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Prime Minister

THE RAILWAYS

Following your meeting on 12 May I asked Sir Peter Parker to let me have the Railway Board's written assessment of tactics and timing for handling their current pay and industrial relations problems. I attach the Board's assessment.

In brief, the Board are saying that they propose to make any pay offer for 1982 conditional on delivery of the outstanding productivity commitments of the 1981 pay settlement. They are also saying that they expect to bring matters to a head, with the strong probability of a total rail strike in June or early July.

I have reviewed the Board's financial position. Their latest forecast is that without further remedial measures they may overshoot the 1982/83 EFL by up to £100m. Part of this overshoot would be the extra redundancy costs from the measures they have now instituted to slim down administration and close workshops. They have been seeking ways to pull back this overshoot - by accelerated property sales, by a freeze on investment starts, by attacking working capital and by possibly bringing forward the next fares increase as well as by further search for operating savings. They have just told me that helped by falling inflation, if these means succeed, then there has now appeared the prospect that they might be able to live within their 1982/83 EFL. This would enable them to accommodate something approaching a pay provision of the kind they originally envisaged for their 1982 budget (4½% for a general increase plus a further 1% for specific productivity changes).

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Each 1% on pay costs BR some £15m in a full year. Each week of total strike entails immediate losses of some £6m a week net (the normal PSO grant being of course suspended). Their ability to cover a 5% pay increase would be eroded fairly quickly by the consequences of a major strike.

In sum our constraint of no extra money means that the most the Board could offer the unions even after delivery of their 1981 productivity commitments is a low pay settlement reducing if there is a strike.

So either way this is a very tight financial framework, and I offered Sir Peter Parker no prospect of alleviation. The Board regard a major crisis in their industrial relations as unavoidable unless the Board's own policies were to be wholly abandoned. In their paper attached they propose to precipitate matters, while trying to maintain a sound public posture. I am sure we must support them in their chosen course.

The Board's paper points out that the unions may seek to make an attack on us that we have given inadequate support to the railway and inadequate commitment to its future. I have made it clear to Sir Peter that there can be no question of our attempting to buy that off by new promises now. This makes the hand doubly difficult for him, particularly when the time comes for his to appeal direct to the workforce over the heads of the union executives. At this stage I think that our right course will be to develop a campaign showing the major things we have already done for the railways, and our support for the objectives that the Railways Board is pursuing, success in which should itself release funds for economically and commercially sound projects.

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I propose that I should be authorised to tell Sir Peter Parker that we recognise that he must face the risk of a major rail strike, and we will not hold him back from that.

I am sending copies of this to the Home Secretary, the Secretaries of State for Industry, Energy, Employment, Defence and Scotland, the Chief Secretary, and to Sir Robert Armstrong and Mr Sparrow.

DH.

DAVID HOWELL
19 May 1982

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Age Profile .



BRITISH RAILWAYS : 1982 INDUSTRIAL RELATIONS

The Railways Board, in pursuing its financial objectives, now faces confrontation with the Trade Unions on a number of issues, most of these have a very high probability of either strike action by Trade Unions or the Board having to close down the railways because of Trade Union and staff intransigence.

Pay increases in 1982 are a common factor for all the Trade Unions, but the other issues are shown below indicating which Trade Unions are involved in resisting these changes:-

OUTSTANDING 1981 PRODUCTIVITY COMMITMENTS

- Disc*
- | | |
|--|-------------------|
| 1. Flexible, variable day length rosters. | <u>ASLE&F</u> |
| 2. Further Single Manning of Traction Units. | <u>ASLE&F</u> |
| 3. Driver Only Operation, Passenger Services, St. Pancras-Bedford. | <u>NUR</u> |
| 4. Driver Only Operation, non-Passenger Services. | <u>NUR</u> |
| 5. Trainman Concept. | <u>ASLE&F</u> |

1982 RESOURCE AND STAFF REDUCTIONS

- No*
- | | |
|--|---|
| 6. Further "slimming" of Administration staff numbers. | <u>TSSA</u>
<u>BTOG</u> |
| 7. BREL redundancies and closure of Shildon and Horwich Works. | <u>CS&EU</u>
<u>NUR</u>
<u>TSSA</u> |

Of these seven items only forcing through the Administration scheme, which mainly affects TSSA members, has a chance of success without a stoppage of rail services. In all the other areas there are known Trade Union policies or attitudes requiring the Unions to take industrial action to prevent those changes being imposed.

