Further rationalisation of capacity, involving the contraction of sites, is planned, and substantial transitional costs will arise as a result of this restructuring.

4.12 The combined effect of the rationalisation of facilities and manpower reductions will provide a sound and competitive cost structure for the future development and success of the Company. At the same time, further steps will be taken towards making BREL a more accountable and free standing company, at 'arms length' with the Railway. BREL design, materials and parts procurement functions have already been successfully established. The next steps include more autonomous financial management and independent industrial relations machinery.

Travellers Fare

4.13 This is the third Plan produced by Travellers Fare since its inception as a separately accountable Division of the Board. The Division continues to work to its overall objectives of increasing market penetration through enhanced products and customer service as well as improving its financial contribution to the Railway. The financial target set to the business for the 1984 Plan was to achieve a similar level of improvement in results to that which the Board is planning in respect of the PSO Grant. In response to the Secretary of State's remit that more rail and station catering services should be obtained from outside contractors, areas of the business have been identified where greater private sector involvement is envisaged to the mutual benefit of the Board and the customer.

4.14 Travellers Fare's Station Catering Division is contracted by the Passenger Sector Directors to provide catering facilities at 170 stations. The strategy for this sector of the business centres on the introduction of new high profit margin products, investment in new concepts which improve customer impact and judicious attention to cost control and staff performance. The Plan includes a rolling programme of investment in outlets financed by the business totalling some £8.5m. over the life of the Plan. The Division continues to pursue involvement with the private sector where this is expected to improve the net revenue position of the Board and enhance facilities for the customer. A number of the smaller, marginal units continue to be transferred to private sector operators and an element of competitive tendering has been introduced to test the Division's performance against outside competition. Station Catering turnover is forecast to increase from £56m. in 1984/85 to £62m. in 1989/90 with net profits almost doubling from £2.7m. to £5.1m. over the same period (at 1984/85 prices). The Division is, therefore, expected to meet its financial target in 1986/87.

4.15 The Train Catering Division, whilst operating with a totally separate accounting identity, responds directly to the Passenger Sector Directors' service specifications on an agreed contractual basis. The terms of the contracts, however, allow Travellers Fare to benefit from success in reducing controllable contract costs and to be penalised for any increases. Following a major review of Train Catering Strategy in 1983, agreement has been reached with the Director, InterCity on the preferred option. This will be based on a move away from the present high cost restaurant service to an at-seat style of catering backed by a radically new shore-based system. The latter will offer scope for extensive private sector participation. The Plan forecasts for Train Catering reflect the interim strategy of improved on-board service quality, market penetration and cost reduction within the present catering specification. These show a continued reduction in the marketing cost of Train Catering from £5.7m. in 1984/85 to £3.8m. in 1989/90 (at 1984/85 prices) and hence achievement of the Division's financial target.

Freightliners Ltd.

4.16 Following a strategic review of the business at the beginning of the year, the Company was set an internal financial target of achieving a 6% return on assets, after allowing for current cost depreciation. The review concluded that Freightliners Ltd should continue as a separate subsidiary and that the present network size should be retained. A new Rail Haulage Agreement was to be settled between Freightliners and Railfreight based on direct costs plus a 16% contribution to indirect expenses together with full current cost depreciation on locomotives used and a 6% return thereon. The consequential increased charges are, however, largely offset by train crew productivity initiatives. Based on the results of the strategic review, Freightliners were required to find economies of £4.3m. (at 1984/85 prices) in order to achieve the new financial objective.

4.17 Freightliners Ltd continues to forecast significant expansion of the Deep Sea and European Sectors of the business which reflects anticipated growth in international trade. More modest market growth is forecast for the Irish Sector and a steady state in the Distribution business. Overall, turnover is expected to rise from £103m. in 1984/85 to £116m. in 1989/90 (at 1984/85 prices).

4.18 The Plan forecasts net profit after interest rising from £1.4m. in 1984/85 to £5.3m. in 1989/90 (at 1984/85 prices). Major reinvestment in the form of renewal of assets is due at the end of the 1980's and the Plan signals the start of this in 1989/90 with a significant increase in capital spending on cranes. However, implementation of this programme will depend on progress towards achievement of the medium term financial target.

4.19 The Plan includes some £1.4m. of additional savings from staff costs and road operations which are fully supported by action plans. After allowing for the forecast improvement in trading results, there is a shortfall (£2.3m.) from the financial objective for 1989/90. However, further areas for improvement have been identified amounting to £3.6m. which will flow from changes in demand for locomotives, competitive tendering for wagon maintenance and further savings from staff costs and road operations. These areas will be developed in the 1985 planning cycle.

BR Property Board

4.20 The financial targets set for the Property Board were to achieve results as least as good as those in the 1983 Plan. These were seen as consistent with the Secretary of State's remit requiring that the Board should continue to pursue a vigorous policy of property development and disposal.

4.21 Options for the provision of estate management services to the Board were reviewed recently and it was concluded that the present organisational arrangements generally represented the best position.

4.22 Operational Property net letting income is forecast to rise from £36m. to £55m. over the Plan period (at 1984/5 prices). This represents a slower rate of growth than in the 1983 Plan due mainly to adverse market conditions. In the case of the Non-Operational portfolio, net letting income and sales are forecast to achieve and, in some years, better the Plan objectives.

4.23 The Plan reflects continued pursuit of station development schemes (notably Liverpool St./Broad St.) on the basis that developers will both pay for and administer the projects rather than the Board using its own investment and resources. Nevertheless, some £5m. to £6m. p.a. of direct investment is expected to be spent on minor development schemes including the preparation of sites newly released by the Rail business for sale or development. Whilst significant increases in property releases by Rail are expected in the short-term, scope for further significant property sales in the medium/longer term is expected to diminish. Despite decreasing sale proceeds over the Plan period, the Property Board still expects to generate a corporate net cash contribution of £273m. over the period to 1989/90 (at 1984/85 prices).

Transmark

4.24 The major strategic change forecast in the 1983 Plan was implemented in December, 1983 with the entry of Transmark into the railway projects field through the formation of a joint Company with Davy McKee (Davy BRI). This venture is forecast to start generating profits from 1986/87 onwards.

4.25 Improved market prospects are now foreseen for the Company's consultancy sector with a resumption in profit growth assumed throughout the Plan period. Forecasting beyond the short-term in the world consultancy business, however, is extremely hazardous as most jobs secured are short-term in nature. Major exceptions, such as Transmark's current bid to supply Indian Railways with a computer-based operations information system, are few in number.

4.26 Transmark is stepping up its marketing activity with its Canadian partner and joint venture Company – Cole Sherman/Transmark, and is strengthening its U.S. subsidiary Transmode to meet rising market demand. A joint venture with London Regional Transport will be launched this year to create Transecon International, a joint Transmark/L.R.T. economics and market research consultancy unit capable of tackling main line, suburban and urban transport studies. Transmark is also pursuing the possibility of an Australian joint venture. Australia represents a significant proportion of Transmark's existing markets, and has growth prospects.

4.27 Net profits over the Plan period are expected to total some £3.1m. (at 1984/85 prices). Whilst these show a shortfall over the 1983 Plan forecasts, they do not include revenue from the Indian Railways project, nor the potential revenue from a major scheme in Iraq now under development. The Company will continue to draw on the Board's businesses for secondment of specialist manpower in return for guaranteed payments.

British Transport Advertising Ltd. (50% Owned)

4.28 Jointly owned by the BR Board and National Bus Company, BTA continues to work to its overall objective of seeking to maximise the net surpluses returned to its principals. During 1983 the Company conducted a strategic review and detailed strategies were agreed for each sector of the business. This study also formed the basis of the financial target set to the Company by the BR Board.

4.29 In addition to the general effects of the recession on the transport advertising market, great uncertainty exists at present in the roadside poster industry following the recent sale of a major group with whom BTA had close links through joint ventures. The BTA Plan, therefore, takes a more cautious view of development and pricing prospects for this sector in the short-term, pending clarification of the position later this year. The Rail Division prospectus, however, is more firmly based with a range of new site and product developments reflected in the Plan.

4.30 Joint ventures with the private sector remain an important element of the Company's strategy and will contribute to the very substantial increase in net surplus forecast to be returned to BRB, from £5.1m. in 1984/85 to £9.4m. in 1989/90 (at 1984/85 prices). This heralds an era of further rapid expansion following the slower rate of growth experienced over the past two years.

Research and Development

4.31 The prime objective of the Board's R. & D. Division is to ensure the technological base for future business success. An important secondary objective is to assist the Board in the shorter term through technical support in improving equipment and operating practices. This is achieved through collaboration with the Board's engineering and operating functions and with the railway equipment supply industry.

4.32 The Plan assumes continuation of funding at broadly the present level, with total expenditure forecast to remain at roundly £18m. p.a. (at 1984/85 prices) over the Plan period, of which some £13m. is financed through the PSO and the remaining £5m. direct from DTp. Some adjustment to both the level and allocation may be necessary following the current Board review of BR's research and development policies, which will include an examination of the objectives, programme, organisation and funding of the Division.

4.33 The balance of research effort, as between technical support and longer term research and development, is planned to remain at about 45% and 55% respectively. The commitment of Sector and Functional Directors as appropriate has been obtained for the Rail business projects included in the Plan. Increased sponsorship of projects in the development stage by industrial partners is being pursued. The need for more rapid implementation of technical innovations to produce more cost-effective and reliable products as an aid to improved business performance remains a key element of R & D strategy. The Plan includes a number of projects in this category including work on improved track maintenance techniques to reduce infrastructure costs and the application of radio and micro-electronics to control and signalling.

British Rail Publications

With the Compliments of the
Parliamentary Clerk

Mr Fletcher

To see.

4/12

Department of Transport
2 Marsham Street London SW1P 3EB
Telephone 01-212 6626

STATEMENT BY THE SECRETARY OF STATE FOR TRANSPORT :
RAILWAY ACCIDENT - SALFORD (MANCHESTER)

1. The accident occurred at 10.45 this morning. The 10.05 Liverpool to Scarborough passenger train, which consisted of a diesel locomotive and 7 coaches, ran into the back of a stationary oil tank train about half a mile on the Manchester side of Eccles Station, Salford. The locomotive and the first two coaches of the passenger train were derailed, as were a number of the oil tank wagons. Spilt gas-oil from the tank wagons caught fire.

2. The local signalman was able to stop other trains from approaching.

3. The emergency services were quickly on the scene. Traffic on the M602 motorway, which runs immediately adjacent to the railway, was stopped and, as a precaution, residents were evacuated from about 30 of the surrounding houses.

4. An Inspecting Officer of Railways has reported from the site. Our latest information is that the driver of the passenger train died in the crash and that two passengers have since died in hospital. A total of 67 passengers and railway staff were taken to hospital, of whom 4 are detained with serious injuries. I am sure the House will wish to join me in expressing condolences to the relatives and friends of those so tragically killed, and our wishes for a speedy recovery to the injured.

5. There will be a formal Inquiry into the accident and the report will be published. Meanwhile it would be wrong to speculate on the cause of the accident.

NBPM RT 23/4 CCNO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

R23

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

21 November 1984

Dear Peter

RAILWAY HERITAGE TRUST

Thank you for your letter of 2 November about the new independent Railway Heritage Trust which British Rail has set up.

I note that your welcome of the Trust is tempered with a concern that money channelled by the Board into Fund A is money which they would not otherwise have had to spend. This is not so. Fund A will assist the Board in the preservation and upkeep of listed buildings, scheduled monuments and other buildings of an architectural or historical character which are still in operational use. And just as other owners of listed buildings are expected to maintain these structures, so too are the Board - quite apart from the fact that they need them to run the railway! What the Board are seeking to do by way of the Trust is to involve others and thereby to share more widely the burden of preserving the railway heritage. It should be a Chief Secretary's dream!

I am copying this letter to members of E(NI), the Minister for the Arts and Sir Robert Armstrong.

Yours ever
Nicholas

NICHOLAS RIDLEY

Copy No 1 of 10

SECRET AND PERSONAL

File

Prime Minister (1) 4.

PRIME MINISTER

I like para 1 - it could be omitted. Content for Mr Reid and Mr Ridley to proceed as proposed?

AT 5/11

BRITISH RAIL ENGINEERING LIMITED

At MISC 101 on 29 October I was invited to agree with those Ministers closely concerned the handling of my formal contact with the Chairman of the British Railways Board on the review he has carried out of British Rail Engineering Limited (BREL).

Mr Reid proposes to send me the attached very short letter, which I think avoids any of the difficulties which might be presented by a more detailed report. He is now most concerned that any further delay in reporting to me and opening consultations with his unions could create industrial relations problems with the rail unions, who are already suspicious that a report which was originally expected to be ready during the summer has not yet been made.

I should therefore be grateful for your agreement, by Monday evening at the latest, that Mr Reid may write to me as proposed and open negotiations with his rail unions. In view of the sensitivity of this issue, perhaps your comments could be passed by telephone to my private office.

I am copying this to the Chancellor of the Exchequer, the Secretaries of State for Employment and Energy and Sir Robert Armstrong.

NR

NICHOLAS RIDLEY

2 November 1984

Note Spoke to Mr Ridley office. Told them PM satisfied with course as proposed on understanding that item 1(a)-(d) were not new but merely reiterated by Chairman's letter of 1 Oct. This condition satisfied

AT 6/11

SECRET AND PERSONAL

BREL

1. The objectives you set me last October included a request for a report on the options for the future of British Rail Engineering Ltd (BREL). The criteria I am using for this work are:

(a) to reduce the railways' requirement for support from the taxpayer so as to achieve the PSO grant target for 1986/87;

(b) to run an efficient, reliable and attractive railway giving good value to customers and the taxpayer alike;

(c) to procure rolling stock and other services wherever possible by competitive tendering and to continue to give the railway equipment industry the opportunity to offer design solutions to meet the railways' requirements;

(d) to adjust capacity at BREL to meet forecast requirements.

