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CONFIDENTIAL

ECNO

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

27 March 1985

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Transport

NBPM

Dear Secretary of State,

BR PAY

You wrote to me on 25 March, reporting that Bob Reid intends to make an opening offer of just over 4 per cent when negotiations with the unions open today and that he plans to separate pay from productivity issues.

As you know, we are to meet in E(NI) to discuss BR's corporate plan, and efficiency and productivity on the railways are bound to be important topics. While I would not by any means rule out decoupling the pay and productivity issues in due course and I do not ask that Bob Reid press a pay productivity link at national level, I should be grateful if he would avoid making this concession until we have considered these points in E(NI) and have assessed fully the risks and costs of industrial action including the potential effect on coal movement. I would question whether it would be tactically wise to make such a concession at the beginning of negotiations. But the understanding that BR do not offer to separate pay from productivity today, I am content with the opening offer Bob Reid proposes to make.

Meanwhile, I should be grateful if you could let me have a fuller picture of how BR would pursue productivity issues at local level. Do they think they would have to make local payments, in addition to national pay settlements, to achieve the improvements they seek?

Finally, I recall that last year, the BR Board made proposals to overhaul the negotiating machinery, and in particular were keen to abolish the Railway Staffs National Tribunal. I understand the reasons why this has not been taken forward so far. When do you judge we might expect to see some progress?

Copies of this letter go to the Prime Minister, Tom King, Norman Tebbit and Peter Walker and to Sir Robert Armstrong.

Yours sincerely,

Philip Wynn Owen

pp. NIGEL LAWSON

(approved by the Chancellor and signed in his absence.)

Transport: BR - Pt 8.

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SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

25th. March 1985

Prime Minister:
To note
26/3

Dear Chancellor,

BR PAY

BR will open their negotiations with the Unions this Wednesday afternoon. Bob Reid has told me how he plans to handle them.

First, he intends to separate pay and productivity. Previous attempts to use the annual pay negotiations to achieve productivity gains failed. Indeed, Bob Reid has concluded that the way to increase efficiency comes from firm and unrelenting management action - locally or nationally - and not from seeking agreement with the union leaders at national level.

For example, in the last 15 months BR has shed nearly 6,000 men, worth £80m a year, by removing an entire tier of management. Not a day's work was lost by union disruption. By contrast, the six productivity items which featured in Peter Parker's 1981 pay and productivity deal with the Unions have made disappointing progress. True, one of the items, "Open stations" has been introduced successfully. A second one, flexible rostering, is also in operation but only after a messy strike which cost BR a £170m in 1982, inconvenienced passengers and damaged customer's confidence in the railway.

So the Board plan to de-couple the remaining four items from the current pay negotiations. (A short note on the remaining items is attached.)

Bob Reid's approach to pay is business-led. He needs to recruit and retain staff quite as much as to invest in the right equipment at the right price. He also needs to rebuild his customers' confidence in the stability of the railway, while contributing all he can to restocking of the power stations. He judges that most of his men do not want trouble and will respond well to a reasonable offer. The union leaders, however, are seeking confrontation and will seize upon any excuse to cause disruption.

So Bob Reid's tactic is to open with an offer just above 4%, to make clear that the Unions' past actions have made even this difficult to finance, and to settle as low as possible and certainly not above 5%. Throughout the negotiations he will maintain his own communications with his workforce (the / enclosed draft extract from the BR newspaper is an example of how he will do this).

It seems to me that Bob Reid's approach is based on a sound business judgment and I have told him that we will support him in taking a firm stand with his Unions.

I shall, of course, keep you and the colleagues fully informed of significant developments.

/ I am sending copies to the Prime Minister, members of E(PSP), and to Sir Robert Armstrong.

Yours sincerely,

Richard Allan.

(Private Secretary)

NICHOLAS RIDLEY

(approved by the Secretary of State + signed in his absence).

REMAINING ITEMS FROM THE 1981 PAY AND PRODUCTIVITY AGREEMENT

There are four remaining productivity items. They are as follows:

(i) "Easement of single manning": the aim here is to dispense with the second man in the cab except on high speed trains or in other special circumstances. BR have taken this through the formal negotiating machinery and have now reached the final stage - reference to arbitration by Lord McCarthy at the Railway Staff National Tribunal. The Board plan to tell the Unions that they will be referring the issue to RSNT, which BR expect to rule in their favour.

