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for meeting

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Prime Minister

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SERPELL AND THE FUTURE OF THE RAILWAYS

1. You have convened a meeting on 21 February to consider the issues raised by the Serpell Report. These are complex in substance, but also present difficulties in both presentation and timing. This minute sets out my views on the matters with which we now have to deal.

TIMING

2. One important constraint is that, as agreed when his appointment was renewed, Sir Peter Parker steps down from the chairmanship of the British Railways Board (BRB) in September. We must in good time before then find the right new Chairman; I am making an intensive search and believe we shall also have to use head-hunters. We must give the new Chairman a clear brief.

3. Another constraint is that when we announce our plans for the new Metropolitan Transport Authority (MTA) for London we shall need to show how this fits in with our plans for the future of British Rail.

PRESENTATION

4. The rail lobbies sought to create confusion and anxiety before the publication of the Serpell Reports, and a good deal of that has persisted. Some of this is bound to continue until we can steady things with a new Chairman and a fresh statement of policy. In my judgement, there is now a widening recognition that a lot needs to be put right within BRB, and a widening

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expectation that we shall move to radical changes in policy. A very healthy debate has been opened up. In it, the rail lobbies will become more and more shrill. We shall have to develop a strong and positive line.

5. I now turn to the issues of substance.

IMMEDIATE ACTION ON COST SAVING

6. I have made clear to Peter Parker that I look for prompt action. The Board are themselves keen to make progress on the savings they have identified. I am keeping the pressure on the Board, through our financial instruments, and my statements in the House. But the intolerable delays in bringing the productivity and pay issues to a conclusion show that the way will continue to be hard. And there is bound to be internal conflict until a new Chairman is in the driving seat. So during the interregnum we cannot look for rapid improvement and indeed will have to make special efforts to maintain the momentum. I hope we can agree that we must reinforce efforts in the direction we want, by being ready to recognise such achievements as are gained, without weakening the pressure for better performance.

THE NEXT FIVE YEARS

7. We shall need to settle with the new Chairman clear targets for what he and the new team he will form are expected to achieve. These must include:

- a. targets on grant reduction, investment levels, unit costs and manpower;



- b. remedying the very clear weaknesses in engineering, financial control and planning;
- c. reforming the industrial relations machinery which has shown that it is now an impediment to necessary changes;
- d. working to the new policies that we shall set on the longer term shape of the railway - I come to this below.

8. The sort of man we must have will rightly insist on a clear statement from us of the framework within which he is supposed to work.

- a. are we going to modify the grant system?
- b. are we going to set new objectives for parts of the business?
- c. when we get a management which has our full confidence with a grip of the finances and working fully to our objectives, will we move to a different regime of control, so as to free them from the very detailed monitoring and scrutiny of individual decisions into which my Department has been far too deeply drawn by failings in BRB?
- d. what will be the rules on financing transitional costs?



9. I propose we commission work urgently on all this by my Department, with the Treasury and the CPRS, so that we can take decisions, whatever views we take about the longer term shape of the railway. These issues should not present us with any acute conflicts of political objectives. Nor need they present us with major problems of presentation.

10. Many other specific points in the reports will also need to be followed up to get the framework clear. There are important questions on parts of the BR freight business, and also on the sort of conditions that will encourage private investment in wagons and terminals.

11. I now turn to the longer term issues.

NETWORK

12. The so-called "options" in the Serpell Reports, which have had such attention, are not detailed proposals. They merely present costs and revenues of different parts of the passenger network. On the freight side they are particularly limited by the sparsity of the information furnished by BRB.

