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POLICY UNIT
18 February 1983

PRIME MINISTER

MA

SERPELL AND THE FUTURE OF THE RAILWAYS

Short term: David Howell's minute correctly identifies the decisions that have to be taken and the order of priorities for the next few months. I follow the numbering of David's paragraphs:

8: At the meeting, I think you might usefully take the following approach:

a. Which targets are we going to choose for the new Chairman? If we set targets for reduction in government grant and for fares and manpower levels, then we do not need to set a target for network size.

Those targets will compel British Rail to adapt the size of network that logically follows. This is much the most sensible way.

b. If we set new objectives for parts of the business - eg freight - we must make sure that those objectives fit in with our overall targets. (a) comes before (b).

c. We must free the railways from the detailed scrutiny of the DoT, which has far too many people watching and wasting the time of their opposite numbers in British Rail. What matters is to get the overall targets right.

d. We must watch the idea of "transitional costs" - which can, all too easily, be a device for wasting large sums of public money with no long-term benefit.

David Howell rightly says in paragraph 9 that the short-term task force, the DoT, Treasury and others, could get on with these questions without prejudicing decisions about the longer term.

Long-term

David's public position on closures is just tolerable and worth holding on to for the moment. The "extreme" options are ruled out. We can define what is "extreme".

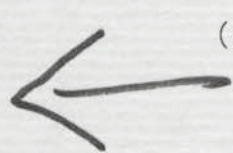
/The formulation

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The formulation - "we do not want to see substantial cuts in the network" - is highly evasive and rather more dubious. Nobody wants to see anything painful. I suggest we move away from this formulation as far as we can and start saying things more like: "We wish to run a good efficient rail service where there is a real demand for it, but there is no justification for running empty trains at the expense of taxpayers who don't use them".

17 (a): Regionalisation may well be the way to bring back effective managerial control, customer loyalty and staff enthusiasm. But we have to face the potential conflict between sectoral management - freight, inter-city - and regional management. Serpell pointed out the dubious nature of the Inter-City concept. After all, ^{if} you separate Southern Region, you can also easily separate off the Inter-City lines into the old railway companies.

(b): The PTE concept does smarten up the service and so ought to be encouraged, but we have to face the fact that PTEs continue to lose money and that, London apart, their social justification in terms of relieving congestion is not always certain. If the national Exchequer is to contribute, here too there must be limits on grant.



(c): High-quality alternate bus services are a must for any real reform of the railways.

18-19: I think David's proposed public posture seems sensible, as does his emphasis that railway reform will take a good five years.

20: We suggest that David should have the approval he seeks. The first report from the short-term task force should be submitted to a similar meeting at the end of March.

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Serpell Report and Railway Policy

BACKGROUND

Your meeting on 21 February has the following purposes:

— Flag A
— Flag B

i. to reach some preliminary broad conclusions about the issues of railway policy raised by the Serpell Report (and the minority Goldstein Report) in the light of the minutes from the Secretary of State for Transport of 31 January and the Chancellor of the Exchequer of 4 February;

ii. to review the Government's public stance on railway policy during the remaining life of this Parliament;

— Flag C
— Flag D

iii. to give guidance, and to make arrangements, for future work (relevant are Sir Robert Armstrong's minute of 3 February, not copied elsewhere, and Mr Sparrow's minute of 4 February copied to the Chancellor of the Exchequer and the Secretary of State for Transport).

MAIN ISSUES

Railway policy

2. The main issues of railway policy are:

i. the need for short term savings through improved productivity and efficiency, less expensive investment, better planning, etc;

ii. long term and politically contentious questions about network size, commuter fares, and structural changes such as regionalisation and privatisation.

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3. So far as the short term is concerned, it is likely to be common ground that the Serpell and Goldstein Reports have identified matters which need to be put right as soon as possible. It is not clear what savings can be expected from these improvements. The Serpell majority report suggests that they might amount to around £220 million a year and that, given these savings, we might retain a railway of much the same size as now with no more in grant from the Government in real terms by 1986 than in the period between 1975-1980. Mr Goldstein is much more sceptical about the amount of savings attainable. The best way forward would seem to be to ask the Secretary of State for Transport to pursue these matters vigorously with the British Railways Board. In order to provide impetus and discipline to this short term work, he might be invited to circulate as soon as possible an action plan with time scales for the various items and an assessment of the savings to which realistically they are likely to lead.