2. The work we have done so far demonstrates that BREL cannot be looked at in isolation. Notably, for example, the manufacturing and maintenance functions of BREL need to be looked at alongside the maintenance and supply activities of the railway itself. And in order to secure fair competition and value for money, it is essential to improve the financial, contractual and accounting relationships between BREL and

the railway. Accordingly, our studies have been widened to include these aspects. Progress on some of them can be made faster than on others and, subject to your agreement, I propose to report progess from time to time as appropriate.

It follows, therefore, that I have not yet completed the review and that I have not yet reached any conclusions about the options for the future of BREL. I will base my judgement, when all the work has been completed, on what would be in the best long-term interests of the railway. Meantime, and with the aim of ensuring that none of the options is foreclosed, I will press ahead with action to increase the efficiency and the competitiveness of the Company.

PP CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1P 3EB

2 November 1984

Dear Nicholas

NBPOM

RAILWAY HERITAGE TRUST

Thank you for your letter of 22 October to the Chancellor.

2 The Trust Scheme which BR have set up may be successful in tapping private sector funds, and if in doing so it reduces public expenditure I shall welcome it. But it seems clear that BR will have to put money regularly into Fund A, and this does not appear to be money which they would have found it necessary to spend on maintaining railway property had this Trust not been created. Although the sums at stake are relatively small, I am concerned that this contribution could add to the loss on the passenger railway, and so create an upward pressure on PSO grant.

3 I hope therefore that this expenditure will be carefully monitored. If the Trust does not attract enough private sector money in the first year or two to bring about a continuing reduction in BR's costs, then I think that the Trust should confine its activities only to Fund B and the disposal of non-operational property.

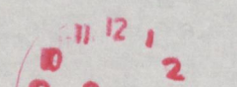
4 I am copying this letter to members of E(NI), to the Minister for the Arts and to Sir Robert Armstrong.

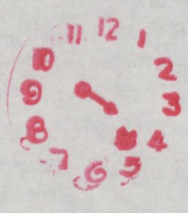
Yours ever Peter

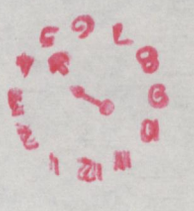
PETER REES

BR Fares: TRANSPORT p+8.

(A)?







010

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

AF 24/10

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
London
SW1P 3AG

22 October 1984

Dear Nigel

THE RAILWAY HERITAGE TRUST

I thought you would want to know that the British Railways Board propose to set up an independent Railway Heritage Trust. It will be concerned with the up-keep and preservation of BR buildings and structures of historic or architectural interest and it will seek to tap the financial and other help of the private sector and the general public.

The Trust will come into full operation next April. William McAlpine has agreed to act as its first independent Chairman. BR has applied to the Registrar of Companies for the Trust to be registered as a company limited by guarantee (neither British Rail nor the Government will be guarantors). The Trust will be seeking charitable status for at least some of its activities.

The Trust will set up two separate and non-transferable Funds. One ("Fund A") will assist the Board in the preservation of that part of the railway heritage which remains in operational use. BR would contribute annually - about £1m in 1985/86 - to Fund A. The Trust would account to the Board for this Fund's expenditure, which will take the form of grants to local railway managers on the basis of their agreed plans for such things as restoration of architecturally outstanding features of stations.

The second Fund ("Fund B") will help with the preservation of non-operational structure of historic and architectural value in co-operation with the BR Property Board and outside bodies and will draw on public subscription whenever practicable.

In suitable cases, the Trust or other bodies (eg local groups of enthusiasts) would assume ownership of non-operational properties of special quality - a disused viaduct, for example. BR propose that, in these cases, the Property Board would offer a suitable "endowment".

I support these proposals as a sensible and imaginative way for BR to shed liabilities while at the same time ensuring that more of our cherished railway heritage is better maintained. Its aim will be to generate a lot of private money to help discharge what has hitherto been a public responsibility . It should help take some of the sting out of railway closures involving historic structures. I believe it will be widely welcomed by the public.

The basis on which the "endowment" will be calculated will vary from case to case, although decisions will in every instance be based on commercial principles. Offers are likely to be based either on the long-run maintenance costs to be saved, or the cost of demolition where that was an option. This formula has already been applied successfully by the Property Board in the past. Although it could vary from year to year, BR estimate that the annual impact on the Board's EFR might be about £1m. The BR Board would, or course, control the quantum of its "endowment" payments within the contraints of its EFL. It is hoped to attract considerable amounts of private money as well.

The establishment of this Trust has been master-minded by Simon Jenkins, as a part-time Board member and Chairman of BR's Environmental Panel. He plans to announce the Trust's formation on Tuesday 23 October, when he will be chairing a Seminar on "The Future of the Railway Heritage", arranged by the Royal Society of Arts. I propose to welcome the Trust as an imaginative initiative which should prove a positive step forward in our efforts to maintain this extremely valuable part of our national heritage.

I am sending copies of this letter to members of E(NI), to the Minister for the Arts and to Sir Robert Armstrong.

NICHOLAS RIDLEY

2F

COMMERCIAL IN CONFIDENCE

10 DOWNING STREET

From the Private Secretary

4 October 1984

The Prime Minister has now seen your Secretary of State's minute of 3 October about British Rail's proposed increase in fares for 1985. Subject to the views of colleagues, the Prime Minister is content with these proposals.

I am copying this to David Peretz (HM Treasury), David Morris (Lord Privy Seal's Office), David Normington (Department of Employment) and Richard Hatfield (Cabinet Office).

Timothy Flesher

Miss Dinah Nichols
Department of Transport

COMMERCIAL IN CONFIDENCE

010.

1

Prime Minister: BR propose a 6.6% fare increase for January. Agree, subject to colleagues? TF 3/10

Prime Minister

BR FARES

Bob Reid has discussed with me his proposals for BR's next annual increase in passenger fares.

You will recall that BR raised their fares by an average of 6% last January. Bob Reid is proposing an overall increase of slightly more - 6.6% - for this January. He believes that this is what the market will bear and that it is needed - together with manpower reductions and other cost savings - to help him meet the tough grant target for 1986, to pay for increased investment and as part of the action required to get Inter-City out of subsidy by 1988/89.

The increases would be selective. On average, Inter-City fares would rise by 6.1%; those on the rural passenger services by 5.8%; and commuter fares in London and the South East by an average of 7.1%. The average increase for commuters is pushed up by the proposal to reduce the discount on quarterly season tickets; there would be smaller increases in the price of monthly and annual season tickets.

I have stressed that BR should not try to justify these increases by reference to the trend in inflation, and Bob Reid fully accepts this.

Fares increases are never popular. But these proposals are not out of line with those recently announced for the buses and the Underground in London (9%), where fares have not changed since May 1983.

I believe, therefore, that we should back Bob Reid's commercial judgement of the position. He will be putting the proposals to his Board tomorrow, with a view to announcing them towards the end of November.

I am copying this to Nigel Lawson, John Biffen and Tom King, and to Sir Robert Armstrong.

NR

NICHOLAS RIDLEY

3 October 1984

CONFIDENTIAL

P.01354

PRIME MINISTER

British Rail's Inter-City Strategy:
E(NI)(84)8

BACKGROUND

It has long been Government policy that the Inter-City sector of British Rail should be treated as a fully commercial enterprise. It is in direct competition with other forms of transport; and Ministers have seen no social or other justification for subsidy. It should therefore cover its costs and make an acceptable return on capital.

2. The financial results of Inter-City have fallen well short of this. The Government has tried in various ways to press BR for improvements. Since 1981, for example, it has refused to approve the East Coast Main Line electrification in advance of the production of a satisfactory strategy for Inter-City and satisfactory progress towards improving efficiency.

FLAG A

3. In his memorandum E(NI)(84)8 the Secretary of State for Transport suggests that the strategy which BR have now produced, summarised in Annex to his memorandum, is broadly satisfactory. Inter-City should be within reasonable distance of its financial target by 1988-89: the shortfall is some £29 million (5 per cent of turnover), and it should be possible to find savings on this amount.

4. The division between Inter-City and other lines is not clear cut; and the strategy envisages some switches between Inter-City and other sectors. Mr Ridley suggests that this is reasonable; but that there should be no

further switches afterwards. The aim is to prevent BR meeting targets for the Inter-City Sector by changing the coverage of the sector.

5. Finally, Mr Ridley proposes that from 1988-89 Inter-City should become ineligible for subsidy through the Public Service Obligation (PSO) grant. This is a logical reflection of treating Inter-City as a fully commercial enterprise.

MAIN ISSUES

6. The issues before the Sub-Committee are as follows:

i. Is BR's proposed strategy for Inter-City broadly acceptable?

ii. Are the conditions proposed by Mr Ridley in paragraph 12(1) to (3) of E(NI)(84)8 satisfactory? Should any others be laid down?

iii. When should the Government's decisions be made known?

Acceptability of the strategy

7. There is a basic difficulty in assessing the financial viability of a sector of a "system" business such as British Rail. The definition of the services coming within the sector is inevitably somewhat arbitrary, and difficult judgements have to be made about allocating infrastructure costs. These issues complicate consideration of the proposals in Mr Ridley's paper. Inter-City comes into profit by 1988/89 partly as a consequence of re-definition (£11 million gained by bringing in the profitable Victoria-Gatwick and Liverpool Street-Norwich/Harwich services) and partly (to the extent of £60 million) by changing from the "prime user" to "sole user" method of allocating infrastructure costs. Mr Ridley claims that the new method is "more logical and justified", but there is in fact no adequate explanation of the change in either paragraph 6 of the main paper or paragraph 15 of the Annex.

8. The Chancellor of the Duchy of Lancaster has drawn attention to the accounting changes in his minute to you of 23 July. I understand however that he is not correct in implying that £71 million of the profit improvement between 1984/85 and 1988/89 is due to redefinition and reallocation of costs. The £60 million reduction in costs arising from the sole user method is built into the 1984/85 baseline. Of the £103 million improvement forecast by 1988/89, £25 million comes from sector redefinition and accounting changes. The problem nevertheless remains. It could well be that for management reasons it is legitimate and desirable to define Inter-City and allocate its costs in a way which makes commercial viability attainable. But we have to remember that the remainder of the business is to that extent less profitable.

9. Putting aside these complications, the strategy appears to be more realistically based than earlier attempts and contains some plans for real cost savings (albeit only some £47 million by 1988/89) which are said to rest on commitments made by the managers who have to implement them. There is however a shortfall of £29 million in meeting the financial target in 1988/89. Mr Ridley proposes that BR should be told that the Government expects future improvements to make up that shortfall. We understand that Treasury Ministers are likely to argue that the strategy should not be approved until BR have come forward with specific proposals for achieving the savings of £29 million needed to meet the financial target.

Conditions

10. In addition to dealing with the question of the £29 million, Mr Ridley proposes two further conditions (paragraph 12(2) and (3)): that there should be no more improvements through redefinition; and that PSO grant should not be available for Inter-City from 1988/89 onwards. The former is likely to be agreed. On the latter, some members of the Sub-Committee may wish to go further.

11. As Mr Ridley admits, there is a risk that Inter-City, without PSO grant, will still make losses. He suggests that the response to that might be to allow BR to borrow more. But Treasury Ministers, in particular, are likely to argue that the presumption should be that BR will find economies to avoid any losses: a possibility that those economies might include route closures should not be ruled out. The figures in paragraph 13 of Annex A to E(NI)(84)8 show that even in 1988/89, cross-country routes within the Inter-City sector will be making losses of some 25 per cent of turnover. Since there is presumed to be no social justification for subsidising such routes (hence the withdrawal of PSO grant) the case for closure - political objections apart - must be strong.

12. Ministers may also wish to consider whether it would be right to remove the PSO grant from a date earlier than 1988/89. On the one hand, if there is no social justification for subsidising Inter-City, it is illogical to stop paying grant only when the Sector is expected to reach its financial target. If cessation of grant is linked too closely with financial viability, it may be difficult to stop payment if financial results are worse than expected. On the other hand, Mr Ridley may argue that to withdraw grant too quickly would demoralise management.

Timing

13. If Ministers approve the proposed strategy there is no tactical reason vis-a-vis the management for not telling the Board of that approval. But Ministers may wish to consider whether there is anything to be gained from delaying an announcement in terms of leverage over the rail unions during the coal strike.

HANDLING

14. You will wish to invite the Secretary of State for Transport to open the discussion. You might then ask the Chief Secretary, Treasury to comment. The Secretary of State for Employment may have views on timing and tactics vis-a-vis the railway unions.

CONCLUSIONS

15. You will wish the Sub-Committee to reach conclusions on the following.

i. Should the Inter-City strategy as proposed in E(NI)(84)8 be approved?

ii. If so, should the approval be subject to conditions:

a. as proposed in paragraph 12(1) to (3) of E(NI)(84)8;

b. additionally?

iii. When should the Government's approval be conveyed to the British Rail Board?

PLG

P L GREGSON

25 July 1984

CCNO.

Prime Minister

BR'S INTER CITY STRATEGY

Before our discussion of E(NI)(84)8 tomorrow, I should comment on Arthur Cockfield's minute to you of 23 July.

