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PRIME MINISTER

cc Mr Mount
Mr Walters

British Rail

Despite your other preoccupations - and perhaps because they may become even more intense over the coming week, and further meetings on BR may be unwelcome - I hope it may be possible to establish at your meeting tomorrow a clear strategy for handling BR's industrial relations issues, and the terms in which it is to be conveyed to the Board. We must not let time slip through our fingers: the Board are already suggesting that 5 July is the earliest date for a strike, whereas from our point of view it is about the latest.

I think you may find it helpful to start by clarifying the financial position of BR, and the financial consequences of a strike, so that there is agreement on the extent of the Government's leverage on the Board. It would be useful to establish:

- (i) That BR could live within their EFL this year, if they made no pay offer, went hard on other cost savings, maximised asset sales and changed their investment plans.
- (ii) That an all out strike, and closure of the railways, is not very expensive for BR in the short term - ie disregarding permanent loss of custom - as long as the Government continues to pay the PSO grant.

The next question is what BR is actually proposing. At the time of writing I have seen nothing to persuade me that BR has constructed a coherent strategy for handling their problems, as requested after your last meeting. But it is reasonably clear that the BR Board, like the Government, is prepared for a strike. It is essential to establish:

- (i) The precise issue that brings a strike about, its public

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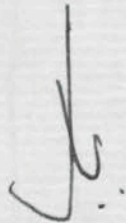
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appeal, and the timing.

(ii) The terms on which it is to be ended.

In the attachment to this note I suggest such a strategy, starting from the terms of our communications with the Board, and concluding with a suggested settlement package.

I am convinced that a significant pay rise (up to 6 per cent) has to be an element in the settlement of the strike. It is not realistic to look for a complete climb down, in which the staff offer all the productivity savings in return for no pay rise. Even though it may mean increasing the EFL to accommodate it, a settlement on the lines indicated - in which, for the first time on BR, the extra pay is given only after delivery of cost saving measures - holds out the best prospect of long term improvements in working practices on the railways.



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BRITISH RAIL

1. Government messages to the Board

(a) The Government expects the Board to handle this complex of industrial relations issues themselves, within the financial constraints outlined below:

(b) The Government understands that the Board at present foresees the possibility of exceeding their External Financial Limit in 1982/83, and expects them to take the necessary remedial action. The Government believes that income from asset sales and reduced investment plans, combined with no pay rise for railway staff, would be sufficient to meet the forecast EFL overshoot.

(c) The Government accepts that savings in costs arising from the implementation of productivity measures may accrue over too long a period for them to finance a pay rise this year. If - and only if - the Government is satisfied that cost saving measures are actually being implemented, which offer the prospect of substantial benefits in the longer term, the Government would be prepared to consider some elasticity in the EFL to ease the impact of a pay rise in low single figures, until the full benefit of the savings is felt.

(d) The Government is prepared to sustain an extended period of industrial action, as long as it is over by the end of August. The Government would continue to pay the PSO grant (about £15m a week) even during an all out strike, in order to help BR sustain it.

2. Likely Board and union reaction

(a) The unions would continue to resist the cost saving measures currently in dispute, e.g.

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- Flexible rostering for footplate staff
- Single manning of freight trains
- Single manning on the Bedford-St. Pancras route
- Development of the trainman
- Closure of BREL workshops
- Open stations

(b) So the Board would have to make a nil pay offer, and to ensure industrial action was not merely delayed for a few months would indicate that, in the absence of cost saving measures, it was final - i.e. not susceptible to arbitration.

(c) There would be an all out strike, probably starting in the week of 5 July (i.e. the week after the Rail Council meeting planned for 1 July).

3. Objectives for a settlement

Our objectives for the settlement package would include:

- (i) A pay rise in low single figures, certainly not above 6%.
- (ii) Implementation of the cost saving measures in paragraph 2(a) above as from the settlement date
- (iii) The avoidance of further reference to any of the elements of the package to the RSNT (this means keeping the negotiation of the settlement within the Rail Council).
- (iv) A settlement in time to enable power station coal stocks to be rebuilt.

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The Railways

INTRODUCTION

At your meeting on 12 May Ministers reached the preliminary conclusion that major industrial action on the railways this summer was probably inevitable and that it would be preferable for it to begin in June rather than late in the summer, because of the implications for power station coal stocks. But it was agreed that the first step was for the Railways Board to let the Government have a written assessment of the tactics and timing for handling the various industrial relations issues which they now face. In the light of that Ministers would consider what further advice to offer the Railways Board. This assessment is attached to the Secretary of State for Transport's minute to you of 19 May.

2. Ministers also commissioned two further pieces of work, viz:-

- i. a study by the Official Group on Railways Policy (MISC 72) of the likelihood and consequences of simultaneous industrial action on the railways and London Transport and of the steps that might be taken to alleviate them. This is attached to the Secretary of State for Transport's second minute to you of 19 May; and
- ii. an assessment by the Secretary of State for Industry of the impact of a rail strike on the chemical industry and in particular the distribution of industrial gases. I understand that the Secretary of State for Industry will be briefed to speak on this at tomorrow's meeting.

