

✓ A. Walters
A. Duguid

CONFIDENTIAL

Ron Martin
Transfer
12/16



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

BRITISH RAIL

In E Committee later today we are due to discuss policy towards British Rail's commercial businesses on the basis of the Review which the CPRS have completed. Norman Fowler suggests that our discussion should be followed by an early statement from him which would "point the way forward".

2. The CPRS Review provides a very helpful analysis of the problems of the commercial businesses and puts forward some sensible prescriptions for the medium term, including the handling of the electrification issue. However, the picture painted is a gloomy one with serious financial implications over the next few years. In this context Norman's proposed statement gives me considerable cause for concern.

3. It does not use either the electrification card or British Rail's present serious financial position to put maximum pressure on BR for the changes which we all know are needed. Although the words used do not amount to a specific commitment to electrification, they will be seen as such and they give the Government nothing in exchange. For example, there is no explicit link between defined progress in cutting costs and improving productivity and the approval of electrification schemes. Peter Parker's remarks yesterday about BR having to axe 14,000 jobs over the next two years in order to persuade



the Government to pump more money into the system, shows that he is prepared to recognise this link, a fact we should exploit to the maximum. Moreover, the statement contains no indication of the real seriousness of the Board's current financial position and the need for urgent action to counter this. Given the Board's poor record and its heavy dependence on Exchequer support - the Government cannot afford to do other than make the position absolutely clear to both management and unions.

4. I believe that our first priority should be to consider how we handle the most urgent problems of BR policy. I have in mind:-

- (i) action on their immediate financial position - the expected overshoot of the 1981-82 EFL, the higher financing requirement for 1982-83, the looming threat of "bankruptcy" in the sense of impropriety in continued lending from the NLF, and the first breach of the basic cash ceiling discipline for PSO grant;
- (ii) our attitude towards further deterioration in the financial outlook if the Board were to implement a recommendation from the Railway National Staff Tribunal in excess of their current 7 per cent offer and the impact of this on pay negotiations in the next round;
- (iii) whether we are willing to face industrial action either over pay or over the reductions in capacity proposed by the CPRS or as a result of an attempt to make some progress on changes in working practices.
- (iv) the re-appointment of Sir Peter Parker as Chairman of the British Railways Board.



The damage which has been done to our position by the NCB deal in the spring makes it all the more important that we should be clear about our approach to BR before moving ahead on any particular front. The present papers do not enable us to reach a view on these more immediate issues. I think that we should do so as soon as possible.

5. I recognise that this may pose a timing problem. If it is inevitable that some sort of statement is made before the NUR Conference, it must take a much more cautious line on electrification and certainly avoid giving away the principle, and at the same time spell out more clearly the changes which we want to see implemented.

6. I am copying this letter to the other members of E, Norman Fowler and Sir Robert Armstrong.

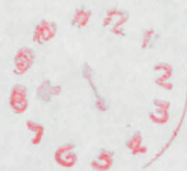
P.S. Jenkins

for G.H.

17 June 1981

(Approved by the Chancellor and signed in his absence)

17 JUN 1981



COMMUNICATION