The 1983 Inter-City figures included in the strategy were reworked on the new basis of "sole user" costing, so Arthur's point falls. The sources of the forecast savings between 1984/5 and 1988/9 are listed in paragraph 14 of the annex to E(NI)(84)8, they also include some minor redefinition and rationalisation of the sector.

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

NICHOLAS RIDLEY

25 July 1984

E.R.

CONFIDENTIAL

PRIME MINISTER 25 July 1984

BR'S INTER-CITY STRATEGY

BR are beginning to adopt a more realistic approach to their Inter-City business. They no longer assume that economic growth will automatically increase passenger volume. BR recognise that simply to keep their customers they will have to improve their unpunctual, dirty, and unhelpful image by real changes, and not just by advertising. This itself is one achievement of our approach to BR.

60% of the planned "improvement" in the Inter-City figures over the next five years is due to accounting changes, transferring the costs elsewhere. The theory is that it will force rail managers to say what infrastructure they need. We should therefore press for action to dispose of the surplus infrastructure which is exposed by these changes, otherwise they will be merely cosmetic.

Aspects of the strategy which trouble us are:

i The access problem: history has left BR with lines which converge on London from declining centres of population but do not interconnect. The challenge for BR is to scoop up train loads of customers from a more dispersed population and offer them quicker and more

CONFIDENTIAL

convenient inter-connections. BR have good ideas on how to achieve this - linking up Western, West Coast, and South East markets via the West London line, opening a new Inter-City station at Iver and developing easy-access stations close to the M25 and Heathrow. But not all these plans will not come to fruition quickly enough (by 1988-89): this makes BR's targets very difficult to achieve. More money on this type of investment might be profitable.

ii Loss-making services: BR has not sorted out what to do about its major Inter-City loss-makers. Cross Country (ie routes from NE to SW, SE to NW, by-passing London) had a shortfall in 1983 of £44 million, against revenues of £52 million. Its shortfall is planned to be £21 million in 5 years' time. We doubt whether the plan is man enough to deliver the improvement.

iii Reductions in maintenance costs: BR plan to reduce maintenance and manning costs by £27 million but have yet to present all their BREL rationalisation proposals, upon which this must partly depend.

BR envisage a shortfall against a target of £29 million on Inter-City in 1988-89. Nicholas Ridley proposes that they make up this shortfall by that time and that the PSO grant then be discontinued. This is a tough target which is only realistic if BR take further steps to reduce the losses

on Cross Country, and to a lesser extent on Midland and Western.

We think BR should be set these exacting targets but they will need to generate much more revenue from service improvements stemming both from improved interconnection and from all round better business management.

NICHOLAS OWEN

a DS

For E(NI) folder

Chancellor of the Duchy of Lancaster

PRIME MINISTER

BR'S INTER CITY STRATEGY - Secretary of State for Transport's Memorandum of 19 July, E(NI)(84)8

The question which inevitably arises is what is the effect of all this creative accounting on the rest of British Rail.

The proposal is to transfer £60 m of costs out of Inter City and £11 m of profit in - a total amelioration of £71 m.

The importance of this even in relation to Inter City itself is illustrated by the fact that the "Inter City" loss in 1983 was £107 m. In 1988/89 a profit of £5 m is estimated. There is no indication in the paper that the 1983 figures have been reworked on the new basis. If therefore the position is that £71 m of the "improvement" of £112 m forecast for 1988/89 is due simply to shunting the figures around, it raises some question about the real extent of the improvement planned.

I am sending copies of this minute to the other members of E(NI) and to Sir Robert Armstrong.

A.C.

A C

23 July 1984

TRANSPORT: BR fares

pt 8

CONFIDENTIAL

CC NP

NRSPM

AT

20/6

Treasury Chambers, Parliament Street, SW1P 3AG

Miss D A Nichols
Private Secretary to Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

19 June 1984

Dear David

BRITISH RAIL: BUS SUBSTITUTION: DRAFT ANNOUNCEMENT

You wrote to David Peretz on 15 June about the terms of a written answer on Bus Substitution.

2. I understand that since you wrote officials concerned have agreed to delete the following reference:

> " .... and that the resulting financial savings should be used to help provide the resources required for re-equipment and investment in the rail network".

We certainly would not accept that savings should accrue solely to BR rather than to the tax payer, given the scale of public subsidy to this industry and the well established procedures for determining both investment requirements and the deficit on operating costs. The Chief Secretary's views on the need for early progress in public expenditure savings from Bus Substitution were set out in his minute to the Prime Minister of 30 May.

3. Subject to this deletion, we are content with the terms of the draft.

4. I am copying this letter to the Private Secretaries to the Prime Minister, the Secretaries of State for Scotland, Wales and the Environment, the Lord Privy Seal, the Minister of Agriculture, Fisheries and Food, and to Sir Robert Armstrong.

Yours sincerely

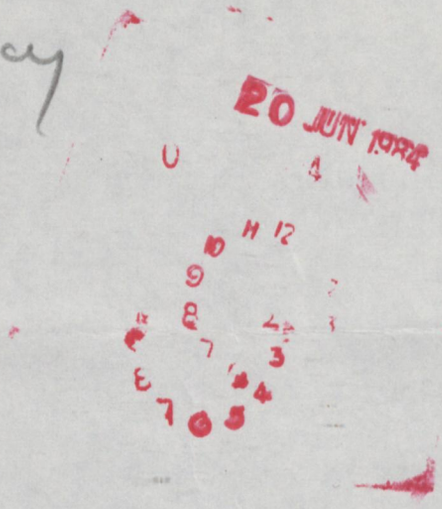
T.R. Grist

PRIVATE SECRETARY

CONFIDENTIAL

Transport pt 8

BR Policy



Charles Questions to keep?
Kay
15/6 to note

10 DOWNING STREET

Prime Minister (2)

You might like to be aware of this exchange of correspondence before Questions. It refers to be so-called "Ridley Plan".

13/6

US

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

John Prescott Esq MP
House of Commons
London
SW1

June 1984

Thank you for your letter of 7 June.

You asked what my position would be with regard to wage negotiations in the industries for which I have responsibility. My position is as it always has been. The negotiations are and will remain the responsibility of the management of the industries. I shall, however, continue to ask to be kept informed of the progress of negotiations and shall, in turn, keep my Ministerial colleagues informed. The Government needs to know - and if necessary to comment on - the implications of the wage negotiations for the finances of the industries, for the taxpayer and for the public interest. This Government holds the industries on a very much lighter rein than its predecessor did, in this respect! We do not control pay by statute!

As you will know from the Answer (copy attached) I gave in reply to the Questions from Harry Cowans and Gordor Bagier on 9 April, this was precisely the course followed in the recent British Rail negotiations. The Board kept me informed of their proposals. It so happened in this case that these were consistent not only with the Board's own Budget but also with the External Finance Limit and PSO cash limit set by the Government. Having satisfied ourselves on these points, we were pleased that the unions and the Board were able to reach agreement on a settlement, at an overall increase in the wage bill of 4.98%. There was no need to intervene and we did not do so.

Nor did we "control the length" of the negotiations (your words). I think you will find that the pace of the negotiations was determined entirely by the Board and the Unions, if you consult with them. You also mention an alleged Conservative Party discussion document, which was leaked in 1978, while we was still in opposition. It is already known that I played some part in its preparation, although I was a backbencher at the time. That answers the only question you ask me; and I have no other comment to make on it.

Finally, I am sorry that I was not present when you raised these matters under Standing Order No.10. Although I was aware that they were going to be raised, I was not aware that you were the person concerned. I always try to be present when you raise matters concerning this Department and I will try harder in future with due notice.

NICHOLAS RIDLEY

HOUSE OF COMMONS

Mr Harry Cowans (Lab - Tynebridge):

To ask the Secretary of State for Transport, if he has discussed wage levels in the railway industry with the Chairman of British Rail.

Mr Gordan A T Bagier (Lab - Sunderland South):

To ask the Secretary of State for Transport, if he has discussed wage levels in the railway industry with the Chairman of British Rail.

MR NICHOLAS RIDLEY

Wage levels in British Rail are for negotiation between the British Railways Board and the unions. The Chairman of British Rail naturally keeps me informed.

UNDER SECRETARY
To note reply and
check against
Hansard record.

PARLIAMENTARY
- 9 APR 1984

Monday 9 April 1984
Department of Transport

1542
1595/83/84
(24)

John Prescott, MP

HOUSE OF COMMONS
LONDON SW1A 0AA

Secretary of State - to see Mr. Palmer for urgent advice please
c. PS/Ms. Chalker
PS/Mr. Mitchell
PS/Mr. Lazarus
Mr. Knighton
Mr. O'Smotherly.
Mr. Devereau.

7th June, 1984

Dear Secretary of State,

You will be aware that I moved a Standing Order no. 10 yesterday, in order to secure a debate on the Government's role in the British Rail wage negotiations. I believe your office was informed, and I was somewhat surprised that you were not represented on the Government benches to hear the case.

Since I accused you of misleading the House, I think it only right and proper to refer you to my statement, which I enclose.

It is clear from the correspondence published in the Daily Mirror, that the Prime Minister, the Chancellor of the Exchequer, the Minister of State for Employment and yourself have been directly involved in controlling the length and outcome of the British Rail negotiations. This has always been the belief of myself and the trade unions in the rail industry and I now ask you to give me a statement in response to the question I have posed, and the future position of the Department with regard to wage negotiations in all the public industries for which you have direct responsibility.

Could I also ask you to confirm that you were the author of the "Ridley Plan" embodied in a Conservative Party Policy Group statement on the nationalised industries published in 1978? I enclose a copy of The Economist report of this document.

It is quite clear that this report was recommending how a Conservative Government should handle nationalised industries and their trade unions. Amongst its many proposals was the recommendation to end statutory monopolies in the public sector, and the privatisation of shipbuilding, docks, airports, buses, motor car manufacturing, telephones and the mines.

...cont'd

We are informed that the Report included an annexe which discussed the political threat that the next Tory government might face in the implementation of these proposals. It predicted that there would be a major challenge from the trade unions either over wages or redundancies. The most likely challenge was thought likely to be from the coal industry. The Plan's recommendations to a future Thatcher government included:

(a) building up maximum coal stocks;
(b) increasing imports of coal and oil;
(c) recruiting non-union lorry drivers;
(d) reducing strike benefits forcing the unions to finance completely;
(e) there should be a large, mobile squad of police prepared to uphold the law against violent picketting. Non-union drivers should be recruited to cross picket lines with police protection.

Finally, the "Ridley Plan" was concerned to avoid simultaneous industrial action in other public sector industries.

I am sure that you will recognise that whether this is the "Ridley Plan" or not, it is precisely the policy being pursued by this Government, and confirmed in the recent disclosures of correspondence involving yourself and other ministers.

I would be grateful for your observations on the "Ridley Plan", my standing order number 10 statement and your future policy concerning wage negotiations in the public sector transport industries.

Yours

John Prescott

Rt Hon Nicholas Ridley,MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

British Rail (Wage Negotiations)

3.50 pm

Mr. John Prescott (Kingston upon Hull, East): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the Government's role in the recent British Rail wage negotiations."

The matter is specific because of the publication in today's *Daily Mirror* of correspondence which we can assume is authentic, in view of the statement today that the Prime Minister has announced an inquiry into the leak of such correspondence. That correspondence clearly involves the Prime Minister, the Secretary of State for Transport and other Ministers in direct Government intervention in British Rail wage negotiations.

The issue is important because the House was informed in a parliamentary reply by the Secretary of State for Transport to my hon. Friends the Members for Tyne Bridge (Mr. Cowans) and for Sunderland, South (Mr. Bagier), inquiring into his involvement in such discussions:

"Wage levels in British Rail are for negotiation between the British Railways Board and the unions. The chairman of British Rail naturally keeps me informed."—[*Official Report*, 9 April 1984; Vol. 58 c. 27.]

Today's published correspondence, dated from 2 April, makes it clear that the Secretary of State and his Department, together with other Ministers, were, both before and after the parliamentary reply, involved in delaying the settlement of the wage negotiations and increasing the final offer. The Secretary of State misled the House about his involvement and the House should be given an opportunity to debate the issue and pass judgment upon his actions.

The issue is of great urgency in view of the clearly exposed Government strategy to instruct settlements in the rail industry and other public sector industries in order to prevent further industrial disputes while they continue their vendetta against the miners and their families, despite repeated denials by the Prime Minister that she does not want to see any further role for Government intervention.

This House has a right to pass judgment upon the Government's pretence of no intervention in public sector wage negotiations, while directing nationalised industry chairmen to carry out the Government's vindictive and arbitrary public sector wage policy.

Mr. Speaker: The hon. Gentleman asked leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he believes should have urgent consideration, namely,

"The Government's role in the recent British Rail wage negotiations."

I listened with great care to what the hon. Gentleman said, but I regret that I do not consider the matter that he has raised as appropriate for discussion under Standing Order No. 10, and, therefore, I cannot submit his application to the House.

The hon. Gentleman will know that there are other ways to raise these matters.

BRITAIN

Appomattox or civil war?

A copy of the final report of the Conservative party's policy group on the nationalised industries has reached *The Economist*. It has been drafted by the radical right-wing MP, Nicholas Ridley, and is likely to cause a humdinger of a row. Its main points:

(1) The Conservatives intend to demand that each nationalised industry achieve a set rate of return on (variously defined) "capital employed". This rate of return, once laid down, would be "totally inflexible". If managers did not achieve it they would be replaced. They would, however, be supported in whatever action they had to take to achieve it even if this "might mean that men would be laid off, or uneconomic plants would be closed down, or whole businesses sold off or liquidated". The report sees no other way to restore financial responsibility. "Nevertheless", it adds, " there is no point in undertaking it if we are not prepared to go through with it."