(ii) "Driver only operation of freight trains": BR have successfully completed three trial schemes, which involve dispensing with the guard on the back of freight trains. The NUR are strongly opposed to this move. The Board plan to tell the Unions that they will repeat the 3 experiments, hoping for agreement in the process, and that, meanwhile, Regional General Managers will begin preparing further schemes and talking to the men locally about them.

(iii) "Driver only operation of passenger trains": BR already have one service - Bedford/St Pancras/Moorgate in operation. The next services on which DOO is due to be introduced are Great Northern suburban passenger services and Strathclyde. The converted rolling stock will begin to be delivered for the Great Northern over the next few months and BR will tell the Unions that it expects drivers to take part in the necessary retraining from mid-July onwards, with a view to introducing DOO just before the end of the year. They will send home drivers who do not co-operate. This may be the issue that provokes local trouble. But BR are determined to stand firm on it.

(iv) "The train-man concept": this provides a single channel of recruitment and promotion to driver and other train crew. Progress on it depends on the successful introduction of easement of single manning and DOO.

Railnews

No 267

Newspaper of British Rail

APRIL 1985

The 1985 PAY CLAIM

BOB REID writes

THE NUR and ASLEF have tabled a pay claim which, if conceded, would cost the railway some £480 million a year. No one seriously expects the Board to meet such a claim in full, or anywhere near it.

When the claim was formulated at union conferences in the heady summer days of 1984 the railway had just come through a year which had ended with BR reporting a small surplus.

We were on course to break even again this year. We were actually lending money.

The situation now is very different. We face losses of some £240 million due to the coal strike. We have had to borrow £XXm, and that has added £XXm to the interest we have to pay every year from now on, until the debt is paid off.

Of the lost revenue, £60 million was there for the taking, but some NUR and ASLEF members refused to move the traffic. So we are £60 million worse off than we might have been if we had carried all the traffic on offer.

That is the background against which the Board must now consider what it can afford in terms of improved pay and conditions in 1985. No-one's expectations should be high. But two things will help — getting the traffic moving again and doing all we can to restore customer confidence that the movement of their trafic by rail will not be disrupted again.

I read newspaper reports recently claiming that the Board had decided to offer a two per cent pay increase. NOT TRUE. I know it was guesswork because I know the Board has still to decide what it can afford.

We will be assessing the effect in revenue of the return to work in the coalfields, and just how much traffic — coal, steel, iron ore, and oil — comes back to rail.

Some newspapers also gave the impression that all railwaymen had refused to move coal. NOT TRUE. Only some refused. Others moved up to 40 coal trains a day and saved an even more serious situation from developing in the industry.

Other railwaymen TSSA and BTOG members — have co-operated in the removal of an entire level of management and the closure of 21 divisional offices; men and women have moved their homes and their families in order to work at the new Western Region HQ at Swindon; others are moving now to work at the new London Midland HQ in Birmingham.

The Board must also think of them and their loyalty to the industry when it considers the pay claim.

I also read reports that trade unions would not trade jobs for higher pay through productivity. But no one will be put out of work by the changes in working practices which are still being negotiated.

Not a single guard has been made redundant because of one-man operation on the Bedford/St Pancras services, which have been operating for over two years.

The rate of retirement from this industry over the next five years means we will be hard pressed to recruit the 25,000 people we will need to run the railway.

Of course jobs will go if we drive our customers away by strikes or by excesssive costs. That's why it's so important to finalise negotiations on the productivity issues already in the machinery. This will enable us to challenge the prices which our more efficient competitors have been charging.

The most disturbing reports of all that I have read recently are those which suggest confrontation is inevitable in the railway industry. Cartoonists have depicted union leaders climbing into the ring for a fight to the finish.

I hope railwaymen and women do not see the situation in that way. I want to lead a railway industry that is prosperous and can afford to pay higher wages. The last way to achieve that is through a damaging conflict.

The Board will be deciding in the next few days on the pay offer which it is able to make in all the circumstances.

Then it is up to you.

STTC

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