CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

28 February 1986

NBPM

Dear John

BR PAY

Thank you for your letter of 10 February about BR's pay proposals for this year.

I have had a number of discussions with Bob Reid about the points you raise. As a result, BR lowered their initial offer to 4.5%. The Chairman made it clear to me, however, that he saw no prospect of achieving a settlement at last year's level (4.85%). He judged that to go for such a settlement would seriously risk the possibility of very costly industrial action. As expected, the initial offer was promptly rejected by the unions, and talks were resumed today.

Turning to the points raised in your letter, the general objective of seeking settlements lower than last year must, it seems to me, pay due regard to the facts relating to particular cases. You accept that BR's recent settlements have been low. Last year they settled at 4.85% compared with an average of 5.75% for the public sector as a whole, and 7.0% for the public trading sector. BR's settlement was virtually the lowest of the major public sector employers. Although it is early in the pay round, settlements so far this year are averaging 5.5% in the public trading sector, and 8.0% in the public sector as a whole. In these circumstances there are clearly limits to how far it is reasonable to expect BR to continue the downward pressure and we must take a realistic view of what is achievable.

While it is true that BR's average earnings have increased in recent years the comparisons made in section (b) of the annex to your letter require some qualification. In fact, the earnings figures quoted for BR cover six, not five, settlements, so that like is not being compared with like. If one compares the October to October position to eliminate distortions created by the pattern of settlements, the increases in average earnings for BR's footplate and manual staff are lower than those for male manual workers as a whole.

BR staff work significantly longer hours than the national average. The figures in section (c) of your annex leave this factor out of account. The average hourly earnings of BR's conciliation staff, representing some 60% of the railway workforce, are £3.41 compared with £3.68 for male manuals in the economy as a whole. And the average hourly earnings of BR's entry grade of Railmen is some 21% below the average for male manuals. Moreover, BR's averages are enhanced through the inclusion of specialist technical staff so that direct comparisons with male manuals can be misleading.

A further point stressed by BR, which I mentioned in my earlier letter, is that the amount of overtime worked per employee has reduced compared with a year ago. It is true that this is against a background of increases in recent years which has assisted BR in securing relatively low settlements. But since overtime money forms such a large component of BR pay - 23.5% for manual grades and 22% overall - the current cut in overtime is having a significant effect on the total earnings of overtime workers, the average reduction being 2%. This is bound to be an important factor in the union's thinking. The Chairman has said that he intends to hold to this trend of reducing overtime and I shall be pursuing this further with him.

As I made clear in my earlier letter, BR are indeed experiencing recruitment problems which, they believe, reflect their overall pay position. Although they are seeking to reduce their total manpower, they neverthless need to recruit about 7,000 new entrants each year. Not only are they failing to attract the quality of applicant they need to sustain the business for the future but they are losing up to 50% within the first year as entrants experience the unsocial and lengthy hours of work needed to reach a tolerable earnings level. These difficulties are general and not confined to particular grades or geographical areas.

BR have told the unions that the pay deal they are seeking is unrelated to productivity improvements. BR's experience is that the changes necessary to improve productivity can be achieved more effectively and at greater overall advantage to BR if they are dealt with outside the national pay negotiations and, wherever possible, at local level. BR have also said, in recent press statements, that they aim to pursue this more decentralised approach to productivity negotiations, taking due account of local labour market conditions.

As regards BR's proposed improvements to pension benefits, Bob Reid accepted our point about the need for these to be considered as part of the package. He has assured me that they were taken into account in planning their negotiating position and were fully deployed during today's negotiations as one of the arguments for the level of settlement proposed. The outcome is that the Board have made a final offer of 5% on basic rates, plus £1 on the minimum earnings level - an overall average earnings increase of 5.19% (compared with their original proposal of 5.5%). This represents a substantial improvement, which I believe, takes full account of all the points we have made.

Finally, you referred to the need for a demanding unit cost target for the future along the lines of that introduced for LRT. I shall indeed be considering some such possibility in the context of the Chairman's obejectives.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

Transport: BR Pt 8.

SS

CONFIDENTIAL

CF BG

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

PAYMASTER GENERAL

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

NBPM

19 February 1986

Dear Nicholas,

B R Pay

I have seen the correspondence between you and John MacGregor about British Rail's pay offer for this year. I agree entirely with the points that John makes in his letter. In addition, you explain that BR point out that opportunities for overtime have been reducing this year. That appears to be true but it follows increases in the amount of overtime worked during each of the previous five years and is no doubt overdue as BR increase their efficiency. I think that any final offer above last year's settlement of 4.85% would be damaging to the Governments' general stance on pay and employment.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours,
Ken

KENNETH CLARKE

CONFIDENTIAL

Transport; BR Finances

003/112

CONFIDENTIAL

cc BG

Bernie Bristow

NBPR

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

10 February 1986

Dear Nicholas,

**BR PAY**

Thank you for your letter of 5 February, informing me that BR plan to open negotiations with an offer of 4.75 per cent on basic rates and are prepared to raise it as high as 5.5 per cent in order to secure a settlement.

I am disappointed at these proposals, which envisage an eventual settlement 0.65 per cent higher than last year when it is our agreed objective to seek lower settlements in this pay round. I accept that BR's recent settlements have been low. But average earnings have increased much more rapidly than basic rates and average male manual earnings in recent pay rounds. It is also the case that average earnings in BR compare very favourably with average earnings elsewhere in the economy, especially if account is taken of the rather disappointing productivity performance in recent years. And BR has low staff turnover overall and no general recruitment problems. While there may be a few pressure points there is no case for a general increase to relieve these. I attach a table prepared in the Treasury setting out the key facts and figures.