(2) After issuing this call to battle, the document then prepares the way for what could be constant surrenders at Appomattox. Uneconomic activities would be costed and separately paid for by subsidy on the vote of the minister who felt they had to continue.

(3) Investment control by government would continue through five-year rolling corporate plans with a government commitment to a decreasing proportion of the investment, as follows: year one, 100%; year two, 90%; year three, 75%; and year four, 50%. The industries should be required to borrow from the exchequer at market rates of interest. Investment control should be used to restrict industries to their mainline activity. The report believes the corporations should not compete with private industry, but also that it is not worth fighting a major political battle to oblige them to divest themselves of current "extra-mural activities" (eg, electricity and gas showrooms).

(4) No direct government control of prices or wages in nationalised industries. The only control would be by insisting on the rate of return on capital being met, even if this involved the industry concerned raising prices, or selling off surplus land or assets or closing uneconomic activities. The concept of wage comparability is rejected: the criteria for wage payments should be the manpower situation in the industry and the vulnerability of the nation to a strike.

(5) In choosing which strikes not to fight, the team has classified industries into three categories of vulnerability with: (a) sewerage, water, electricity, gas and the health service in the most vulnerable group; (b) railways, docks, coal and dustmen in an intermediate group; and (c) other public transport, education, ports and telephones, air transport and steel in the least vulnerable group. It rejects the proposal to make strikes illegal in industries where they are not illegal already, and also any idea of having a strike-breaking corps of volunteers to run mines, trains or power stations. Where industries "have the nation by the jugular vein the only feasible option is to pay up".

(6) Managers should be much better paid than at present, and ministers should no longer usurp the day-to-day responsibilities of management by replying to parliamentary questions on such matters.

(7) The present boards of nationalised industries would be made supervisory boards with most members part-time. The full-time management should be devolved into smaller subsidiary companies into which the industries should be split. The holding boards would have power to hire and fire management and to fix pay. There could be worker directors on nationalised industry boards, provided these were an insignificant minority. Pay of successful top managers would be supplemented by public honours.

(8) The only legislation that the Ridley report proposes (and itself refers to as "a nasty little bill") would be to end statutory monopolies in the public sector. This bill would: (a) transfer licensing of private coal mines from the National Coal Board to the minister and restrict conditions of licence to safety considerations only. Coal royalties would be transferred from the NCB to the state; (b) give private generators of electricity the right to sell to the grid; (c) split letter-post from telecommunications and end the telephone monopoly at the subscribers' "front door"; (d) remove ministers' power to stop private-sector investment in steel plant.

(9) The group considered the scope for denationalisation. It believed that it would be easier, and more permanent, to fragment the industries rather than try to sell off whole corporations. It concluded there was least opportunity for this in the "true utilities" (gas, electricity, railways, water, ports and telephones). The greatest opportunities are in coal, shipbuilding, docks, airports, motor car manufacturing, buses and freight. Specific proposals: (a) form worker co-operatives at coal pits wherever possible; (b) separate ports, and either sell them off or make them into worker co-ops; (c) make each airport independent and either sell it or hand it over to local authorities; (d)

Lib-Lab part

So will end, in July, 14 months of good, because largely undoctrinaire, rule. Mr David Steel junked the Liberal pact with Labour on Thursday afternoon—terminating an arrangement from which the Liberals could have expected more, but from which Mr Callaghan's government gained a lot in the country if rather uneven benefit in parliament.

No Liberal wants an election yet, thus Mr Steel's obvious reluctance to go to war straightaway in the commons. With so much pressure on the prime minister to call a general election by the autumn, however, Mr Steel had to distance his battered party from the government in good time. Recent opinion polls give his Liberals a sad 7%, compared with the 18.3% of the popular vote they won in October, 1974: this might strip away half or more of the 13 existing Liberal seats.

the assets of the British National Oil Corporation should be sold, preferably to the public at a 50% discount on value with a maximum holding prescribed for any individual.

So far this report has not been to the shadow cabinet. But it has been discussed by the powerful economic reconstruction group under Sir Geoffrey Howe and is now before a group under Sir Keith Joseph, the Tory industry spokesman and general policy overlord. Its general thinking seems to be accepted, but its detailed proposals are likely to be modified. They will be reflected in the Tory manifesto only in the most general terms.

In an annexe to this report, Mr Ridley and some of his co-authors have been pondering how to counter any "political threat" from those they regard as "the enemies of the next Tory government". They believe that in the first or second year after the Tories' election, there might be a major challenge from a trade union either over a wage claim or over redundancies. They fear it may occur in a "vulnerable industry" such as coal, electricity or the docks and have the support of "the full force of communist disrupters". Behind the scenes, they would like a five-part strategy for countering this threat:

- Return on capital figures should be rigged so that an above-average wage claim can be paid to the "vulnerable" industries.
- The eventual battle should be on ground chosen by the Tories, in a field they think could be won (railways, British Leyland, the civil service or steel).
- Every precaution should be taken against a challenge in electricity or gas. Anyway, redundancies in those industries are unlikely to be required. The group believes that the most likely battleground will be the coal industry. They would like a Thatcher government to: (a) build up maximum coal stocks, particularly at the power stations; (b) make contingency plans for the import of coal; (c) encourage the recruitment of non-union lorry drivers by haulage companies to help move coal where necessary; (d) introduce dual coal/oil firing in all power stations as quickly as possible.
- The group believes that the greatest deterrent to any strike would be "to cut off the money supply to the strikers, and make the union finance them". But strikers in nationalised industries should not be treated differently from strikers in other industries.
- There should be a large, mobile squad of police equipped and prepared to uphold the law against violent picketing. "Good non-union drivers" should be recruited to cross picket lines with police protection.

Callaghan had the church elders eating out of his hand

Devolution

Only one more hurdle for Scotland

The Scottish National party's annual conference began in Edinburgh on Thursday with the party's electoral prospects looking bleaker than at any time over the past five years. Chastened by its failure to win last month's parliamentary by-election at Glasgow Garscadden and its indifferent showing in the Scottish local elections on May 2nd, next Wednesday's by-election result at Hamilton was awaited by the SNP with foreboding rather than anticipation.

There was little confidence that Mrs Margo McDonald would repeat Mrs Winnie Ewing's victory in the last Hamilton by-election in November, 1967. Her success then in capturing the seat from Labour first put the SNP into the big time. Now the party dreads a fearful symmetry: that Hamilton will now mark the end of the SNP's period as a major electoral force.

These fears were increased by Mr James Callaghan's visit to the general assembly of the Church of Scotland on Monday, which was well received and commanded peak viewing on Scottish television. The hand of Mr Willie Ross, Labour's former Scottish secretary and now Lord High Commissioner of the church, was detected behind the invitation to the prime minister, but there was nothing that the Nationalists could do but grin and bear it.

Yet if the SNP is less than buoyant about its own future, it can certainly congratulate itself on having transformed the shape of Scottish politics. A Scottish assembly in Edinburgh seemed just about as likely as the restoration of the Austro-Hungarian empire before the first Hamilton by-election; now it must be rated a strong probability.

One by one the barriers to its realisation have crumbled over recent months. The only serious one remaining is the projected referendum, but a long series of opinion polls have now shown a decisive majority in favour of Scottish devolution, the latest being a System Three poll carried out last week for the BBC, which showed 64% intending to vote yes and 35% no, with only 1% undecided. This exceptionally low figure for don't knows argues strongly in favour of a high turnout in the referendum, which should reassure pro-devolutionists worried lest the 40% hurdle written into the Scotland Bill against the government's wishes should not be met. On the System Three figures it would need a turnout of only 63% for the 40% hurdle to be cleared—not a very stiff hurdle (see page 24 for the latest poll on Welsh devolution).

Fears that the house of lords would hold up the bill, or emasculate its major provisions, were dispelled when the lords' committee stage ended on May 17th. Although the government had suffered 13 defeats—and may face some more in the report stage, which begins in early June—nearly all of these concerned fringe provisions. The only fundamental

CONFIDENTIAL

CC No.

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

AT 15/6

Private Secretary to
The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

15th June 1984

Dear David,

BRITISH RAIL: BUS SUBSTITUTION: DRAFT ANNOUNCEMENT

My Secretary of State wrote to the Prime Minister on 22 May (with copies to members of E(A) and others) setting out his proposals for legislation to enable bus services to be substituted for rail services where appropriate. Andrew Turnbull wrote to me on 25 May conveying the Prime Minister's agreement to the proposals, subject to the views of colleagues. The other Ministers concerned raised no objections.

My Secretary of State is hoping to publish, in the first week of July, a White Paper setting out his proposals on deregulation and reorganisation in the bus industry. Legislation for this purpose will be required next Session. The Bill will also cover the proposals for bus substitution, but the two subjects are otherwise separate. My Secretary of State wishes, therefore, to announce the bus substitution proposals in advance of publication of the White Paper. He has concluded that the best way to do this would be by means of a Written Answer to a PQ, linking the proposals to the comments on bus substitution made by the Select Committee on Transport in their report on the Serpell Report.

I attach the terms of the proposed Question and Answer. My Secretary of State would like to make this announcement in the second half of next week and I should, therefore be very grateful if I could have any comments on the draft by midday on Wednesday 20 June.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Secretaries of State for Scotland, Wales and the Environment, the Lord Privy Seal, the Minister of Agriculture, Fisheries and Food, and to Sir Robert Armstrong.

Yours,
Dinah

MISS D A NICHOLS
Private Secretary

CONFIDENTIAL

DRAFT STATEMENT ON BUS SUBSTITUTION

Draft Question

To ask the Secretary of State for Transport, what action he is taking in relation to the suggestion of the Select Committee on Transport about bus substitution for rail services in their Second Report for Session 1982-83 (HC Paper 240), and if he will make a statement.

Draft Reply

It is not our intention that British Rail should embark on a programme of major route closures. Within the context of that firm policy, however, I share the Select Committee's view that:

> ". . . there is a strong case for bus substitution in situations where existing rail services are making significant operating losses and where buses can provide travellers with a reasonable alternative service at substantially lower costs of operation."

I also agree with the Select Committee that it is essential to give travellers confidence in the continuity of substitute services. I fully support the Committee's view that British Rail should be responsible for the provision of the services and that the resulting financial savings should be used to help provide the resources required for re-equipment and investment in the rail network. In short, I believe that any bus substitute service must be of good quality, attractive, guaranteed and - where necessary - subsidised.

It was against this background that I wrote to the Chairman of British Rail last October inviting his views 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.

The Chairman has welcomed the idea and has stressed that any substitute bus services should be designed as an integral part of the rail network and should be protected by a closure procedure comparable to that for rail services.

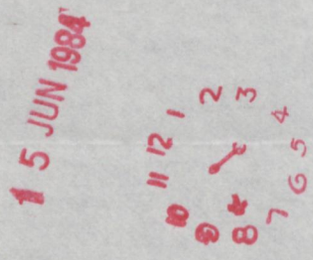
The existing law is inadequate for this purpose. The replacement services provided under it during the 1960s were unacceptable. I have decided, therefore, to introduce legislation at the earliest opportunity reflecting the comments of the Select Committee and the Chairman of British Rail.

The essential features of my proposals are as follows. First, no bus substitute service would be introduced before the existing statutory procedure governing the closure of the rail service concerned been completed. Second, where British Rail considered that a substitute bus service would offer a practical alternative to the existing rail service and provide better value for money, it would make clear in its closure proposal the intention to seek provision of the bus service. I would take account of the bus service proposals in reaching decisions. If I were convinced that the rail service was no longer justified and the proposals for substitute bus services were justified, I would make them a condition of my consent to the closure. Third, the substitute bus service would be protected by a closure procedure similar to that for railway passenger services so as to provide the safeguard for continuity that is essential. Fourth, if the bus service could not be self-financing, it would be subsidised by the Government through the grant to British Rail for the Public Service Obligation. Fifth, British Rail would be required to use contractors to provide the bus service and to seek competitive tenders for this purpose.

I am grateful to the Select Committe for the help I gained from their views in framing these proposals.

Transmit: BR.

Pt 8



CONFIDENTIAL

PRIME MINISTER

BRITISH RAIL BUS SUBSTITUTION

I have seen Nicholas Ridley's minute to you of 22 May about bus services in substitution for some rail services.

I am content with Nicholas's proposals. Indeed, as regards rural areas, I welcome the care he is taking to ensure we have a defensible position publicly, not least to our own supporters. As you know I have been concerned over the same point in relation to de-regulation of local bus services which we have agreed will need to be reflected in the drafting of the White Paper.

I am copying this minute to the recipients of Nicholas's.

PJ

P J

6 June 1984

Transport BF

CONFIDENTIAL

CC NO

FROM: CHIEF SECRETARY
DATE: 30 May 1984

NBPM AT 4/6

PRIME MINISTER

LEGISLATIVE PROGRAMME 1984-85: BRITISH RAIL BUS SUBSTITUTION

I have seen the Secretary of State for Transport's minute to you of 22 May on bus substitution, and your Private Secretary's subsequent reply.

I am content with the specific proposals on the content of the legislation; and in particular that BR should have a power to pay grant for the support of bus services on contract to them.

But I have doubts about his proposals on the subsequent application of this policy, and I would like to see a commitment to quicker progress after legislation.

We effectively determine the size of the passenger network and pay the deficit incurred in maintaining it; and I am not convinced that there would be a strong incentive for BR to come forward with proposals to substitute buses for trains once this legislation is in place. Some of the money that we pay to BR covers grossly loss-making services, and there are significant public expenditure savings available in the substitution of buses for trains. Although I accept that there will be difficulty in handling this policy with the rail lobby, we need to ensure that BR will be under pressure to come forward with proposals for bus substitution, and that we can take a view on the criteria applied and the rate of progress.