MAIN ISSUES

3. At your meeting tomorrow at 6.30 there are, I think, three main topics for Ministers to discuss, namely:-



- a. the BRB's assessment;
- b. what should be said to the BRB in the light of this;
- c. what further contingency planning, if any, might be worthwhile.

BRB's assessment

4. In the paper attached to Mr Howell's minute the BRB recommends Option 4, a course of action under which they would seek to confront the unions on all outstanding issues affecting productivity and efficiency in the context of the negotiations on the 1982 pay claim. As initial steps they would make their position clear at a meeting of the Railway Staff National Council (RSNC) in the week beginning 24 May and subsequently at a meeting of the BR Council in early June. They have however stressed that, in their view, an integral part of the presentation of their case should be some promise on future investment.

5. In his covering minute Mr Howell has implicitly endorsed the BRB's preference for a confrontation on all issues, and he asks that he 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. He does not however accept that there should be new promises about future investment. He proposes instead that we should stress what the Government has already done for the railways, and its support for the BRB's objectives which should, if attained, release funds for economically and commercially sound projects.

6. You may wish to focus discussion on the following points:

i. The BRB's assessment does not go into sufficient detail on timing. What steps are likely following the BR Council meeting in early June? Is it likely that the railway negotiating machinery will again be brought into use? When is industrial action most likely to begin?

ii. Are Ministers satisfied with the position on new investment? The BRB's assessment places great stress on the need for a positive message to the unions. Is it sufficiently clear that the BRB accepts the position on new investment outlined in Mr Howell's minute?

iii. How does the BRB expect to bring the industrial action to a conclusion? They acknowledge that their chosen option will make the ultimate resolution of all the issues more complicated. Are they assuming an eventual total defeat for the unions and, if so, is this likely? If not, what kind of resolution of the issues would they regard as ultimately feasible?

What should be said to the BRB?

7. Subject to any light Mr Howell may be able to throw on points i. to iii. above, Ministers may feel that they are not yet in a position to judge whether the course of action envisaged by the BRB is likely to meet the Government's objective ie that any industrial action on the railways will start earlier rather than later and is likely to be brought to an end by mid-August or thereabouts. If so, the right course would probably be not to give guidance to the BRB at this stage on the Government's attitude to industrial action but to ask for the BRB's thinking on these points as quickly as possible.

Further contingency planning

8. Mr Howell's other minute covers a report by the Official Group on Railways Policy (MISC 72) on the prospects of simultaneous strikes on BR and LT and the measures that might be taken to cope with this. The Group do not think that co-incident all-out strikes are very likely; it seems more probable that further industrial trouble on LT will consist of one-day strikes, in which case the existing contingency arrangements would probably be adequate. The possibility cannot be ruled out that the GLC leadership would encourage militancy on LT once a BR strike had started. If as a result simultaneous all-out strikes were to occur, MISC 72 thinks, on the basis of past experience, that the most profitable approach would be to seek to limit the demand for travel (eg by encouraging 7-day working and staggered hours). Mr Howell endorses this view. He suggests that it would be worthwhile asking officials to prepare further contingency plans for measures of enforcement or using volunteers only if we foresee circumstances in which the declaration of a state of emergency would be both justified and politically desirable. You will wish to ascertain whether other Ministers agree with these conclusions.

9. The Secretary of State for Industry was also asked to investigate further the impact of a rail strike on the distribution of industrial gases. The

Department of Industry has spoken to the main company involved, British Oxygen. They have detailed contingency plans already prepared. They think that normal supplies could probably be continued for perhaps 2-3 weeks, and after that they could probably continue to deliver 70 per cent of normal. BOC would be able to identify priority customers. In the circumstances I understand that the Secretary of State for Industry is likely to conclude that although the impact of a rail strike on industrial gases would not be negligible, it would not be sufficiently serious to warrant reconsideration of whether industrial action on the railways could be withstood.

HANDLING

10. You will first want to invite the Secretary of State for Transport to speak to his minute about the BRB's assessment of industrial action. You might then focus the discussion on the three points in paragraph 6 above, and the question of what should be said to the BRB.

11. You will also want to invite the Secretaries of State for Transport and Industry to comment on the need for further contingency planning and on the impact on industry of a rail strike.

CONCLUSIONS

12. You will want to reach conclusions on the following points:

i. whether the BRB should be asked for more information about the likely timing of industrial action, and about their ideas for bringing the industrial action to a conclusion;

ii. what, if anything, should be said to the BRB at this stage about the Government's attitude to industrial action;

iii. what further contingency planning, if any, should be undertaken.

PL
P L GREGSON

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19 May 1982