This is the situation in which the Railways Board believe it unwise to risk a series of stoppages over each of the items in different timescales but, if confrontation is unavoidable, to embrace all the issues at one time.

There are of course a number of alternative courses of action in a mix of issues of this kind. The Board believe that essentially there are four main choices:-

OPTION	ADVANTAGE	DISADVANTAGE
1. The "soft" approach. Do not risk confrontation - settle best terms on all issues.	Railway services continue to operate. Revenue protection, public and customer confidence improves with service stability.	Board credibility totally lost. Railway Management morale and motivation deteriorates. Financial objective undermined. TU militancy strengthened.
2. Isolate ASLE&F. Board to insist upon implementation of Flexible Rostering for Footplate staff.	Keeps other Unions apart from this controversy. Supports NUR/TSSA response to Flexible Rostering. Board's position technically and morally sound and understood by public.	Fails to achieve financial objective. Board seen to be accommodating NUR. Other 1981 Productivity changes not secured (e.g. Driver Only Operation, St. Pancras, Bedford). Not facing up to BREL surplus capacity. ASLE&F industrial action virtually certain and subsequent action by other TUs likely as other changes are pursued.
3. Insist upon delivery from ASLE&F and NUR of <u>all</u> the outstanding 1981 Productivity items. This means specific agreements to implement working practice changes detailed in Page 1 (items 1 to 5) on the Board's terms. Defer decision on BREL Workshop closures.	Achieves the objective for changes in working practices. Seen to be consistent in approach to both Unions. Avoids the public/political emotion/reaction to the proposed Works closures.	Industrial action by ASLE&F and NUR inevitable. Financial objectives at risk through the deferment of Works closures. Triumph for workers in BREL.
4. Insist upon implementation of <u>Flexible</u> Rostering, other 1981 Productivity items, Workshop closures and rationalisation.	Board doing everything possible to achieve financial objectives in the long run. The railway industry's efficiency and image improved. Board resisting "soft" option and TU militancy. Avoid a series of service disruptions which have greater adverse effect on customers than a "once only" stoppage.	<u>This</u> unites <u>all</u> the TUs in reaction to the Board and may gain wider TU movement support. May weaken the position of moderates in NUR. Ultimate resolution of all the issues more complicated. The period of industrial action may be longer.

The Board is strongly of the view that the "package" Option 4 should be followed for the reasons already stated. The proposed strategy to achieve this is to use the 1982 pay claim negotiations, which are already overdue, because the pay situation is common to all the Unions and a dispute over this affects them all.

The procedure the Board would wish to adopt is:-

STEP 1

Convene an RSNC meeting week commencing 24 May, 1982 for the purpose of discussing Pay 1982 and RSNT Decision No. 77 on Flexible Rostering. At that meeting declare that Pay and Productivity for 1981 is still not finalised - suggest B.R. Council meeting to discuss Board's finances, Productivity and Rationalisation changes needed and possible investment discussion/decision of Secretary of State.

On Flexible Rostering, Footplate staff, and assuming the Annual Conference support the Executive Committee decision to reject RSNT Decision No. 77, then tell NUR and ASLE&F that the Board reserves its right to introduce these rosters and would talk to the Unions again when a date can be determined.

STEP 2

Arrange a special B.R. Council meeting early June, 1982.

The purpose of this meeting to reiterate to the Unions the even greater need for their co-operation in responding to the case for changes.