CONFIDENTIAL

One mechanism may be to set future grant targets which assume a particular rate of progress on bus substitution; but we must make it clear to BR that we will expect them to take a continuing initiative in the application of this policy. This need not conflict with our commitment that there will be no major route closures: this is no more than sensible alternative provision of public transport services, combined with our continuing insistence that BR should take a rigorous approach to cutting costs on the passenger network.

PR

PETER REES

Transport Pt 8

BR Policy

ECL

CONFIDENTIAL

HMT DOE LCO
NIO LPSO CWO
DN DTI GWO, H/L
SO CDLO CO
WO DM
MAFF
CS, HMT

10 DOWNING STREET

From the Private Secretary

25 May 1984

bc Nick Owen.

Dear Dinah.

British Rail Bus Substitution

BF

The Prime Minister has seen your Secretary of State's minute of 22 May and, subject to the views of colleagues, agrees with the provisions proposed.

I am copying this letter to Private Secretaries to all members of E(A), Richard Stoate (Lord Chancellor's Office), Murdo Maclean (Chief Whip's Office), David Beamish (Chief Whip, Lords) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Miss Dinah Nichols
Department of Transport

CONFIDENTIAL

Prime Minister ①

Agree to Ridley's proposals?

CONFIDENTIAL

Yes

MR TURNBULL

24 May 1984

BRITISH RAIL BUS SUBSTITUTION

Nicholas Ridley has made a sensible proposal which should make it easier for British Rail to close some of the more absurdly uneconomic provincial lines. The Provincial Services as a whole only cover one quarter of their costs (revenues in 1983 of around £160 million; costs of around £660 million). If bus substitution is successful the deficit could be reduced by a small but useful £45 million a year.

The presentational advantages of the proposal are that the bus services would be under BR control, but not run by them; they might have a BR livery; and their timetables would be integrated into that of the network as a whole, with through-ticketing. These features, combined with a guaranteed life, ensure that the bus services would be a credible part of the BR system. They will not satisfy the out-and-out railway enthusiasts but should go some way towards meeting the genuine transport concerns of the communities affected.

In presenting the proposals we ought to avoid creating a presumption that there would be substitute buses for every rail closure. In some cases there will already be bus services available, and in others, new services might spring into being, within the liberalised framework that is proposed for local buses. The other danger is that in escaping from obligations to operate train services, we lock ourselves in too firmly to providing bus substitutes. Traffic requirements will change. It will be important that the terms of provision for substitute buses be drafted in a way which allows flexibility as to routes and frequency of services.

Although it is not made clear in Nicholas Ridley's note, the grant to BR will be part of the PSO grant already agreed, and not an addition to it. It is not decided yet whether the grant should be earmarked to buses or not. We see advantages in not doing so. BR would have a strong incentive to substitute buses for the worst lines, in order to live within the demanding PSO targets they have been set. There would be no need for BR to haggle about the allocation of the grant.

We recommend agreement to the provisions.

NICHOLAS OWEN

CONFIDENTIAL

DASABG

CONFIDENTIAL

BF via PM advice

CC NO

Prime Minister

LEGISLATIVE PROGRAMME 1984/85: BRITISH RAIL BUS SUBSTITUTION

E(A) Committee has agreed the major proposals on deregulation and reorganisation in the bus industry, subject to presentational needs. I am now writing to set out my policy proposals on the minor, but complementary, subject of bus substitution for some rail services.

Background

Some provincial railway services show very poor value for money ratios and impose heavy costs on the taxpayer. But they are extremely difficult to close. The opponents consist of two distinct groups - those who are affected as travellers, and those who are railway enthusiasts. I will be making proposals in relation to the latter group. But for the former group the answer is a replacement bus service. Powers to provide such services already exist, and were frequently used during the "Beeching" closures of the late 1960's and early 1970's. But those bus services were often slow, unattractive and inconvenient. This was partly because of a requirement that they had to call at the former railway stations, even where these were some distance from the communities they served. Patronage was low, and the services often ran at a loss. Where they did, there was no power to subsidise them, so they were withdrawn as soon as possible - usually two years - after the railway closure. As a result, replacement bus services got a bad name and became regarded as being unacceptable as a substitute for rail.

Colleagues have already agreed that the time has come for a new initiative. E(NI) decided, at its meeting on 13 September 1983 (E(NI)83 8th meeting) and in subsequent correspondence, that our published statement of objectives

for Bob Reid should call for his views on the practicality of introducing, where appropriate, guaranteed and subsidised substitute bus services. He has replied favouring the idea and asking the Government to promote the necessary legislation.

Proposals For Legislation

Four legislative provisions are necessary to secure appropriate substitute bus services in suitable cases:

i. A power for British Rail to secure the provision of bus services along the broad corridor of withdrawn railway services, but not tied to the former railway stations. I could then impose them as a condition of consent to particular rail closures.

ii. British Rail to be obliged to use contractors for these services. They should also be obliged to seek competitive tenders for them.

iii. The services to be protected by a closure procedure similar to that for railway passenger services, so that, in the event of objections, the final decision on closure would rest with me.

iv. Power for me to pay a grant to British Rail to reimburse them for the costs of securing the bus service, (being less than the cost of the rail service) if no tender undertakes to operate it on a purely commercial basis.

I do not propose to modify the existing railway closure procedure.

Controversy

While the principles of bus substitution may not be controversial, there will be a lot of concern, on all sides of the House, that this is a back-door way to close more

railways. I shall therefore need to make our position clear.

Our publicly stated policy is that we do not intend the Railways Board to embark on a programme of major route closures. We shall need to reaffirm this when the legislation is introduced. If the legislation on bus substitution is passed in the Summer of 1985, and if the Board puts forward a small number of closure cases where they believe that bus substitution would be appropriate it will be easier for me to give my consent. I will also consider whether to make such conditions to my consent to any closure cases already in the pipeline subject to BR providing bus substitution. The result would be that, by the end of this Parliament, we might have somewhere between half a dozen and a dozen guaranteed substitute bus services in operation. Later we could decide whether to extend this practice to be on a larger scale. But we do not need to take that decision at this stage.

All this is very low key and controlled, and it does not go as far as we go in the new deregulated system, for buses in general. But the emotive nature of railways make it difficult to make faster progress on this front.

EC Considerations

We shall need to inform the EC Commission of our proposals, as they affect the PSO grant which is paid under Community regulations. I do not expect any difficulty on this score.

Conclusion

My Public Transport Bill in the legislative programme for 1984/85 (CC(84) 8th Meeting, Item 5) already provides for legislation on this topic. I now seek your and colleagues' agreement to the provisions which I propose.

I am copying this minute to all members of E(A) Committee, to Quintin Hailsham, to the Chief Whips in both Houses, and to Sir Robert Armstrong.

NR

3F

NICHOLAS RIDLEY
22 MAY 1984

EA

020

PARLIAMENTARY UNDER SECRETARY OF STATE

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

My ref: M/PSO/4456/84

Your ref:

A Lansley Esq
PS/Secretary of State for
Trade and Industry
1 Victoria Street
LONDON SW1

17 MAY 1984

18/5

1) Mrs Fletcher: to see
2) pa

DMB 18/5

Dear Andrew,

BRITISH RAIL PURCHASE OF DIESEL MULTIPLE UNITS (DMUS)

Thank you for your letter of 25 April.

Mr Mitchell agrees it is a pity that BR found themselves in a position in which it was necessary to specify foreign components for the initial purchase. With hindsight it is clear, of course, that the timetable which BR had to adhere to for ordering the units was too tight to permit full evaluation of the RR and SCG items. But as I explained in my letter of 9 April to David Barclay, the asbestos problem, including rapidly-rising costs of removal, means that replacement of many of the existing DMUs has become extremely urgent. BR's decision to bring forward the first order for 100 vehicles is part of their strategy of early replacement of low-density, cross-country units. This has been shown to offer the greatest scope for savings.

I can assure you that BR's decision was taken only after they had undertaken an exhaustive analysis of the alternatives which showed clearly that there would be considerable financial advantage in bringing the order forward: asbestos removal from the existing units would be particularly expensive.

BR have had lengthy discussions with RR and SCG, and are very conscious of the implications of their decisions for the companies. Mr Mitchell is confident that they will live up to the assurances set out in my letter to David Barclay.

I am sending a copy of this letter to David Barclay.

Yours ever,

A J POULTER
Private Secretary

CONFIDENTIAL

cc. HMT ✓ DC ✓ OWEN
HO ✓
DES ✓ D/M ✓
D/N ✓ Chief.Sec ✓
D/E ✓ Min.Arts ✓
DHSS ✓ CO ✓
DTI ✓ LPO ✓
C.Duchy ✓ MOD ✓
SO ✓
WO ✓
LOD ✓

10 DOWNING STREET

From the Private Secretary

17 May, 1984.

British Rail Pay

The Prime Minister has seen your Secretary of State's letter to the Chancellor of 16 May. She agrees with the reformulation of the productivity requirements which Mr. Reid is proposing. She is content also that the Railways Board should increase their offer up to 4.6%, but with discretion to go to 4.9% if it will clinch a firm settlement.

I am sending copies of this letter to the Private Secretaries to the members of E(PSP), the Lord President, the Secretaries of State for Defence, Scotland and Wales, the Attorney General, and to Richard Hatfield (Cabinet Office).

A. Turnbull

Miss Dinah A. Nichols,
Department of Transport.

CONFIDENTIAL

RD

4.92

SECRET

NBPM CC(84)6
AT 17/5/7

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

17 May 1984

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Transport

Dear Nick

BRITISH RAIL PAY

You wrote to me on 16 May reporting the latest developments in the railways pay dispute.

I accept that Bob Reid may have to relax his stance on productivity if that is the only way to avoid industrial action and secure a real chance of a settlement for the railways while the coalminers' dispute continues. I also agree that he should be given negotiating flexibility up to a ceiling of 4.9 per cent. But he should not go higher: we need to preserve the appearance of a differential between the offer of 5.2 per cent made to the miners and the level of other public sector settlements. If it proves impossible to reach a settlement for the railways on this basis, I hope Bob Reid will do his utmost to ensure that talks are not broken off, and that a further negotiating meeting is arranged before 30 May.

Copies of this letter go to the recipients of yours.

Yours

NIGEL LAWSON

E.R.

Prime Minister (1)
Agree to Ridley's proposals?
AT 16/5

CONFIDENTIAL

MR. TURNBULL

Yes

British Rail Pay

If the British Rail Board could secure a settlement at or below 4.9%, with the productivity conditions largely intact, against the highly charged background, we should be well satisfied. It is important that BR retains the productivity conditions. They are central to BR's whole approach, and have been circulated to every employee. The most important condition, involving the saving of 2000 footplate staff, is to be retained intact. BR envisage relaxing the other two conditions - driver-only operation on passenger and freight trains.

The concession on freight trains is a modest one. BR propose to proceed, from 1 August with driver-only operation on two routes on which trials were conducted successfully, but they will offer to repeat the trials on a third route, where the earlier results were inconclusive. On passenger trains, BR aim just to secure cooperation on the installation of the technology to allow driver-only operation. This is a more substantial concession, but it offers a way of getting the NUR off the hook of their 1983 conference resolution not to agree to productivity conditions.

There is a reasonable chance that BR could succeed. Mr. Buckton and Mr. Knapp, and their respective Presidents, appear willing to talk. The delayed start of the railwaymen's work-to-rule suggests that the leadership hoped that BR will come forward with a new offer. The fact that Sunday working would be excepted from the work-to-rule suggests that the leadership are not sure about

/ their

their ability to carry their membership, which relies heavily on Sunday overtime. BR management took the initiative last Friday to forestall an attempt by the militants to present the Board as bent on decimating the railways.

We recommend that Nicholas Ridley should give Bob Reid the room for manoeuvre he asks for.

Nicholas Owen

16 May, 1984.

MISC 101

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

16 May 1984

Dear Nigel

RAILWAYMEN'S PAY

At the meeting of MISC 101 last Monday we were much concerned that the pay dispute on the railways should not lead to major disruption which could coalesce with the action of the striking miners. I have now discussed with Mr Reid the way forward. He is of course much concerned to avoid if possible the situation in which the militant elements in the railway unions would be able to force confrontations with management whose consequences could not be contained. At the same time, it is vital to him that he should not surrender the strong position he has built up on the need for productivity improvements and changes. This is of course also very important to us, since any suggestion of weakness on the rail front might be thought to imply a weakening of resolve on coal.

Mr Reid has therefore reformulated his productivity requirements. On this basis, he is optimistic of gaining ASLEF's agreement to the most important of the three

conditions (easement of single manning, worth 2000 jobs). The other two conditions - which concern driver-only operation of freight and passenger trains - would be modified so as to secure all the changes the Board needs at this stage but without confronting the NUR with demands which they are prevented by conference resolutions from meeting. On this basis, he is indicating that he would be ready to consider improving the existing offer (which is worth 4.3%). He expects to secure the agreement of the unions to come to a further meeting of the Railway Staff National Council on Monday next.

Mr Reid's judgement is that the workforce in general are eager for an early settlement. He is reinforcing this by arranging that between now and Friday every man is individually interviewed by his manager to have clearly spelt out the Board's position.

We have already agreed that the Railways Board can if need be increase their offer up to 4.6%. Mr Reid's view is that on Monday he needs to have discretion to go up to 4.9%, but the Board would not move to any figure above 4.6% except as a final one. He would settle for less if at all possible.