4. On the long term there are likely to be some differences of view, for example:

i. the Secretary of State for Transport is likely (see his minute of 31 January) to want to shift attention away from questions of network size to his ideas about regionalisation and privatisation;

ii. the Chancellor of the Exchequer and the CPRS, while agreeing that regionalisation and privatisation should be pursued, will want to keep the fundamental issue of network size firmly in view;

iii. the Secretaries of State for Scotland and Wales may wish to rule out now some of the more radical options about network size on political grounds; some Ministers may feel similarly about the issue of commuter fares.

The main question is whether Ministers wish all the options for the longer term to be examined with a view to possible action in the next Parliament; or whether they want to place some limitation on the options to be considered.



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Public stance

5. Depending on the discussion of the main policy issues, you will wish to look again at what the Government's public stance should be during the remaining life of this Parliament. Mr Scholar's letter of 24 January expressed the hope that Ministers would stand on the passage in the Secretary of State for Transport's statement in the House on 20 January, ie:

"It would be quite wrong to respond with snap judgements or closed minds to any of these ranges of options, whether they concern track and signalling, rolling stock, network size or fare structure, or new objectives for the Railways Board."

The Secretary of State for Transport has in fact given a clear impression that the most extreme options on network size are unlikely to be considered seriously. On the assumption that work on the longer term issues is likely to take a considerable time, the question is whether the Government should rest for the remaining life of this Parliament on the holding statements which have already been made, or whether these statements should be modified in some way.

6. There is a particular problem about the expiry of Sir Peter Parker's appointment on 11 September. As the Secretary of State for Transport has pointed out, it would be desirable to give the new chairman strategic objectives and some indication of the longer term levels of social subsidy which the Government is prepared to put into supporting the railways. It would however be difficult to do either without taking a view on the long term policy issues discussed above. Is it therefore inevitable that the new chairman will have to be recruited and appointed with a remit to take vigorous steps to improve efficiency in the short term but on the understanding that the longer term policy is under review?

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Future work

7. Assuming that there is agreement about the short term work on the lines of paragraph 3 above, the main question will be the content of future work on long term policy. In his minute of 4 February Mr Sparrow has argued that this work should be guided by a Ministerial decision as to whether the railway system should meet purely commercial objectives or should also meet non-commercial objectives, and what these non-commercial objectives might be.

8. As to the arrangements for future work, you have already decided, but not yet indicated to your colleagues, that a Ministerial Group on railway policy should be set up in the MISC series under the chairmanship of the Chancellor of the Exchequer. It is likely that there will have to be an official group to support the Ministerial Group. It will probably not be necessary to discuss that at your meeting. The Secretary of State for Transport may well wish any such group to be chaired by his Department, but the Treasury may well see difficulties in that, and there may be a case for neutral chairmanship. You will wish to ask Sir Robert Armstrong to make appropriate arrangements in due course.

HANDLING

9. You will wish to invite the Secretary of State for Transport to open the discussion and then invite contributions from the Chancellor of the Exchequer and Mr Sparrow. The Secretaries of State for Scotland and Wales are likely to have views to express.

CONCLUSIONS

10. You will wish to reach conclusions on the following points:

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- i. whether the Secretary of State for Transport should be asked to circulate an action plan for the short term as soon as possible;
- ii. whether all the options for the long term in the Serpell and Goldstein Reports and the Secretary of State for Transport's ideas about regionalisation and privatisation should be considered; or whether some limitation should be placed on the options to be considered;
- iii. whether the Government's public stance for the remaining life of this Parliament should be to rest on the holding statements already made; or whether these statements should be modified in some way;
- iv. whether the recruitment and appointment of a new chairman should be on the understanding that the longer term policy is under review;
- v. whether the future work by officials on the longer term should be guided by purely commercial objectives, or by non-commercial objectives which might be further defined by a Ministerial Group;
- vi. whether the work should be carried forward by a Ministerial Group under the Chancellor of the Exchequer on the lines you have already approved, with appropriate support from an official group subject to further advice from Sir Robert Armstrong in due course.

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18 February 1983

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