To have any chance of success this meeting must have reference to the future wellbeing of both the industry and its labour force.

This will require, in the Board's view, evidence now of some investment commitment. Attached as Appendix 'A' is a potential "1982 Balance Sheet of Change".

The Railway industry has, in recent years, achieved significant changes and cost reductions; the following are some examples:-

- Parcels C&D Withdrawal.
- Freight Rationalisation.
- MSW Closure.
- Passenger Service Adjustments.
- Major office changes.
- Signalling Scheme Implementation.
- Introduction of new office techniques.

Reductions in manpower and posts reflect these and other changes. Since August 1980 the Railway labour force has reduced by 14,600 (8.2%) and the number of posts has reduced by 17,700 (9.0%). In the same period BREL has reduced its labour force by 1,500 .

The Trade Unions will capitalise on this performance and will review the 1980 Balance Sheet of Change alleging that the Board and Government have failed to fully respond as the Unions already have done. The Trade Unions position and attitude is summarised in Appendix 'B'.

Counter arguments from the Board will be that notwithstanding what has been done the financial position has worsened and requires the early acceptance of the outstanding productivity items and that much of the past achievement was a balancing of resources to match the emerging business needs.

The Board will also be arguing the case for BREL Works closures and redundancies and Appendix 'C' explains why the Board consider this to be necessary at this time.

There is little in the package to attract Trade Union co-operation and some evidence is needed of Government and Board confidence in a future railway. This could be done by giving the Board discretion to invest in projects provided that they were satisfied that other conditions, such as Productivity, rationalisation of resources, etc., were not being obstructed by the Trade Unions. A decision to improve investment now would also create the conditions whereby should there be failure it can be described as the Trade Unions refusal to examine the facts of industrial and financial life in a situation where the Board is not only willing to explain its case but, in doing that, will offer pay increases in 1982, will restructure pay in the future - provided the Trade Unions and their members co-operate in the changes relevant to the future role, size and shape of the Railways.

A presentation on this basis would also be helpful in the event that the Board is in dispute with the Unions and needs to communicate directly to persuade employees to co-operate.

The strategy recommended and the tactics outlined are in the expectation that there is a near certainty that rail services will be disrupted and the Board has estimated that the travelling public and Freight customers would prefer, as the lesser of the two evils, a "once for all stoppage" to the uncertainties created by a series of separate disruptions. Some Freight customers are better able to survive lengthy dislocation to the supply of materials than others.

Chemicals, Petroleum and Steel would be likely to be in difficulties in 2/3 weeks of a stoppage. Automobiles and Cement in about 6 weeks. Fuel stocks on the other hand are plentiful.

The Railway are currently heavily involved in movements connected with the Falklands.

It is anticipated that passenger commuters would start to pressurise for restoration of services after a couple of weeks of personal inconvenience.

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The cost benefits from the changes the Board is seeking do not in themselves resolve the financial problems but they do make a contribution. In considering the probability of confrontation with the Unions and the Railway business being disrupted, the following estimates of financial effect are relevant:-

1. ASLE&F strike and total loss of revenue but payment of salaries and wages to non ASLE&F members.
 Nett worsenment £25m. per week

2. Total closure of Railway and no payment of wages and salaries.
 Nett worsenment £5.8m. per week

3. BREL closures and work re-allocation.
 Reduced overheads by £18m. per annum

4. Total value of the Productivity initiatives £35m. per annum

1. Complete the commitments still outstanding from the 1981 Pay and Productivity Agreements:-
 - 1.1. The Open Station concept.
 - 1.2. Flexible Variable Day length rostering.
 - 1.3. Easement of Single Manning of Traction Units.
 - 1.4. Driver Only Operation of Passenger Trains, Bedford-St. Pancras services.
 - 1.5. Driver Only Operation of non-Passenger services.
 - 1.6. Trainman concept.
2. Reduce the cost of Administration by post and staff reductions and altered systems and methods.
3. Rationalise Workshop capacity within BREL and the Regions to match future needs. Including where necessary Works closures.
4. Continue the discussions/negotiations on changes in working practices and national agreements for those remaining and needed items from Clause (1) (iii) of the 1980 Pay Agreement with a view to generating productivity savings, part of which could be used to bring about the Pay and Conditions of Employment restructuring which has been mentioned repeatedly in the past as being a shared objective of the Trade Unions and the Board.