I am sure that we have to back Mr Reid's judgement, and if he can secure settlement before Whitsun on the rail front on these terms our general position would be very much strengthened. I hope therefore that you will see no difficulty in my telling Mr Reid that if necessary he has discretion to go up to 4.9% at the most, that this is a final figure and that it should not be offered unless it will clinch a firm settlement. I ought to tell him tomorrow, Thursday, if at all possible.

I am sending copies of this letter to the Prime Minister and to the other members of E(PSP), the Lord President, the Secretaries of State for Defence, Scotland and Wales, the Attorney General, and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

CC NO

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

11th May 1984

Dear Chancellor,

BR PAY

Much as expected when I wrote to you on 8 May, the Railway Unions announced this afternoon that they will be instructing their members to cease all overtime and rest day working (except on Sundays), and to work to rule, from 30 May. The ostensible reason for their decision is that BR's pay offer is too low and that discussions on pay should be quite separate from those on productivity.

I have discussed this with Bob Reid. He is quite clear that the union leaders' main motivation is political and is a response to heavy pressure from the NUM.

BR will be using all possible means to get across their position to the workforce and the public. To pre-empt the unions' announcement, BR held a press conference themselves at 11.15 this morning. They stressed that:

- BR has already improved its offer from 4% to the equivalent of 4.3%;

- The negotiations had not been completed and, indeed, the Board have already offered no less than five dates for a further meeting;

- There must be further reductions in manpower over the next few years but there will be no compulsory redundancies;

- The three specific productivity conditions are not new, and one of them is still in the negotiating machinery;

- Disruption of the railway would drive away customers, threatening the longer term future of the railway and the further investment for which the unions are always clamouring;

CONFIDENTIAL

- The Board regard the unions' action, therefore, as premature and unnecessary.

BR will reinforce these points in contacts between local managers and the men. They will, if it seems appropriate, put their message across by national advertising in the press next week. And they will try to get the unions back to the negotiating table.

Bob Reid made clear to me that, if the unions go ahead with this action, it would probably affect services quickly and seriously. This is not only because railwaymen do very large amounts of overtime and rest day working, but also because a few militant signalmen can paralyse whole routes.

I asked Bob Reid whether there was any particular guidance the Government might usefully give. He said that the problem was BR's and that the Board must handle it. But he asked for:

a. reasonable flexibility to increase the pay offer within BR's ability to finance it; and

b. an assurance that the Government would not put pressure on him to set aside the three productivity conditions. He would strongly resist that because backing down on productivity would strike at the progress on working practices won so slowly and painfully since 1980 and make it far more difficult to achieve the further improvements that are required.

I told him that he already had our approval to go up to 4.6% and that, if necessary, I should be willing to consider, with colleagues, a marginal increase even on that figure. I also said that, if it came to the crunch, it was more important to keep coal trains running than to avoid disruption of passenger services. I believe that we should also continue to give the Board our backing to stand firm on the specific productivity conditions.

Bob Reid will keep in close touch with me. I will continue to inform colleagues of developments and we can review the position at MISC 101 on Monday.

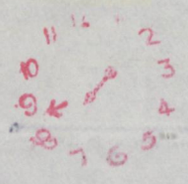
I am sending copies of this to the Prime Minister, to members of E(PSP), to the Lord President, the Secretaries of State for Defence and for Scotland and the Attorney General, and to Sir Robert Armstrong.

Yours sincerely,
Dinah Nichols
Private Secretary

pp NICHOLAS RIDLEY
(Approved by the Secretary of State & signed in his absence)

2F

Transpost : BR pay 48.



CONFIDENTIAL

NBPM CC/NO.
AT 8/5

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

8 May 1984

Dear Nigel

RAILWAY PAY

Railway pay negotiations adjourned on 27 April on a slightly improved offer (equivalent to 4.3%), subject to the productivity conditions which BR have specified from the outset.

The NUR and ASLEF, acting jointly, are now threatening a campaign of limited disruption in support of their pay claim. An all-out strike call seems unlikely. The unions are not expected to take a firm decision on industrial action before the NUR and ASLEF Executive Councils meet on 10 May, and even then, they may only threaten disruption if BR have not improved their offer by, say, the end of this month.

BR wrote to the rail unions last week formally restating their insistence on union agreement to specific productivity improvements before the 1984/85 pay claim can be settled. Their letter was mis-interpreted in the weekend press as a new move, designed to open the way to arbitration. What, in fact, BR have done is to remind the rail unions that the negotiating process on productivity has not been exhausted, that the door remains open for talks but that pay and productivity are irrevocably linked.

Bob Reid is, of course, fully alert to the continuing importance of playing rail pay long and in a low-key while the miners are still on strike. I shall be keeping in close touch with him and will inform colleagues at once of any significant developments.

Copies of this letter go to the Prime Minister, to other members of E(PSP) and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

Transport A 8

BR fa 09

SECRET NBPM AT 27/4 CCNO 6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
LONDON SW1

26 April 1984

Dear Secretary of State,

In Nigel Lawson's absence, I am replying to your letter of 18 April about the latest development in the BR pay negotiations. I have also seen Giles Shaw's letter of 17 April.

In his letter of 16 April, Nigel had already indicated that we were content for the negotiating ceiling for BR pay to increase to 4.5 per cent on basic rates and average earnings. In your latest letter, you say that Bob Reid's judgement is that it will be necessary for him to go as high as 4.6 per cent on average earnings when he meets the unions on 27 April.

This package would include a non-enhanceable cash supplement worth 0.6 per cent, to be linked firmly to genuine union co-operation with the productivity improvements described in paragraph (c) of your letter of 13 April to Nigel Lawson, which are additional to the productivity items linked to the original 4 per cent offer.

I accept the importance at this juncture of keeping these pay negotiations in play. I note from your latest letter that Bob Reid considers it unlikely that the NUR will be prepared to settle before their Conference ends in the first week of July. We seem, therefore, to be settling in for a long haul. In these circumstances, I could only agree that Bob Reid should have latitude to go up to 4.6 per cent tomorrow if you and he were certain that this is absolutely necessary to keep the talks in play; and if the unions are ready in return to make clear and specific commitments on productivity to which the offer would be firmly linked.

As Giles Shaw says, presentation of 4.6 per cent would require careful handling. Moreover we do not know whether the gas manuals will in fact accept the offer on which they are currently balloting.

SECRET

I am copying this letter to the Prime Minister, to the members of E(PSP) and to Sir Robert Armstrong.

Yours sincerely,

Debbie McCambridge

p.p. BARNEY HAYHOE

[Approved by the Minister of State and signed in his absence]

Transport RG

BR Pay

1278

Copy No 2 of 22

SECRET

NBPM AT 18/4 CC NO 5

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

18 April 1984

Dear Nigel

BR PAY NEGOTIATIONS

Thank you for your letter of 16 April, and for your agreement that Bob Reid should have some flexibility in his forthcoming negotiations if he is to minimise the risk of conflict.

He fully accepts the need to avoid his pay talks having an adverse effect elsewhere in the public sector. His next meeting with the unions is now scheduled for 27 April, the very day, I understand, that the result of the gas manuals' ballot is announced. So whatever he offers is unlikely to impinge on that.

His view is that the key element of the package which I outlined in my letter of 13 April is the 1% non-enhanceable cash supplement in return for a commitment to co-operation in other productivity improvements (my paragraph (c)). The 4% of course remains linked to the original productivity items. Together, they equate to a 4.6% increase on paybill and earnings.

Mr Reid believes that TSSA would wish to settle quickly, but not at 4%, while the NUR will probably not be prepared to settle until their conference ends, in the first week of July, because of the policy they adopted last year against further productivity improvements. He will have to decide whether it is generally acceptable to allow negotiations to drag on that long, although from our point of view it might be helpful if they could do so without the risk of conflict. But that is for him.

Mr Reid will be reviewing his position next week in the light of developments in the miner's dispute, and developments on the railways which now include, I fear, a document leaked to the unions yesterday which points to the rundown of two additional British Rail Engineering works and the loss of a further 10,000 jobs by 1987. We may well find that the militants use this strategy paper (part of the 1984 Rail Plan process) to make further common cause with the miners.

In the meantime, I hope you and colleagues will agree that we should allow Bob Reid to negotiate at this stage up to a maximum of 4.6%, rather than the 4.5% which you suggested. I shall, of course, keep you fully informed about developments.

I am sending copies of this to the Prime Minister, members of E(PSP) and Sir Robert Armstrong.

NICHOLAS RIDLEY

Transport Pt 8

BR - fares

COPY NO 11 OF 24.

SECRET

3

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

NBPM
AT
17/4

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

17 April 1984

Dear Nigel

BR PAY NEGOTIATIONS

I have seen Nicholas Ridley's letter of 13 April to you, and discussed its substance with Peter Walker whose views are reflected in this letter. Your letter of 16 April also refers.

It seems to us that the overriding consideration must be the avoidance of a rail strike at this time. Peter Walker's view, therefore, is that British Rail should be authorised to go as far as 4.5% on basic rates and perhaps even a little higher so long as Nicholas Ridley is satisfied that such an offer would be likely to lead to a settlement. He believes that, with careful presentation, a settlement at a little above 4.5% on basic rates and average earnings would not undermine the position we are seeking to hold in the energy sector.

I am copying this letter to the Prime Minister, to Members of E(PSP) and to Sir Robert Armstrong.

Yours

Giles

GILES SHAW

SECRET

TRANSPORT: bk fares
Pt 8

SP

SECRET

CCNO

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 6670
Switchboard 01-213 3000

Minister of State

NBPM 4
AT 17/4

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON SW1

17 April 1984

Dear Secretary of State,

BR PAY NEGOTIATIONS

I agree your judgement that we should support Bob Reid's proposals for his negotiations with the railway unions, which you describe in your letter to the Chancellor of 13 April.

It seems to me to be critical at this juncture to avoid the risk of militants being strengthened in their attempts to block the movement of coal by rail and to make wider, common cause with the miners.

I am copying this letter to the Prime Minister, to members of E(PSP) and to Sir Robert Armstrong.

Brian McCarthy

pp JOHN SELWYN GUMMER

(Approved by the Minister of State
& signed in his absence)

SECRET

Transfer Pt 8

BR Pay

SECRET

MFJ. 2

dlè

c. D/M
CS, HMT
Min. Arts.
CO
CDL

DTI
DHSS
DOE
D/N
DES

HO
HMT
bc Nick Owen

10 DOWNING STREET

From the Private Secretary

16 April 1984

bc Press Office
5.6.84

cc TF 7/6

Dear Henry.

BR Pay Negotiations

The Prime Minister has seen your Secretary of State's letter to the Chancellor of 13 April. She agrees that BR should increase its pay offer in order to keep the negotiations in play. She accepts that the offer can be increased along the lines suggested so long as the productivity conditions are insisted upon. She would be concerned if the offer were improved beyond this point as it would put the offer made to the miners in a poor light.

I am sending copies of this letter to the Private Secretaries to members of E(PSP) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Henry Derwent Esq
Department of Transport.

SECRET

CST

LCC NO

NBPM
AT 16/4

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

Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
London SW1P 3EB

16 April 1984

Dear Nick

BR PAY NEGOTIATIONS

WITH AT ?

You wrote to me on 13 April about the latest developments in the BR pay negotiations.

I agree that it would be right to give Bob Reid flexibility to go above his present 4 per cent ceiling. If it were simply a matter of BR pay, and if we were certain a settlement could be achieved, I would not have ruled out the offer you describe (including firm commitments on all the productivity improvements). But it is clear that it could not guarantee a settlement, and even if it could, we might face damaging repercussions on pay negotiations elsewhere in the public sector, particularly at a time when the gas manuals are balloting on 4.6 per cent on basic rates (4.3 per cent on earnings).

But we clearly do not want to precipitate a breakdown in these negotiations at a time when coal is still moving to the power stations. I conclude that it would certainly be right to raise the negotiating ceiling to 4.3 per cent on average earnings - the level offered to the gas manuals - and in all the circumstances there may be a case for going a little higher. However, I am sure we must draw the line at 4.5 per cent on basic rates and average earnings, and I should only be willing to go that far if Peter Walker were content that we can ring fence the offer in such a way that we do not undermine the position he is trying to hold in the energy industries.

Copies of this letter go to those who received yours.

Yours ever

Nigel

NIGEL LAWSON

Transport BR Pt 8

CONFIDENTIAL

Prime Minister ①
Agree?
AT 13/4

MR TURNBULL

British Rail Pay

Nicholas Ridley is seeking rapid endorsement of the negotiating line which British Rail propose to take.

In the present circumstances, there would obviously be advantage in a quick settlement. However, it must be doubtful whether this could be achieved at less than 5 per cent on earnings; and a quick settlement would certainly forego the productivity agreements which Bob Reid has insisted on linking to the negotiation. British Rail badly need the productivity improvements, associated mainly with driver-only operation, in order to meet their quite demanding financial targets. BR abandoned their productivity conditions last year, in the interests of a quick settlement but have failed to make progress on productivity since then. It is important, therefore, that Bob Reid continues to insist upon the productivity conditions. The right tactic for BR is to play the negotiations long, relying on the TSSA and ASLEF to put pressure on the NUR to negotiate. There is sufficient in the package to prevent an immediate dispute; and if BR succeed with it, they would have done very well.

We recommend that the Prime Minister endorses the line which is proposed.

