

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

20 October 1983

Objectives for the Chairman of British Rail

The Prime Minister has seen your Secretary of State's minute of 18 October. In the light of his further explanation she accepts his original wording on closures at the opening of paragraph 4.

On transitional costs the Prime Minister thinks that it is unwise to advertise this problem in the brief. She accepts that the Government should assure Mr. Reid that it will look sympathetically on any proposals he puts forward but it would be unwise to create an open invitation to BR employees to press for generous redundancy payments.

On BREL your restructuring of the paragraph is helpful though the Prime Minister feels that the phrase "options for privatisation of parts of its activities" tends to dilute the effect. She would prefer to say simply "options for privatisation".

Finally the Prime Minister has asked your Secretary of State to consider how he would react if asked whether these objectives supersede the passenger service Direction given to BR on 19 December 1974, under Section 3(i) of the Railway Act, 1974 to "provide a public service which is generally comparable with that provided by the Board at present". If it is his intention to issue a revised Direction later, after the new arrangements for transport in London have come into force, there might be merit in making this announcement now. This might be better than having his intention dragged out of him by an Opposition spokesman who might claim that this was part of the "Hidden Manifesto". Could the relative merits of this be looked at?

The Prime Minister looks forward to seeing a copy of your Secretary of State's statement.

I am copying this letter to the Private Secretaries to members of E(NI), David Heyhoe (Lord Privy Seal's Office) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols, **CONFIDENTIAL**
Department of Transport

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PRIME MINISTER

OBJECTIVES FOR THE CHAIRMAN OF BRITISH RAIL

Nick Ridley has accepted some of the points made in the Private Office note on Tom King's draft objectives, but resists three:

1. Manifesto. He does not accept the No.10 phrasing "although I do not anticipate a programme of major route closures, I should welcome . . .",

and prefer the original: "it is not our intention that you should embark upon a programme of major route closures".

This ultimately is not a crucial difference, since Nick would in any case be forced in the House to repeat the Manifesto commitment. We accept his phrasing.

2. Transitional Costs. The removal of the sentence offering assistance for "transitional costs". We suspect that Transport are over-estimating the difficulties of carrying Mr Reid on this point. By all means let us assure him that the Government would look sympathetically on transitional costs, but we should not advertise this in advance. It would be an open invitation to BR employees to press for generous redundancy payments. In BR, as in other nationalised industries, we ought to try to contain these payments, which currently run at a level around three times the private sector average.
3. BREL. Nick has accepted the suggestion that privatisation should be included here, but has diluted it to "options for privatisation of parts of its activities". We would prefer that the statement left it open that privatisation could apply to all of BREL's activities. Why don't we just say "options for privatisation"?

Finally, Nick is likely to be asked whether these objectives supersede the passenger service Direction given to BR on 19 December 1974, under Section 3(i) of the Railway Act, 1974, to "provide a public service which is generally comparable with that provided by the Board at present".

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At present, it seems to be the Department of Transport's intention to issue a revised Direction later, after the new arrangements for transport in London have come into force. We might invite Nick to consider whether it would be sensible to announce now his intention to do so in the light of the new objectives, rather than have it dragged out of him by a sharp Labour spokesman claiming that this was part of the "Hidden Manifesto".

FERDINAND MOUNT

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CC	HMT	D/N	LPO
	DOE	D/M	LPSO
	SD	CO	CWO
	DTI	CAZ	CWO (Lords)
	CDO		

10 DOWNING STREET

From the Private Secretary

24 October 1983

Dear Dinah,

Objectives for the Chairman of British Rail

The Prime Minister has seen your letter of 21 October and the draft of your Secretary of State's statement. She has noted that your Secretary of State is now prepared to omit the reference to transitional costs in the brief, though it is accepted that your Secretary of State may want to write privately to Mr. Reid to give him assurances along the lines of those contained in the original draft.

The Prime Minister has also agreed with your Secretary of State's view that there is no need at this stage to announce his intention to produce a revised PSO Direction.

The Prime Minister was content with the wording of the draft statement though she queried the reference in paragraph 2 to "pride in their work".

I am copying this letter to the Private Secretaries to members of E(NI), the Lord President, the Lord Privy Seal, the Chief Whip, the Chief Whip Lords and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Miss Dinah Nichols,
Department of Transport.



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Prime Minister ①

- (i) Mr Ridley has agreed to drop the reference to "transitional costs" in the brief. Agree revised wording at X?
- (ii) Mr Ridley has, as requested, considered timing of statement on Passenger Service Obligations Directive. Agree we accept his Judgement at Y?
- (iii) Agree text of Mr Ridley's statement?

