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Prime Minister

J. Vereker
A. Duguid
A. Walters

(2)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

20 October 1981

Dear Leon

BRITISH RAIL PAY AND FINANCES

You wrote to Norman Fowler on 28 August with some questions about this year's settlement. My letter to you of 22 September, and Kenneth Clarke's of 2 October have set out the results of the pressure on the British Railways Board on their external financing requirements for this year and next.

I was a bit surprised by your descriptions of this year's pay settlement. The position is clear. The Board obtained from the Unions major new commitments to productivity changes, and a specific and tight timetable for completing the detailed negotiations including the pay changes for those staff whose responsibilities are directly affected. Having obtained that agreement, they accepted the pay increases that the McCarthy Tribunal had recommended, but they deferred the actual payment of the second instalment into next year, and they obtained agreement to finance the extra cost in part by a deferment of the start of the 39-hour week. The balance of the cost in the fiscal year is covered by faster demanning than they had budgeted for. Ministers agreed that these settlements were better than facing a railway strike.

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You expressed concern about the need to prevent the Board attempting to use the benefits of productivity improvements several times over. The way to do that is to concentrate on two things. The first is the change in the total pay bill from year to year. This captures all the changes in manpower numbers, wage rates, overtime working and special payments which may otherwise be hard to disentangle. The other, is the movement in railwaymen's average earnings compared to earnings in the economy as a whole. As you will know, on the most recent statistics their position is just about where it was 10 years ago; the Treasury's own study last year for the CBI showed that in all the other nationalised industries examined the average earnings had moved ahead of earnings in the economy as a whole.

I entirely share your view that their changing trading position makes it necessary for the Board to use all means to accelerate manpower and productivity changes, and they are under no illusion about that. But I cannot think you mean to suggest that some specific new productivity initiatives should be tied to electrification, for that would bring us into the position of bargaining directly with the Unions. I am sure we should stand on what we have said. We have said we must have new business plans for the commercial businesses, and have referred particularly to the need for new agreements on working practices to reduce costs in the freight business. We have said that progress on electrification will depend on the achievement of the changes necessary to secure manpower reductions and improvements in productivity. We have said that approval of each successive electrification project will be conditional on the profitability of the investment and on the achievement of necessary improvements in productivity. Nothing will be gained,

Yes - we made this point all the time

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and a lot will be lost, if we start to claim that major advances by the Board in some sense do not count, and bombard Peter Parker with exhortations to do more.

Yours ever
David

DAVID HOWELL

20 OCT 1981

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Transport

10 DOWNING STREET

From the Private Secretary

27 October 1981

British Rail Pay and Finances

The Prime Minister has seen your Secretary of State's letter of 20 October about British Rail pay and finances.

In relation to points about productivity changes in Mr. Howell's fourth paragraph, she has commented that it was her understanding that some specific new productivity initiatives were to be tied to the electrification programme.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office).

M. C. SCHOLAR

Anthony Mayer, Esq.,
Department of Transport.

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J. Vereker
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A. Walters

Prime Minister

MLS 3/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

3 November 1981

Dear David,

MT

BRITISH RAIL PAY AND FINANCES

You wrote to me on 20 October about the implications of this year's pay settlement and the relationship between improvements in productivity, pay increases, and electrification. I have now also seen the Prime Minister's comments in her Private Secretary's letter of 27 October.

I welcome your confirmation that the extra cost of the second instalment of the McCarthy Tribunal award can be financed by a combination of the deferral of the start of the 39 hour week and faster demanning than expected. I am still, however, concerned about the extent and scale of the extra payments to the staff, over and above the additional 3 per cent, which were apparently conceded to secure implementation of the productivity changes. I would like to know the details of this part of the package as soon as you have an indication of them. Until then we cannot judge how much the Board has paid for these changes. Whatever the details, the effect must surely be to erode the net benefit of the productivity changes to the Board's finances.

Your letter went on to suggest that the increase in the pay bill and the relative position of the Board's employees in the earnings league were important statistics in ensuring that the Board did not use the benefit of productivity improvements several times over. I agree that the increase in the Board's pay bill is important and I would certainly hope that the planned reduction in manpower and lower pay assumptions will combine in practice to reduce the very rapid increase in the Board's pay bill we have seen since 1978-79 with consequential effects on the Board's costs. The Board's relative position in the earnings league seems less relevant. I could not possibly accept that railwaymen have a special right to maintain or improve on their position, particularly in view of their poor productivity record over the past decade.

This leads on to my final point. In my earlier letter, I was not of course seeking to argue that the go-ahead for individual electrification schemes should be linked to specific productivity initiatives. But we have said that progress on electrification will depend on the achievement of necessary improvements in productivity and, at the Prime Minister's meeting on 20 August, it was agreed that productivity improvements agreed in the context of pay could not also be used as justification for railway electrification; further productivity improvements would be required before the electrification schemes could be approved. If we are to give this practical content, we (and the Board) must be clear about what productivity improvements they are expected to achieve before electrification can go ahead - and I am sure you will agree there is considerable scope for further initiatives - and that the financial benefits of changed working practices should be divided between financing electrification and reducing the Board's external financing requirement rather than mortgaged to additional pay. If we do not make this clear to Sir Peter Parker now, we risk disappointing him in the future.

I am copying this letter to the recipients of our earlier correspondence.

Ever
Leon

LEON BRITTAN