N. Owen

13 April, 1984

1273 Copy 2 of 23

SECRET

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

13 April 1984

Dear Chancellor

BR PAY NEGOTIATIONS

I wrote to you on 7 March about the way in which Bob Reid wished to conduct his pay negotiations with the Railway Unions. All 3 unions rejected his initial offer, and meantime, in line with the advice we gave him, he has succeeded in playing the pay issue long. But the unions are now pressing for an early meeting to resume negotiations. To avoid giving the militants an opportunity to claim that the negotiations have broken down and that the railwaymen should, therefore, make common cause with the miners or open up a separate dispute on their own front, Bob Reid judges that he needs to improve his offer while still insisting on the productivity conditions. His proposals are as follows.

He would offer an improvement on the original offer (which was 4% on paybill and on average earnings) containing 3 elements;

(a) an extra day's leave to be taken at the least costly time of year for the Board - this would add 0.1% to paybill;

(b) an increase on the lowest rates of pay of 4% plus £1 in cash per week. This would bring the men on lowest rates of pay up from £72.20 per week to £76.10. This would be equivalent to a rise of 5.4% on basic rates. The total effect on paybill would be 0.2%

(c) in return for a commitment to co-operation in other productivity improvements to which the Board are committed (eg abolition of the Divisional tier of administration), the men would receive a non-enhanceable cash supplement equal to 1% on existing basic rates of pay. This would add 0.6% to the paybill.

The combined effect of this package would be to increase average earnings by 4.8%, including the cash bonus for co-operation but excluding the additional day's leave. The improved offer would remain firmly conditional on union acceptance of the 3 specific productivity improvements Bob Reid has already laid down.

The Board judge that TSSA would be likely to accept the offer. ASLEF might want to accept it but would not break ranks with the NUR. The NUR are hamstrung by the resolution they passed last summer ruling out further talks on productivity. So, as I explained in my previous letter, Bob Reid's tactic is to isolate the NUR, with pressure to accept the offer being brought on the union's leaders by the workforce and, behind the scenes, ASLEF.

TSSA are anxious to arrange a meeting with the Board by 26 April. They will try to persuade the other unions to find a date before then. Conceivably, the meeting could take place towards the end of next week.

Bob Reid has succeeded so far in preventing the pay negotiations becoming entangled with the miners' strike. I believe he is right in judging that it will not be possible to maintain that separation unless he makes a further offer. The proposals he has in mind could be met within the EFL and the PSO limit.

Looking at the proposals in the context of the present state of the coal industry dispute, I think that we should give Bob Reid our support but I would propose to tell him that he should not go beyond this offer under any circumstances. He needs to have a reaction from me early next week and on Monday if possible.

I am sending copies of this letter to the Prime Minister, to Members of E(PSP), and to Sir Robert Armstrong.

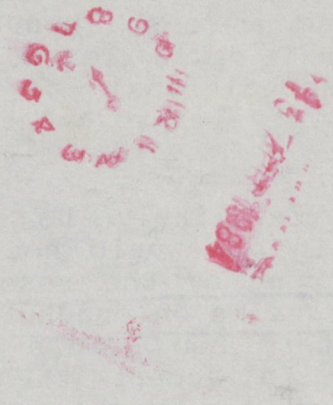
NICHOLAS RIDLEY pp HC Stoward

Private Secretary

(Approved by the Secretary of State but sent in his absence).

Transport BR

A8



SECRET

file

bc: Mr. Pascall

10 DOWNING STREET

From the Private Secretary

14 March 1984

BR PAY IN 1984

The Prime Minister has seen your Secretary of State's letter to the Chancellor of the Exchequer of 7 March. She has commented that negotiations on BR pay in 1984 need to be considered in relation to the dispute in the coal industry. The Government would not want to see the railways halted by industrial action while some pits were still working.

I am sending copies of this letter to John Kerr (HM Treasury), Michael Reidy (Department of Energy), Richard Hatfield (Cabinet Office) and Peter Gregson (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols,
Department of Transport.

SECRET

CONFIDENTIAL

CC NYO

NBPM

AT 15/3

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

13 March 1984

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

Dear Nick

BRITISH RAIL PAY

You wrote to me on 7 March, telling me of your recent meeting with Bob Reid.

I am glad that Bob Reid plans to link any increase in pay to productivity improvements. They are badly needed, and I understand that little progress has been made since last year's pay settlement, although a link was part of that agreement.

The tactics of the negotiation are, of course, a matter for the British Railways Board but I agree they must do all they can to achieve their aim without inducing a strike or other industrial action. If industrial action were to occur, we should want it deferred as long as possible because of the possible repercussions, and I would expect BR to bear the costs themselves, as they did in 1982.

On the level of a settlement, I agree that an offer of up to 4 per cent on average earnings would be acceptable if justified by genuine productivity gains. But given the level of offers made to other public trading corporations, I think it important that the eventual settlement should be kept as close as possible to that figure.

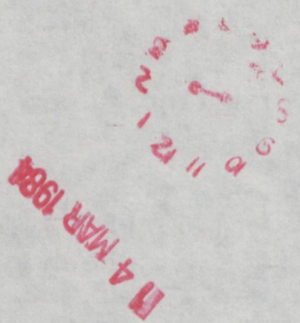
Copies of this letter go the Prime Minister, the other members of E(PSP) and to Sir Robert Armstrong.

Yours ever
Nigel

NIGEL LAWSON

Transport : BR. Foxes

Pt 8.



CONFIDENTIAL

cc AT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister (2)
To note
AT 11/3

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

7 March 1984

We ought to consider this in relation to the local position. We do not want the railways out - if some pit are working.

Dear Nigel

BR PAY IN 1984

Bob Reid came to see me yesterday afternoon to explain how he plans to handle the related issues of pay and productivity this year as part of his drive towards the achievement of the tough grant target we have set him for 1986.

At the meeting of the Railway Staff National Council (RSNC) on 23 February, the Board made it clear to the unions that a pay settlement for this year would be dependent on their agreement to the next steps Bob Reid has identified on footplate manning, and on conversion to driver-only operation of specific freight and passenger services. The unions were sent away to reflect on this. The next meeting of RSNC is likely to be held next Thursday.

Bob Reid expressly asked me if he would have the Government's backing for maintaining the tough line he wishes to take at that meeting and subsequently. Tactically, his aim is to separate the union leaders, some of whom he judges want confrontation, from their members, most of whom are moderate and would probably prefer to settle without disruption. He would therefore, go direct to his workforce to explain his proposals immediately after he has put them to the RSNC next Thursday. He would indicate that, provided there was acceptance of the specific productivity changes, a pay offer of up to 4% could be made.

I should warn my colleagues that the hard line Bob Reid is proposing could lead to confrontation. But his tactics are designed to minimise that risk while securing both the necessary productivity improvements and a settlement that most railwaymen would regard as reasonable.

CONFIDENTIAL

There is no doubt that some of the union leaders would welcome confrontation with us; and there is a risk of them trying to line up with the miners. So I would support Bob Reid's tactic of going direct to his employees to try and win them over. I told Bob Reid that he could count on our backing for the tough "no productivity: no pay deal" line he is taking. I have made it clear to him that we shall be looking for a low settlement. He has given me a firm assurance that this is his aim - indeed, it is essential to his achievement of our 1986 grant target, to which he is committed. He wants to settle for a figure as far below 5% as he can manage.

I am sending copies of this letter to the Prime Minister, to Members of E(PSP), and to Sir Robert Armstrong.

NICHOLAS RIDLEY

020 LRCNO

NBPM

AT 23/1

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley FICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

20 January 1984

Dear Nicholas

MMC PROGRAMME 1984: BRITISH RAIL REFERENCE

will request if required

You wrote to Norman Tebbit on 16 January proposing that the British Rail Property Board should be the subject of the BR reference in the 1984 programme.

I am generally content with this. I hesitated over whether we should announce this as a reference of the Property Board itself, since I would want to see the terms of reference of the study drawn up to cover all aspects of BR's property management. But I understand that the title which you propose would not be an obstacle, since the MMC could be briefed to look at all the main issues of how the estate is managed and exploited commercially. The terms of reference should make it clear that disposal of unnecessary assets and the involvement, where appropriate, of the private sector are prime requirements.

I am copying this letter to the Prime Minister, to members of E(NI) and to Sir Robert Armstrong.

Yours ever

PETER REES

CONFIDENTIAL

fte

Mr A. Turnbull

Ref. No: TPT(84)3

Date: 20.1.84

Briefing Notes for the Debate on
BRITISH RAIL ENGINEERING LIMITED
Tuesday, 24th January 1984

Contents

	Page
1. Summary	1
2. Background	1
3. BREL's problems	2
4. BREL and its customers	3
5. BREL's closures	5
6. The Government's position	7

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
Jeremy Moody
X2508

BRITISH RAIL ENGINEERING LIMTITED

1. SUMMARY

British Rail has inherited in British Rail Engineering Limited (BREL) workshops dating from an earlier age. Modern rolling stock, particularly air braked wagon train freight systems, combined with the more efficient use of vehicles this has meant that BREL has excess or inappropriate capacity. This, in large measure, is due to the result of proper investment paying dividends in reduced maintenance.

While BREL was created to separate the building and maintenance of rolling stock from the rail business and BR's 1983 Corporate Plan intends an "arm's length" relationship between the two, BREL's position is perhaps a little awkward. Over 90 per cent of its business is with BR; BR arrangements on industrial relations and investment affect BREL's ability to react as an engineering operation rather than as a subsidiary of a railway company. It has tried to gear its capacity to the anticipated BR workload but would seem to have undercalculated for the late 1970s and overcalculated for the early 1980s. Work for private buyers, domestic and foreign, has formed the residual and variable item, being expected to expand when there is free capacity.

The mismatch of BREL's capacity and demand has led it to proceed in closing four workshops, while on the 11th January 1984 it announced that 3500 jobs out of 27,500 would be lost this year.

This does not represent a failure of investment in BR by the Government nor does it necessarily reflect upon the workforce, but rather on the different problems of newer vehicles on a more modern railway.

---

2. BACKGROUND

British Rail Engineering Limited (BREL) is a wholly owned subsidiary of British Rail and builds or overhauls its fleet of locomotives and rolling stock. With the sole exception of Indian Railways this relationship is understood to be unique as all other railways buy from independent companies.

On nationalisation in 1948 the British Transport Commission inherited the workshops of the railway companies which were transferred to BREL on 31st October 1969 following the 1968 Transport Act. The Act also gave the nationalised transport industries the power to manufacture or repair for outside bodies as well as their own needs. BREL was established as a subsidiary limited liability company separate from the subsidised rail business so that competition with private firms could be seen to be fair; the intention being that BREL should break even after private work.

It was agreed with the Labour Secretary of State in 1969 that BR should seek competitive tenders for its own needs "where appropriate"

and should place orders with the most "economical" source. "Economics in this context, comprise, however, not only price but such factors as satisfactory delivery or the capacity situation within their own workshops". In 1971 BR decided that the private sector should only be invited to tender when BREL was unable to do the work; tenders for the rolling stock were no longer sought after 1974. Consequently, BREL is almost exclusively BR's sole supplier, with BR accounting for 91-98 per cent of its turnover.

3. BREL's PROBLEMS

(a). CAPACITY AND BR's NEEDS

BREL is, therefore, vulnerable to changes in the nature or volume of its workload stemming from BR decisions.

Modernisation of BR's needs, notably the High Speed Train and the move to air braked wagon trains from single wagons has thrown into sharp relief the nature of BREL's existing capacity, especially as its staff rose from 32,400 in 1973 to 36,600 at the end of 1980 in anticipation of higher BR demand in the 1980s - the 1981 Corporate Plan foresaw this figure rising to 43,000 by 1985.

The 1983 Corporate Plan noted more realistically, "Progressive reductions in BR's fleets of locomotives, wagons and carriages in recent years, together with unfulfilled forecasts of increased new build traction and rolling stock in successive Rail Plans, led BREL, by the beginning of the 1980s, into a situation of substantial overcapacity and associated underutilisation costs."

The costs sharged to BR in 1981 for overcapacity amounted to £15m of which £9m was long term.

Recent changes in BREL's workload can be illustrated:

	1979	1980	1981	1982
New Build				
HST	14	10	36	[
				[27
Class 56 (freight)	16	17	14	
Inter-City coaches	19	78	63	140
EMUs	202	230	166	195
Wagons	1489	1373	1414	832

Overhaul

Locomotives	1650	1526	1070	1113
Coaches	10208	9711	8588	7870
Wagons	n/a	26453	18854	14454

It is thought that BR's demand for new build wagons will be around only 150 a year for 1983-86.

Repairs have declined with longer intervals between services and the use of modern rolling stock. The 1983 Corporate Plan envisaged them to fall by a further 25 per cent by 1988 though new build should increase significantly with investment in diesel multiple units.

(b) BR/BREL RELATIONSHIPS

The relationship between BR and its subsidiary has not always been helpful to BREL whose management has found it difficult to adjust to meet requirements quickly. BREL has little control over major variables including wages, investment and design capability. In particular, wage negotiations are conducted through the railway negotiating machinery with the unions opposed to separate handling of terms and conditions. As BREL is, to some measure, in competition with other engineering employers for its labour, this has led on occasions to shortages of skilled labour since it has not been able to match terms and conditions.

Other difficulties stem from the lack of clarity over the division of maintenance work between BREL and BR so hindering the allocation of capacity.

4. BREL AND ITS CUSTOMERS

There appears to be some ambiguity in BREL's treatment by BR in that it is unclear whether, at the moment, BREL is a semi-independent engineering firm or an inhouse facility. This stems from their mutual position as monopoly buyer and supplier, which has made it difficult to assess BREL's competitiveness.