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21/10

Yes no

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cc BT
For today Monday



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

21 October 1983

Dear Andrew,

OBJECTIVES FOR THE CHAIRMAN OF BR

Thank you for your letter of 20 October.

On the Secretary of State's instructions, we have spoken to Mr Reid about the reference in the brief to transitional costs. He recognises the risk of encouraging demands for higher redundancy payments. But he believes his position with his Board and his managers will be seriously weakened if the brief contains no words to which he can point as an indication of the Government's recognition that achieving the grant target will involve additional transitional costs. The bulk of these costs will, however, arise over the next two years. So the Secretary thinks that he might be able to signal the recognition for which Mr Reid is looking if he were to delete the last two sentences of paragraph 3 of the brief and insert:

X / "Your 1984 Plan should show the profile of expenditure and the measures required to achieve this" (ie the 1986 grant target).

Y S MB The Secretary of State would be grateful to know urgently if this form of words, which would be supplemented by a separate assurance to Mr Reid, would be agreeable to the Prime Minister.

The Secretary of State agrees that the paragraph on BREL should refer simply to "options for privatisation" as the Prime Minister would prefer.

The objectives in no way supersede or conflict with the very broad terms of the 1974 PSO Direction. And there is no likelihood of Mr Reid saying that they do. It is the Secretary of State's intention to revise the Direction. But the right time to do that is when the statement of objectives for London Regional Transport is being settled and when the Inter-City

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Y Strategy Study has been completed. Moreover, it was agreed at E(NI) on 13 September that the brief should concentrate on the objectives the Government wished the Chairman to pursue, not the means for achieving them. Revision of the PSO Direction is a matter for the Secretary of State, not an objective to be set for Mr Reid. Mr Ridley has, therefore, concluded that the right course is not to include a reference to the Direction in the brief but to deal with the matter if it is raised in questions on his statement.

I attach the draft of the Statement the Secretary of State proposes to make on Monday afternoon.

I am copying this letter to the Private Secretaries to members of E(NI), the Lord President, the Lord Privy Seal, the Chief Whip, the Chief Whip Lords and to Richard Hatfield (Cabinet Office).

Yours,

Dinah.

DINAH NICHOLS
Private Secretary

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DRAFT STATEMENT

1. The Government has listened carefully to the wide public debate on the Serpell Report and in particular to the views of the Select Committee on Transport. What emerges strongly from that debate is that it is for the Government to give the railways a clear framework and objectives, and for the British Railways Board to direct and manage its business in the light of them. Accordingly I have today sent to the new Chairman of the Board, Mr Reid, a statement of the objectives which the Government wishes him to pursue. Copies are available in the Vote Office and I will arrange for it to be published in Hansard.

2. An efficient railway has a vital part to play in the transport system, but it must give its customers value for money. By giving customers the services they want at a reasonable cost, the railway can secure its own future, and the people who work in the industry can feel pride in their work. → a little patronising?
BR has already begun to introduce really significant improvements, to which I want to pay a warm tribute. The firm objectives I am now setting are designed to further that process.

3. The Board's latest Corporate Plan is clearly going in the right direction and the objectives I have set Mr Reid build on it. In its 1983 Plan, the Board envisages a requirement for central government grant of about £635m (in 1983 prices) by 1988. I am setting the Chairman the objective of achieving that target - a grant requirement of £635m in 1983 prices - two years sooner.

4. The objectives I have set for the Chairman make plain that it is not our intention that the Board should embark on a programme of major route closures. This puts paid to the scare stories about the network about which we heard so much following the publication of the Serpell Report.

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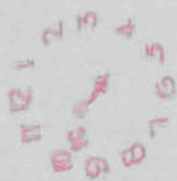
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5. This does not rule out the Board proposing changes locally, where they make sense. It is for the Chairman to consider new forms of guaranteed and subsidised substitute bus services, where appropriate on local transport and value for money grounds.
6. The freight, parcels and inter-city businesses can and should work to a commercial objective. The Government believes that rail freight has strong environmental advantages over road freight. So we want as much freight as possible to go by rail, within the financial target for the business, which is to achieve a 5% return by 1988. The scheme of section 8 grants for rail freight facilities will continue.
7. The Board's Plan envisages an increase in investment from present levels. I shall support worthwhile investment which relates directly to the financial and business objectives we have set.
8. The railway is operating in a highly competitive market. So it is to the Board's advantage to obtain rolling stock wherever possible by competitive tendering and to rationalise excess capacity within BREL as soon as possible. I have asked the Chairman to complete by the middle of next year a review of the options for the future of BREL, including the options for privatisation. All the options will be examined on their merits.
9. Greater private sector finance and involvement can help to improve services for customers and keep down costs. I have therefore called on the Chairman to ^{continue to} seek greater private sector participation in the development of the railway.
10. The statement of objectives confirms the Government's intention to privatise Sealink. And it also calls for improvements in the railway's industrial relations machinery.
11. With these objectives, the way is clear for the Board to manage the railway so that it gives the country the good quality, efficient service which we all want.

