Prime Minister (1)
To note. Agree BR should be brought to E(NF)?
Yes not

AT 15/3

Pps please

CONFIDENTIAL

PRIME MINISTER

14 March 1985

BRITISH RAILWAYS

Belatedly, Transport Department have initiated a review of BR's recent performance and the 1984 Corporate Plan. Meanwhile, Bob Reid is approaching the mid-April deadline for this year's pay negotations, with the unions' 33% claim on the table.

The fact that BR is beset by serious problems is not to belittle Bob Reid's achievements in propogating a hard-headed, businesslike approach to its management. The basic restructuring into business sectors - each a separate profit centre - is right. The internal chemistry is improving. However, BR's problems go deeper than the setbacks caused by the coal dispute, the losses from which are broadly estimated to be £250 million.

Bob Reid, we believe, will want to be judged as a business manager, not the custodian of our Victorian heritage. The sort of problems which would keep him awake at night are as follows:

1. In October 1983, Reid was given three key objectives:

- to reduce the Public Service Obligation (PSO) grant by more than 20% in real terms by 1986;

- to bring the freight sector into profitability (5% real return) by 1988;

- likewise, the Inter-City sector by 1988/9.

The 1984 Corporate Plan was taking shape around the middle of last year. Assumptions which were optimistic then, and now look heroic, yielded forecasts that the first objective would be achieved - just. The return of the freight and Inter-City sectors to profitability were in sight, but delayed a year or two. That prospect begins to look more like a mirage.

2. The real bar to progress is rigidities on the industrial relations front. BR's wage bill for railway operations is running at £1.3 billion - roughly eight times the current level of capital expenditure. The scope for manpower reductions is enormous, probably tens of thousands. Yet virtually no progress has been made in recent years, except the removal of a layer of 4,000 administrative staff, saving £80 million per year. The signs are (refer attached extract from yesterday's Daily Express) that even the benefits of flexible rostering have been thwarted by the unions.

Very slow

The 1984 Corporate Plan sees no worthwhile progress in this area. Despite an 8% reduction of manpower through the removal of restrictive practices over the next 5 years, all the gains and more will be given away in improved pay and conditions, so that the wage bill will increase in real terms.

The question to be faced this Summer is whether to confront the unions in a set-piece battle for real productivity gains, or to pursue many separate initiatives at local level.

3. Some of the tough questions faced by the freight sector concern productivity. The volume of freight business irrecoverably lost through the coal dispute is still open to question, but major customers like the CEGB and British Steel have had their eyes opened to the cost-effectiveness of road haulage and will be tougher in negotiating future rates. The return to profitability can only be achieved by productivity improvements (at most one man to a train and not 2-3), or drastic reduction of the freight sector down to a core of high-volume shuttle movements.

4. BR's equivalent of "uneconomic pits" is the provincial passenger sector. Income covers only a quarter of costs. More than half the PSO - nearly £500 million - is being poured into maintaining a moribund rail service. Fare increases are counter-productive because they just drive the business towards cheaper and more efficient modes of transport.

Deregulated coaches and buses have a major role to play in this area, but establishing the new liberalised regime will take time, and confidence must be built up if the politics of rail closures are to be overcome. Meanwhile, it seems foolish for BR to be putting more capital investment into this sector than any other over the next 5 years (£104 million in 1985/6).

5. Predictably, now that BR's engineering subsidiary (BREL) has been exposed to competition, it looks horribly fat and over-resourced - for example, 25,000 staff. A painful slimming course leading to privatisation must be faced.

6. With so many downside factors bearing on the Corporate Plan, Bob Reid will have to tackle the disposal of valuable assets and property not related to his core business with redoubled vigour.

It is not sufficient just to talk tough about the need for BR to hit their medium-term targets. They deserve a rigorous review of the realism and soundness of the 1984 Corporate Plan and a hard-headed appraisal of the options. You might like to invite Nicholas Ridley to do this in the forum of E(NI). We will report further on progress in official and interdepartmental discussions.

JMW

JOHN WYBREW

DAILY EXPRESS, 14 MARCH 1985

'Savings' plan is costing BR £100m a year

By PAUL WILENIUS Industrial Reporter

A £100 MILLION bonus farce is exposed today as British Rail heads for a major pay battle.

A Daily Express investigation shows that an efficiency scheme to slash rail overtime has failed.

Overtime payments have increased by 50 per cent to more than £100 million a year. One source said the figure could be as high as £120 million.

Last night embarrassed rail chiefs were refusing to give details of the failure of the "flexible rostering" system, which BR forced in after three months of industrial strife in 1982.

FIGHT

Critics claim some workers have turned the system to their own advantage, deliberately running trains late so that they can claim overtime.

BR will soon be locked in a pay and productivity fight with leaders of 166,000 railmen who are demanding rises of up to 33 per cent.

Rail chiefs are expected to offer around 2·5 per cent in the next two weeks.

The railmen would have been offered at least 4·5 per cent, but the industry has lost £250 million through the year-long miners' strike. The unions refused to move coal trains.

A high-ranking official who blew the whistle on the overtime farce, said: "It is more than my job is worth to come out into the open on this."

EXPRESS EXCLUSIVE

The source complained that the system of flexible rostering — fiercely opposed from the start by the train drivers' union ASLEF — had been badly thought out.

An official of ASLEF confirmed his claims. He said many drivers were "laughing all the way to the bank."

They have been earning far more than they did before the system, which scrapped the eight-hour day and replaced it with shifts of between seven and nine hours.

Guards and other staff have also been making more money.

The major embarrassment for BR is that it has to pay overtime to drivers and guards when: TRAINS are running late. WORKERS are called in to cover for men who are ill—or late. SHIFT patterns do not match, and others workers have to work rest days and on Sundays.

DISASTER

Former BR chairman Sir Peter Parker had expected the flexible shifts to produce great savings.

Drivers were working on average four hours of overtime a week in 1980. This has risen to 5·8 hours a week.

Although drivers are obviously enjoying the benefits of the system, official ASLEF policy is still to oppose it.

Rail chiefs would find it too embarrassing to scrap the system altogether, but they have held a series of meetings with the union in recent months in an attempt to get it changed.

An ASLEF spokesman said: "BR have told us they want to get the rosters right, and want to tighten them up. But they will never get them right.

"The system is a disaster for the BR board. It is costing them millions of pounds a year."

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10 DOWNING STREET

From the Private Secretary

18 March 1985

The Prime Minister has seen the Secretary of State's letter to the Chancellor of 28 February about the BR Corporate Plan. She would be grateful for an opportunity to discuss the Corporate Plan, and in particular its proposals for greater efficiency and for manpower in E(NI).

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

Tim Flesher

Henry Derwent Esq
Department of Transport.

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