The Serpell Report felt that "with the exception of locomotives, there is no prima facie evidence indicating that, for designs submitted, the cost of new build is excessive." The problem of locomotive prices would seem to reflect simply the low level of BREL's output at 20-30 diesel locomotives a year while an American works might produce 1200 units with a similar performance.

In 1981 BREL carried out £229m of vehicle maintenance and repair for BR, 55 per cent of its total maintenance expenditure. Between 1977 and 1981 BREL's total repair costs were roughly constant in real terms while the number of repairs fell. Costs per repair rose in real terms by

- 40 per cent for locomotives
- 35-40 per cent for multiple units
- 25 per cent for HSTs
- 15 per cent for coaches

The Serpell Report accepted that some four fifths of these increases were fairly accounted for by

- larger intervals between repairs
- rising average age of vehicles
- greater vehicle utilisation
- a rise in the work content of certain jobs

but "On this basis the costs in 1981 were some £10m higher than if overall efficiency had not deteriorated."

A recent survey has put turnover per employee in 1982 at £13,000, half the figure for a comparable engineering firm.

When the disparity between capaity and workload became clear BREL reviewed its position with a plan to cut 5500-600 jobs which was reduced by the British Railways Board. The investigations of the Serpell Inquiry threw the question open more fully and so, foreshadowing the "arm's length" arrangements of the 1983 Corporate Plan, the 1982 Report announced that BREL would be expected to compete for business while its relationship with BR over contractual arrangements, design, supply, personnel and finance should be redefined. It also noted that the reduction in capacity had already saved £ 14m in overheads.

This has meant that BREL is beginning to be exposed to competition by tender. In 1983 tenders for a prototype short haul diesel were put out to BREL and Metro Cammell. On 16th January 1984 approval was given for 150 rail-buses for which BREL will be in competition with Metro-Cammell, Marshall Engineering of Cambridge, Walter Alexander of Falkirk and Leyland (who already make some at Workington with BREL).

The NUR has been suggesting that work not placed with BREL should be "blacked".

(b) NOW BR TRADE

The 1981 Corporate Plan saw the primary role of BREL as constructing and maintaining vehicles for BR while any spare capacity should be

used for export or private party business, and this part of BREL's business has tended to be a residual item.

While Britain once accounted for a large share of the world's rolling stock, it is now only responsible for some 5 per cent of trade of which BREL has but a part. Between 1977 and 1981 non BR customers formed 4 to 9 per cent of BREL's turnover, though this fell below 2 per cent in 1982. BREL wins some 15 per cent by value of the tenders it has submitted and its operating surplus on private party sales has been between nil and 9 per cent.

The 1983 Corporate Plan argued, " The external sales strategy is based on a conscious policy decision by BREL to develop profitable international outside party business" and the 1981 BREL plan foresaw this work rising from £8m in 1982 to £59m in 1986; by trading on quality and reliability against the low cost producers.

However, most developed countries tend to be nationalist in their procurement while third world countries can be elusive - a prized £23m order for wagons from the Congo failed to be implemented and BREL spent two years trying to secure confirmation of a Nigerian order it understood to be promised.

In 1981 BREL formed BRE-Metro in conjunction with the independent maunfacturer Metro-Cammell to help increase exports. BREL is developing a "super coach" with telephones, reclining seats and catering facilities with the hope of selling 100 a year to European and African markets.

While BR is beginning to put work out to tender so BREL is being invited to tender for the first time by London Transport for rolling stocks on the Central Line and has just won an order for £2.5m of EMUs for Northern Ireland Railways.

5. BREL's CLOSURES

In 1981 BREL reviewed its capacity against new estimates of workload and consequently the Ashford works were closed in 1982. Subsequent proposals were brought forward to close Shildon, Horwich and Temple Mills while in January 1984 BREL has proposed further job losses.

(a) SHILDON, HORWICH AND TEMPLE MILLS

These workshops were proposed for a closure on 17th February 1983 and Shildon figured prominently in the Darlington by-election.

Shildon makes and repairs wagons for BR as well as for some private

customers and export. Wagon making had been concentrated there with the workforce drawn from the "heavy fabrication trades" rather than vehicle builders or electricians so giving little opportunity to diversify. It has the capacity to build 1500 wagons and repair 15000 a year.

BR's policy has been to build up to a level of 22,000 air braked freight wagons which has been achieved. These new wagons have double the capacity, carry 29 tonnes with greater utilisation at higher speed and represent as investment of £500m. By contrast, BR's freight business of ten years ago required 220,000 shorter lived vaccuum braked wagons. Not only are the modern wagons fewer and more robust but they are relatively new with a working life of 20 years so generating less repair work. BR will still have the capacity to build more than 2000 wagons a year and repair 20,000.

Horwich, solely a maintenance shop, has only a limited work load of its own which has been supplemented with overspill from Eastleigh and Wolverton. However, with the introduction of EMUs these two workshops can handle all their traditional workload and BREL has decided that keeping Horwich open would mean wasteful reduplication of facilities and overhauls.

Temple Mills, in East London, is a single purpose works repairing wagons and containers like Shildon and its workload has been insufficient even for the reduced workforce of some 300.

(b) JANUARY 1984 ANNOUNCEMENT

On 11th January BREL announced the prospective loss of 3500 jobs in 1984, representing a 25 per cent cut from 1982 to a level of 24,000 employees. This includes bringing forward to June the closure of Shildon (except for the foundry) with 960 jobs.

Andy Dodds, the assistant general secretary of the NUR, commented

"to be fair to them (BREL), they have lost two important overseas orders they expected to get from the Congo and Nigeria"

(Daily Telegraph, 12th January 1984)

In addition to the continuing decline in repair work, BREL has decided to cease its £15m programme of stripping the asbestos heat insulation from diesel multiple units and replacing the 300 affected with new build by the agreed date of 1987 for removing the asbestos. This decision is reflected in 750 job losses at Swindon, Doncaster and Derby.

At Swindon, where the 1217 announced includes 500 already due to go, the work force has already fallen to 2500 from a peak of 13000. It was considered for closure in the mid 1970s when hydraulics were removed from main line services. The asbestos stripping had been commissioned at Swindon, then removed and had just been recommissioned in November 1983. The maintenance diesel of shunters (whose numbers are declining) forms most of the residual workload. BREL's personnel director has warned that Swindon, once the pride of the Great Western Railway, is "vulnerable". David Mitchell, Under-Secretary of State visits the workshop on 23rd January, the day before the debate.

Other job losses in prospect are at Derby locomotive works (243), Glasgow (242), Wolverton (77) and York (76) as well as Harwich, Crewe and Eastleigh. BREL is also suspending its intake of apprentices for the time being.

(c) BR's ASSISTANCE ON CLOSURE

As David Mitchell, the Under-Secretary, replied in the House,

"At each closure of a BREL workshop special arrangements have been made by British Rail, generally in cooperation with local enterprise agencies, to help create new jobs in these areas."

(Hansard, 16th January 1984, Col 11)

It has consulted with the British Steel Corporation with its wide experience of this kind of problem (notably at Corby) and engaged consultants for the 1983 proposals. BREL worked to start an Enterprise Agency in Shildon and is hoping to find a buyer capable of offering jobs at the present site. Behind this stands the array of Government support for small businesses, new enterprises and assisted areas.

6. THE GOVERMENT'S POSITION

In the last debate on BREL in March 1983 the Government amendment recognised

"the need for British Rail Engineering Ltd to rationalise its workshop capacity in the light of changed requirements; and supports vigorous and constructive measures by all concerned to promote alternative and durable employment in the areas affected.'

and, in referring to the Shildon proposals, David Howell, then Secretary of State for Transport, said,

"This is a decision that has been left to British Rail and BREL, to handle the whole question of rationalising British Rail's engineering capacity throughout the country. There is no question of ministerial or official arm twisting in the matter."

(Hansard, 22nd March 1983, Col 733)

When Nicholas Ridley set the Government's objectives for BR on 24th October 1983, he wrote,

"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."

(Hansard, 24th October 1983, Col 47-48)

Speaking in the House he said,

"The Chairman is asked to make sure that BREL becomes highly competitive so that it will win orders from both British Rail and overseas .... 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 tak management decisions ... that relationship must be preserved if the railways are to have a real chance to improve their position in the future."

(Hansard, 24th October 1983, Cols 41 & 43)

Replying to Labour allegations of Government malevolence and wilful refusal to invest, David Mitchell amplified,

"British Rail has to carry out closures not because any blame rests with the workforce or management, but because of overcapacity within the railway engineering industry."

"I deplore the way in which the workers at many BREL workshops have been frightened by the suggestions that the Government are not prepared to approve investment proposals made by British Rail. In the past month we have announced two major investment approvals, and I look forward to two more approvals being made."

"There is no intention to run down BREL. The rundown is due to past investment proposals being carried out successfully, resulting in there being less of a requirement for heavy maintenance work because of the efficiency of modern equipment."

(Hansard, 5th December 1983, Cols 10-11)

Recent announcements of investments in rolling stock are

- 21st November 1983 - £30m refurbishment for Fenchurch Street-Southend line of 90 four unit electric trains

- 5th December 1983 - 149 electric multiple units for London commuter services to be built at York By BREL guaranteeing work for most of the 2500 there until late 1985

- 16th January 1984 - 150 lightweight "railbuses" for which BREL will be asked to tender.

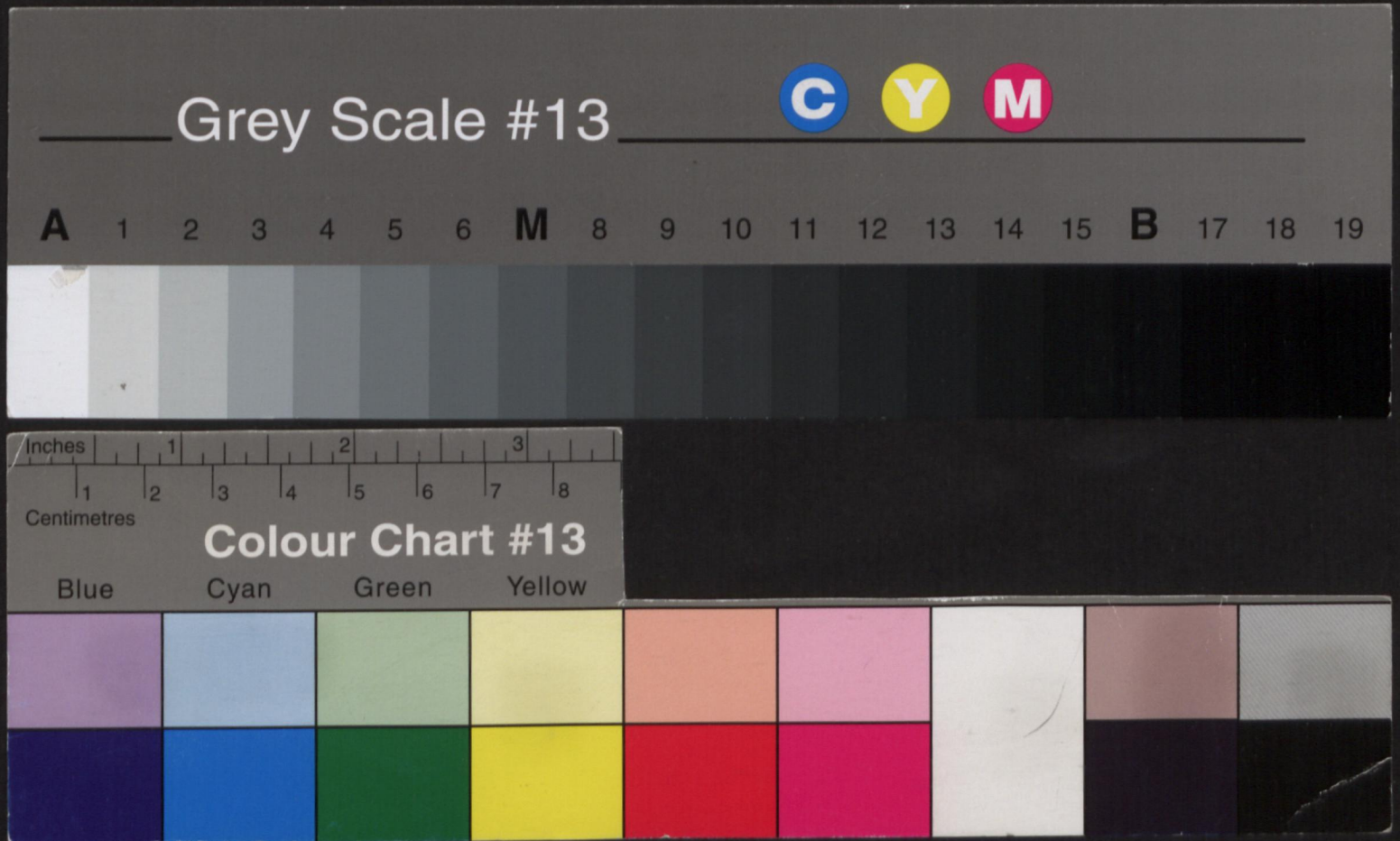
The Government has maintained the investment ceiling at the same level in real terms that it inherited from Labour, and while £1600m has been invested between 1979 and 1983 (as against £1100m as from 1974 to 1979) BR has underspent this limit by 23 per cent in 1981 and 37 per cent in 1982.

PART 7 ends:-

S/S Transport to PM 26.10.83

PART 8 begins:-

CRD Briefing 20.1.84


Grey Scale #13
C
Y
M
A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19
Inches 1 2 3
1 2 3 4 5 6 7 8
Centimetres
Colour Chart #13
Blue
Cyan
Green
Yellow