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TRANSPORT : BR FACES : Pt 7

21 OCT 1981



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OBJECTIVES FOR THE NEW CHAIRMAN OF BR

1. This letter sets out the objectives the Government wishes you to pursue. It supplements the statutory and financial duties of the Board.

2. Your guiding objective should be to run an efficient railway, providing good value for money within the financial objectives set out below. Services to your customers should be reliable, attractive and punctual, at acceptable fares and charges; and the cost to the taxpayer should be reduced. That is the way to achieve a secure future for the railway, enable worth-while investment to go ahead and give your employees satisfaction and pride in their work.

3. The Board's current Plan shows the requirement for PSO grant from central government falling to about £700 million (in 1983 prices) in 1986 and to about £635 million in 1988. The Government wants you to go faster than this so as to reduce the requirement for central government grant to £635 million (in 1983 prices) in 1986. Your 1984 Plan should show the profile of expenditure and the measures required to achieve this.

4. It is not our intention that you should embark on a programme of major route closures. I should welcome your early views, following the endorsement of the case by the Select Committee on Transport, on the practicability of introducing some guaranteed and subsidised substitute bus services, where they would be appropriate on local transport and value for money grounds.

5. I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to avoid wasteful duplication.

6. It is the Board's responsibility to determine fares. But improved efficiency must make a full contribution to keeping down fares. The railway must not use its market position to raise fares unreasonably.

7. The Board's 1983 Corporate Plan shows the freight business coming into profit by 1986. You should take the necessary action to ensure that it achieves a current cost operating profit of 5 per cent in 1988. Within the financial targets set out above, I want you to win as much freight business from road as possible. The objective for the parcels business should be to continue to earn a proper commercial return. I look forward to receiving the Board's review of the Inter-City business against its commercial target.

8. The Government wants you to secure improvements to the railways' present industrial relations machinery, which has hampered good communications and slowed down the necessary pace of change.

9. The Board should make Sealink ready for privatisation as soon as possible. The Government looks to you to obtain from the private sector more supply and support services, including rail and station catering. I shall welcome proposals from you for more private sector finance and participation in the development of stations and railway services. It should ^{continue to} pursue a vigorous policy of property development and disposal, involving private capital.

10. Rationalisation of British Rail Engineering Limited's excess capacity should be completed as soon as possible. You should complete your review, by the middle of 1984, of the options for the future of BREL, including the options for privatisation. Railway rolling stock should be procured wherever possible by competitive tendering; and the railway equipment industry should ^{continue to} be allowed the opportunity to offer design solutions to meet BR's requirements.

11. Your investment programmes should relate directly to the financial and business objectives set out above. You will clearly wish to give proper priority to cost saving investment which gives an early return; and to carrying forward the improvements which the Board has introduced in management accounting and control.

12. I look forward to working with you and your Board to achieve the good quality, efficient railway services which are our common goal and to seeing these objectives reflected in your 1984 Plan.



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Prime Minister

Agree

- (i) Accept original wording on closures
- (ii) Continue to insist on no reference to transitional cost in published brief but same understandings with N Reid
- (iii) Policy Unit wording on privatization of BR&E
- (iv) PU suggestion on Direction to BR

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no



10 DOWNING STREET

From the Private Secretary

Prime Minister

Brief for Chairman of BR

You asked for the brief to be revised incorporating Policy Unit amendments. This has been done at Flag A, with the points of change indicated. The original is at Flag B. Flag C is the Chancellor's minute.

Before I put this back to Mr King there are ~~two~~^{three} points on which your views are sought.

- (i) Agree delete reference to no major closures or accept Mr King's wish to stick to manifesto?
- See note -
Yes
- (ii) Agree include reference to privatization of BREL?
- Yes
- (iii) Agree delete reference to assistance for transitional costs?
- Yes.

AT 7/10