Specifically Authorise

1. Rail Network Electrification:-
 - 1.1. Hitchin-Huntingdon.
 - 1.2. Huntingdon-Leeds/Newcastle.
2. Victoria-Gatwick Rail Link Scheme.
3. Build 40 lightweight DMUs.

Agree in Principle

4.
 - 4.1. Increased New Build of EMUs from 175 to 220 p.a.
 - 4.2. Build DMUs at 50 a year.
 - 4.3. Build 180 Mark III Day Coaches.
 - 4.4. Replace existing WCML locomotives with 30 to be built.
 - 4.5. Speed up modernisation of Signalling schemes.
5. Endorse the need for new Financial Structure (Serpell Inquiry).
6. Provide financial transition for future Pay Restructuring.

BRITISH RAILWAYS BOARD

STRICTLY CONFIDENTIAL

APPENDIX 'B' : SUMMARY OF TRADE UNION ISSUES AND ATTITUDES

ASLE&F

Executive Committee have rejected RSNT Decision No. 77, Flexible Rostering, and this will be discussed at Annual Conference commencing 17 May, 1982 when the likely lead to delegates will be to oppose productivity proposals which alter Footplate staff numbers or (as they see it) worsen conditions of employment. ASLE&F will be claiming cost of living pay increase in 1982 separate from any productivity commitment.

CS&EU

The Confederation of Engineering Unions are accustomed to the industrial management practices in both the private and public sectors. Normally moderate they tend to respond to the employers ability to pay but will expect a pay increase not far removed from what has been happening to their skilled worker members elsewhere in 1982. Currently the CS&EU are opposing the proposals affecting BREL capacity and have formally declared their intention to take industrial action to prevent Works closures and enforced redundancies.

NUR

Annual Conference late June/July. Existing Conference decisions require strike and other industrial action by the Union if BREL Workshops are to be closed and if there are to be compulsory redundancies. 1982 Grade Conferences have decided to oppose Board proposals for Driver Only Operation of Passenger and Freight trains. The NUR are seeking pay increases without productivity conditions in 1982.

TSSA

Annual Conference has just taken place and in the matter of pay negotiations the Executive Committee have freedom to move from the policy of keeping pace with the RPI movement, but pay increases will be sought along with other Unions. The Board proposals to reduce Administration costs by the release of some 2,300 volunteers for redundancy is opposed by the TSSA Executive and this will undoubtedly be endorsed by this Annual Conference. TSSA members are also affected by the BREL surplus capacity problem.

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Very broadly a picture appears of these Trade Unions having either common policies emerging or about to emerge and being affected similarly by the Board's proposals for both productivity and rationalisation change.

PAY

All Trade Unions are seeking increases without strings.

PRODUCTIVITY

The CS&EU are least affected but there are specific proposals for the others with TSSA having the easier response to make about Administration changes and both ASLE&F and NUR sharing most of the 1981 outstanding commitments and the Train Crew activity is that which has been the main focus of public and political attention.

RATIONALISATIONS AND REDUNDANCIES

The NUR and CS&EU share the greatest burden carried by the BREL Workshop surplus capacity. Because the NUR have members across the corporate railway their resistance and potential industrial disruption would have great impact upon the total business. The NUR are taking the lead with the CS&EU in obstructing these changes.

