

Not Inds, 2  
Prime Minister

Mr. Hoshorn  
Mr. Holt



**CONFIDENTIAL**

cc Transport  
Rail fares Sept 73

Handwritten initials and date: 24/4

Prime Minister

RAIL PAY

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

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

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

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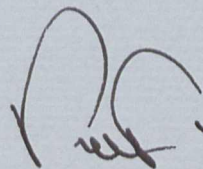
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administration, with for example, a slimming down of divisional management and staff economies in areas like train planning and scheduling as well as in back up services. The Board think that this is a good settlement; they see the unions' acceptance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

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

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

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



~~NORMAN FOWLER~~

24 April 1980

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