13. I have publicly ruled out the "extreme" options - shrinking the railway to a few hundred miles on the one hand and pouring in billions on the other. But I have left the rest open. This is certainly a very uncomfortable position for many of our supporters, who will come under pressure to seek reassurance about the future of individual lines. There is here an acutely difficult problem of presentation. I have taken the following position:

- a. we have always said we do not want to see substantial cuts in the network;



- b. if there is any change in that policy it will be announced after full consultation;
- c. the guarantee of individual services is that none can be closed except through the statutory procedure which involves a public inquiry and a specific decision by me taking all the factors into account, but
- d. we cannot treat the whole network as sacrosanct for ever and we must be ready to examine what is the most cost effective way of meeting today's genuine transport needs. Serpell tells us what it all costs more clearly than hitherto and that must be the starting point for better decisions;
- e. I have not ruled out any but the extreme approaches described above.

14. I suggest that for the present we hold to that.

15. We shall have to give a lot of thought to what our policy is to be. I do not myself believe that there is a point at which the Government decides and enunciates a great central view about the size of the future network. To do so would be in conflict with our justified scepticism about central plans of that kind. Change should come about as railway operators respond to market changes and local needs and shape the services they can offer to customers' demands. To get this process moving I am sure we now must look at the whole structure of BR, and decide how much change we would be ready to see, and how quickly.



INNOVATION AND STRUCTURES

16. Change is beginning to be brought about within the railways by their new introduction of "sector management" with identified managers responsible for the bottom line results of particular businesses. It is in its very early days. I agree with the Serpell Committee that this should be pushed further. We must also anyway go for:

- a. 'privatising' branch lines, where possible or specific operations;
- b. much more contracting out by BRB to private enterprise;
- c. fundamental changes in BREL, leading to privatising of manufacture.

The last of these will meet intense hostility from the railway unions, but we should be able to rely on strong and wide support.

17. But I believe we should now aim to go much further. Even under the monolithic nationalised industry format a very substantial re-shaping of the railways and a massive run-down in manpower have in fact taken place. But strong lobbies have come into being to defend and try to increase the very large subsidies from the taxpayer whose continuance has become vital to many rail jobs. The political difficulties in securing change are now piled on top of very great internal difficulties. So, despite the new and welcome efforts by rail management to re-shape the business, I think that now is the occasion to consider bigger reforms including:



- a. breaking-up BRB into parts (e.g. the present Southern Region, Scotland, Wales and possibly other divisions, or even a separate track authority);
- b. extending the PTE concept so there is more real choice locally about paying for transport;
- c. different mechanisms for securing high quality bus services in place of rail services that should be closed;
- d. other changes/^{as} may be suggested by the CPRS report on State Monopolies.

18. My view is that there is strong public support for the railway but not for BRB. We shall lose nothing if we start to open up debate about the possibility of radical changes. These questions will also take a lot of work. We just do not have within Government enough information to reach conclusions on all of these matters, and on some of them we shall have to have the co-operation of the Railways Board - which will for the time being present problems of handling and of confidentiality - and for some we may well need to commission further studies - e.g. on options for BREL. So we would need to continue to explain publicly:

- a. that we are preparing a brief for a new Chairman;
- b. that we intend to formulate new policies for the railway through the debate which the Serpell Committee has opened up;



c. that we will be ready to consider the suggestions, already coming to us, for changes in the way of running the railway and in deciding what to pay for it.

19. We should recognise that railway reform will constitute a programme extending over at least one Parliament.

20. I therefore seek agreement that we should, through the appropriate mechanisms:

- (i) set in hand the work listed in paragraphs 7 and 8 which will be the basis for a brief for a new Chairman, with the aim of getting a first report four weeks from now.
- (ii) Set in hand, for a longer time-scale, work on the issues in paras 16 & 17 on the future structure of BR and the railway industry.
- (iii) Maintain the public position on the 'network' in para 13.
- (iv) Decide later, and in the light of work as at (ii) above, whether we wish to reach decisions on long-term network size.
- (v) endorse the line in paragraph 18.

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21. I am sending copies of this to Geoffrey Howe, George Younger, Nicholas Edwards, Leon Brittan, Norman Tebbit and to Sir Robert Armstrong and Mr Sparrow.

David Howell

DAVID HOWELL

17 February 1983

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Transport
BR Fares, Pt 6



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