SUMMARY OF LIKELY TRADE UNION ARGUMENTS IN SUPPORT OF PERCEIVED ATTITUDES

The perspective likely to be presented by the Trade Unions is of continuing co-operation since the 1980 Pay Agreement resulting in significant staff and post reductions, currently running at an annual rate of 68m. as jointly recorded by Management and Trade Unions.

This includes co-operation by the Unions in decisions like the withdrawal from Parcels C&D activity, Rationalisation of Freight Marshalling facilities and general good housekeeping, including savings from reductions in the Administration function.

The Unions will relate this co-operation to the smaller savings arising from changing working practices.

The ASLE&F will attempt to maintain arguments about impracticability in the Flexible Rostering issue.

NUR especially, remember their November 1981 "Broken Promises" public statements?, will return to the theme of Government (and B.R. Board) not responding to the investment decision as part of the agreed "Balance Sheet of Change" of 1980/81. The view of the Unions is that the Minister of Transport, at that time, had indicated acceptance of the package described in the "Balance Sheet of Change".

BREL SURPLUS CAPACITY1. REDUCTIONS IN REQUIREMENTS

During 1981, BR's locomotive, carriage and wagon fleets were all substantially reduced because of productivity initiatives and this trend will continue thereby reducing heavy maintenance and new build requirements.

By way of example, the reductions in workload arise from:-

- (a) Coal is now moved in 32 ton Merry-go-Round wagons which turn round every $1\frac{1}{2}$ days against the old 16 ton wagon which turned round once in every 8 days.
- (b) TOPS is ensuring maximum utilisation of wagons.
- (c) HST runs for 200,000 miles between major overhauls against the 100,000 miles for Class 87 Electric Locos and 50,000 miles for Class 47 Main Line Diesel Locos.
- (d) Mark I Coaches required shopping every 3 years whereas with built in maintenance protection the Mark III Coaches require shopping every 5 years.
- (e) Withdrawal from C&D Parcels reduced the non-passenger coaching stock.
- (f) Reduced wagon and coaching stock fleets require fewer locomotives to work them.

2. EVALUATION OF REQUIREMENTS

Each July an evaluation is made of the workload available in the following calendar year for the purposes of production planning and consultations regarding staff requirements.

Both short term and long term evaluations indicated an over capacity which could not be viably absorbed if all existing Works locations were retained.

The estimated reduction in production workers at the 13 Main Works amounted to 3,589 direct workers and the reduction of 13 locations militated against a corresponding large increase in maintenance, indirect and administrative staff. The consequence of retaining 13 Main Works would be an on cost arising from over capacity which would increase the unit cost of the work done for B.R. and which would increase export prices to the extent of making the Company non-competitive.

The alternative evaluation required the re-allocation of work between locations so as to match capacity with workload. It was this evaluation which showed clearly that to become competitive in export markets and to reduce charges to B.R. the closure of Shildon Works, Horwich Works (except for the

Foundry) and a reduction in requirements at Swindon enabled economies to be achieved in indirect and other workers. This increased the staff reductions from 3,589 to 5,134 which, together with the decreased location overheads, resulted in an £18m p.a. reduction in overhead costs.

3. COMMUNICATION WITH TRADE UNIONS

It is normal practice to discuss general staffing requirements with the Trade Unions and also to discuss apprentice recruitment each year. Since the reduction in investment and fleet levels was a known factor there was of course increased pressure from the Unions for information. It was also apparent that the intake of apprentices would have to be seriously curtailed and there was no way of concealing the decision to restrict the number and location of apprentices being taken on. These facts, coupled with general restrictions of recruitment, were sufficient to precipitate rumour and Trade Union reaction to the extent that reasonable discussion of the known facts was the only remaining alternative.

Accordingly at British Rail Council and subsequent meetings with the Unions facts relating to the workload, immediate effects and the preferred option which would ensure Company viability were tabled for discussion. The Board have gone to some lengths to maintain the concept of preferred option but in the current financial position it is jointly recognised that in real terms this is the only solution.