

CONFIDENTIAL

Prime Minister

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MR. SCHOLAR

The proposed increase must Agree to X - on the strict
not go ahead. It is disgraceful c. Mr. Mount

First the public have to suffer less strikes, understanding that there would be

BRITISH RAIL FARES INCREASE

no consequential EFL increase?

agree with X
in that
note
no

In his note of 24 September, Mr. Howell endorses British Rail's proposal to increase their fares by amounts ranging from 10.5% to 11.3%, from 28 November. We think that both Mr. Howell and British Rail Board are underestimating the strength of the Board's position in achieving further cost-cutting measures, following this year's industrial action.

MUS 27/9

Mr. Howell suggests that the increases could be presented as "a consequence of the chaotic rail events of the past year". But the defeat of two rail strikes has surely demonstrated that the unions can no longer bargain their way into unreasonable pay increases and out of necessary productivity measures. And the commuters who showed that they could get by without the railways would certainly not expect to be rewarded with a substantial fares increase.

Mr. Howell also suggests that pressing BR for a lower figure would weaken their resolve to make other cost reductions, whereas we think the reverse: only if the Board is constrained both by its EFL and by keeping fares increases to a minimum will it have the necessary incentive for cost reductions.

The Government cannot stand by and watch nationalised industries put up prices by nearly twice the expected rate of inflation. Milton Friedman was pointing out in London only last week that public enterprises were still the main contributors to inflation. The Prime Minister may feel that you should reply to Mr. Howell's office indicating that she is not content with what is proposed, and that Mr. Howell should press hard to have the proposed fare increases reduced to within a percentage point or so of the expected RPI. It would of course be wrong for BR to hold down their fares at the expense of a higher EFL; but by a tough attitude towards this year's pay increase, and by looking hard at the extent to which the Board have taken account of the

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lower inflation forecast, it should be possible to bring these proposed increases down. If BR does not do that, they must surely risk losing even more passengers.

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27 September 1982

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Prime Minister (2)

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Prime Minister

BRITISH RAIL FARES INCREASE

British Rail have decided to increase their passenger fares with effect from 28 November, twelve months after the previous increase. They will make a press announcement on 15 October but no doubt the news will leak before then. There have already been one or two accurate, though incomplete, stories in the press.

The average increases, apart from saver fares, will be 11.3% on Inter-City, 10.5% on London and South Eastern services and 10.8% overall.

The size of the increase is a matter for concern and I have considered whether I should ask the Board to abate it. On balance I have decided against this. The Board's financial position is very poor and has been made worse by this year's strikes. I have been pressing the Board, with some success, to take every action to reduce the gap between costs and revenue. The fares increase represents their judgement of how far they can reasonably go in maximising their revenue. In the longer run it is essential that there should be a dramatic improvement in the quality of their service if they are to get their finances right. But in the immediate period ahead it is probably commercially correct to raise fares by these amounts, however unwelcome it will be. If I were now to press them to a lower figure, against their commercial interests, I should risk weakening their resolve to get on with other actions in the more important field of cost reduction.

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In its public presentation, I think the increases will and should be seen as a consequence of the chaotic rail events of the past year. I shall certainly make the point that it illustrates the fatal damage from failing to keep costs down and get productivity up. I shall also ask the Board to give due prominence to the range of discount fares which are available, and which dramatically reduce the price of many trips.

I am copying this minute to Geoffrey Howe, Patrick Jenkin, John Biffen, Arthur Cockfield and Sir Robert Armstrong.

DA

DAVID HOWELL
24 September 1982

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10 DOWNING STREET

From the Private Secretary

30 September 1982

Dear Richard,

British Rail Fares Increase

The Prime Minister was grateful for your Secretary of State's minute of 24 September about British Rail's decision to increase their passenger fares with effect from 28 November.

The Prime Minister has commented that the proposed increase is disgraceful and must not go ahead. She hopes that your Secretary of State will press hard to have the fares increase reduced within a percentage point or so of the expected RPI. The Prime Minister does not, of course, wish British Rail to hold their fares down at the expense of a higher EFL; but she believes that, by a tough attitude towards this year's pay increase, and by looking hard at the extent to which the Board have taken account of the lower inflation forecast, it should be possible to bring this proposed increase down. She has further commented that the public should not be made to suffer both two strikes and then fare increases because of those strikes.

I am sending a copy of this letter to Margaret O'Mara (HM Treasury), Jonathan Spencer (Department of Industry), John Rhodes (Department of Trade), David Heyhoe (Lord President's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

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Richard Bird, Esq.,
Department of Transport.

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