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To: PRIME MINISTER

From: JOHN SPARROW

12 January 1983

First Reactions on Serpell

1. I was disappointed by the majority report, mainly because it fails to come to grips with what I see as the essential problems of the railway industry, and because as Mr Goldstein points out, the rationale behind the various options is not fully worked through.

2. In the first place, the industry is contracting. It evolved in a period when it had clear advantages over any other form of inland travel: those advantages no longer exist, and future technological change is unlikely to favour railways (at any rate as we now know them). It cannot compete economically with the much greater flexibility of road transport now that that is widely (although not universally) available. Secondly, attitudes within the organisation are essentially defensive - what Mr Goldstein rather kindly describes as 'custodial' - when what is needed is a clear perception of the reduced role which railways will play in an efficient economy, and the determination to change the railway so as to fit that role. Thirdly, the 'public service' concept is debilitating; subsidy is rife and is regarded as normal, or essential, or even desirable. Fourthly, and because of these factors, the management is often ineffective.

3. In his minority report, Mr Goldstein sees most of this, but even he seems to me not to follow his perceptions through to their conclusion. Put at its bluntest and most pessimistic, there may be no reduced scale of operation or level of service at which a UK railway system with traditional technology is commercially viable - perhaps not even the report's options A and B.

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4. In deciding what to do about the report, we need to distinguish clearly between short term and long term decisions and actions. There is much in the Majority Report that can be acted upon promptly to improve BR's performance in the short term, but it will take longer to evaluate the options and to determine a policy for the future of the railways within a policy for inland transport. For this latter task, Serpell does useful service in highlighting the principal problems, for example the costly rural lines. We will also need to develop a strategy for handling the vociferous lobby groups who oppose changes to the railway network.

5. The first requirement is to strengthen the management. It would be wrong to blame Sir Peter Parker for the problems of British Rail because he has to operate through a management which consists almost entirely of people who have lived all their lives in the railway culture and with an obligation to run the rail system at or near its 1974 size. The need is to give the next Chairman not merely authority but positive instructions to find and recruit the best executive management that he can, preferably with a larger proportion coming from outside the railway industry. This handpicked team should know that it is expected to be resolute in pursuit of clearly defined objectives laid down by Government, and then left free to manage without political interference. When Government has determined its long term policy, the new Chairman and his team will need to implement it with any consequential changes in their objectives, and they should be appointed with that clear understanding.

6. Few of the short term cost improvement measures identified by Serpell need be held up by the longer term considerations of rail network shape and size. Department of Transport should immediately take up the issues of engineering improvements, planning improvements, etc, with a view to BR producing a new Corporate Plan later this year, showing how the improvements are to be implemented. In parallel, work can also be started immediately to review fully the activities of BREL and determine its future and prospects for privatisation of the rolling stock manufacturing activities.

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7. Closure procedures need reviewing to see what changes are needed. I see no merit in the idea of BR running buses, or being responsible for "heritage".
8. The longer term strategy for the railways will need careful political handling, and in any case, major changes will require legislation to amend the 1974 Transport Act. One point that Serpell and Goldstein make clearly is that a relatively modest contraction of the network (mainly rural lines) produces very large savings in cost to the tax payer (without however eliminating subsidy entirely - the cheapest of those options still shows an overall deficit of over £500 million/year). The various options, including those illustrated by Serpell, need fuller evaluation. This work should be set in progress as soon as possible.
9. Meanwhile, it is essential that all of the longer term options are kept open, despite the inevitable pressures that the prospect of a general election will produce.
10. I am sending copies of this minute to David Howell and to Sir Robert Armstrong.

JB.

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