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PRIME MINISTER

Financial Objectives for London Regional Transport

Mr. Ridley has responded to the various points we put to him:

- (i) He agrees with separate subsidy targets for the bus and underground services, though they will have to wait until separate subsidiaries have been established.
- (ii) On costs, he confirms that the 2½ per cent reduction in unit costs is to be specified in real terms (as are similar objectives for other nationalised industries) but it will be specified as a minimum.
- (iii) He accepts that prices should reflect costs of the differing modes of transport.
- (iv) On redundancies, the scheme inherited from London Transport appears to be very generous but Mr. Ridley does not believe it to be practicable to renegotiate it at this stage.

Agree this represents a satisfactory response?

Yes

AT

ANDREW TURNBULL

10 July, 1984

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cc no
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PRIME MINISTER

FINANCIAL OBJECTIVES FOR LONDON REGIONAL TRANSPORT

I have seen your Private Secretary's letter of ~~28~~ June with your comments on the draft objectives letter to the Chairman of LRT.

I shall certainly want to set separate subsidy targets for bus and underground services when, later on, the separate operating subsidiaries have been properly established. The requirement for the subsidiaries to publish separate accounts will ensure that the financial performance of each is transparent.

I certainly want to specify stiffer efficiency targets than are contained in the preliminary plans they have given me, but I want to give Keith Bright the opportunity to come forward himself with more demanding aims. Their preliminary plans already assume major reorganisation and staff cuts of 8,000 on 58,000, and that is the performance on which they will need to improve. Given this, I propose in my letter to him to say:

"You have told me that you can achieve a reduction in unit costs of two and a half per cent a year, in real terms, over the next few years. I look to you, if possible, to do better than that, and I shall want to review the target with you within the next twelve months".

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Arthur Cockfield in his letter to me of 20 June seemed to suggest that the target should be a $2\frac{1}{2}\%$ reduction in cash terms. This will be equivalent to a real terms reduction of some 7% (assuming $4\frac{1}{2}\%$ inflation). I do not think a target of that order would be realistic at this stage.

Your third point was about emphasis on competition. Given the relatively fixed nature of the underground network and its particular cost structure, I believe the best opportunities lie in a radical review of the bus operations and competition in supply of bus services for which we have provided in the Act. The objectives which I propose for the bus system - set out in paragraph 9 of the letter to Keith Bright - are intended to bring this about by cutting out excess capacity, exposing costs and bringing competition to bear. At the same time we must recognise that there are genuine advantages in measures like Travelcards in attracting more custom and reducing costs of ticketing. I suggest we might take account of this point by adding to the end of paragraph 6 of the letter:

"You will also want to consider how your fare scale can best be set to reflect the different cost structure of the bus and underground networks."

Lastly there is the question of severance costs. The management face the problem of having to plan for large-scale job losses over the next three years, including some $3\frac{1}{2}$ thousand redundancies. It has now become apparent that London Transport introduced a very generous redundancy scheme in February. Assuming most of those who go are the older ones with long service, the payments could average £13,000. I shall certainly set out to see that LRT secure their changes at minimum cost, but this expensive commitment that we have inherited would be difficult to refuse now, and will inevitably push up the price of change.

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I shall now seek to secure Keith Bright's commitment to the letter so that I can publish it soon.

I am copying this minute to members of E(NI) and to Sir Robert Armstrong.

NICHOLAS RIDLEY
10 July 1984

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Transport, LRT 11/83



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10 DOWNING STREET

bc. Bob Young

cc: CO
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DIEmp.
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CSO, HMT
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From the Private Secretary

11 July, 1984.

Financial Objectives for London Regional Transport

The Prime Minister has seen your Secretary of State's minute of 10 July responding to the Prime Minister's comments recorded in my letter of 28 June. She has noted the points made, and is content with the changes proposed in the letter to be sent to Dr. Bright.

I am sending copies of this letter to the Private Secretaries to the members of E(NI) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss D.A. Nichols,
Department of Transport.

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