In the light of this situation I would be grateful if you would ask BR to reconsider. Our minimum objective must be to secure a settlement no higher than last years 4.85 per cent. This obviously means a lower opening offer than the one BR have in mind. I would also be grateful to know what ideas BR have for offsetting the cost of the eventual settlement through productivity improvements and whether they have any plans to pay extra at local level in exchange for agreements on productivity. Is there also scope for a more differentiated approach to pay with a much lower basic offer combined with more flexibility where there are recruitment and retention problems.

CONFIDENTIAL

I also understand that BR are envisaging certain improvements to employee pension benefits. I have no objection in principle to this but clearly the value of these benefits should be a factor in the pay negotiations and their value offset against the overall settlement as was suggested by Nigel Lawson in his letter of 27 January to Norman Fowler. My officials have provisionally costed the value of the enhanced benefits as worth about 1 per cent on current average earnings. This calculation may not be exactly right but I would expect the value of this benefit to be included within the overall envelope agreed for the eventual settlement. Obviously this implies a still lower offer on basic rates than the one BR are currently envisaging.

Finally, I am concerned about BR's disappointing past performance on unit costs and understand that their 1985 Corporate Plan does not envisage more than a 1 per cent improvement in unit costs per mile in the five years from 1986-87. We need a demanding unit cost target for the future -we have for example set LRT a target of a 2½ per cent fall per year in real costs. I hope we can agree that a demanding unit cost target should be one of the objectives for the new chairman to be appointed in October.

I am copying to the Prime Minister, E(PSP) members, and Sir Robert Armstrong.

Yours ever,

John

JOHN MacGREGOR

(a) Pay Settlements (%)

| Pay Round | BR SETTLEMENT | PRIVATE SECTOR AVERAGE | RPI AVERAGE |
|---|---|---|---|
| 1984-85 | 4.85 | 6.0 | 5.7 |
| 1983-84 | 4.98 | 5.25 | 5.0 |
| 1982-83 | 4.52 | 5.75 | 5.3 |
| 1981-82 | 6.4 | 7.0 | 10.7 |
| 1980-81 | 11.0 | 9.0 | 13.4 |
| CUMULATIVE | 35.9 | 37.6 | |

(b) Increase in Earnings % (April to April)

| PAY ROUND | FOOTPLATEMEN | OTHER BR MANUALS | PRIVATE SECTOR MALE MANU |
|---|---|---|---|
| 1984-85 | 14.6 | 11.9 | 8.1 |
| 1983-84 | 5.0 | 9.5 | 8.9 |
| 1982-83 | 8.3 | 4.9 | 7.6 |
| 1981-82 | 13.8 | 14.1 | 10.1 |
| 1980-81 | 17.2 | 16.1 | 8.1 |
| CUMULATIVE | 73.8 | 70.3 | 50.8 |

(c) Average Earnings (April 1985) (£ per week)

| | |
|---|---|
| Workshop | 165.20 |
| Conciliation Grades | 176.40 |
| Footplatemen | 192.00 |
| Male Manuals (Private Sector) | 163.40 |
| Male Manuals (Whole Economy) | 163.60 |
| British rail Salaried Staff | 236.20 |
| Male Non-manuals (Private Sector) | 228.00 |
| Male Non-manuals (Whole Economy) | 225.00 |

TRANSPORT: British Rail Pay: Pt8

CONFIDENTIAL

.020

CCBG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

5 February 1986

NBPM.

Dear John

BR PAY

The rail unions will today formally present to BR their claims for substantial, but unspecified increases in rates. The BR Board do not intend responding with an immediate offer but expect to give a written response in about a week, with a view to settling in early March.

A prominent feature of BR's pay deliberations this year is the increasing concern, of both the Board and the unions, over their low basic rate pay structure and, in particular, the position of the lowest paid employees. While average weekly earnings compare reasonably favourably with the national average, their hourly rates are significantly lower. This is because of the traditionally high levels of overtime worked which has, in part, enabled BR to secure settlements below the prevailing rate of inflation in recent years. On top of the low settlement achieved last year (4.85%) opportunities for overtime have been reducing this year which has adversely affected average earnings.

BR are particularly concerned about the likely effect on retention and motivation of maintaining the downward pressure on pay. Although the absolute turnover of staff is not particularly high, they say they are experiencing difficulty in retaining staff of adequate quality. There is a high wastage rate among recruits, partly because of the uncongenial shift work involved and partly because they do not come up to BR's standards.

Significant reductions have been made in the workforce in recent years and BR are now forcing the pace of change through the extension of driver only operation, the easement of single manning restrictions, and the significant productivity improvements which have taken place, and are planned, for British Rail Engineering Limited.

Against this background, BR expect strong pressure from the union leadership when they meet to consider their case today. BR are intent on gaining the co-operation of the workforce for the coming changes and believe that there are advantages in going for a quick settlement this year. They therefore intend making an opening offer of 4.75%. They will do their best to keep the final settlement as near as possible to last year's level but, if pushed, believe they may need to go further - perhaps as far as 5.5% - in order to achieve a settlement.

I and my officials have, of course, stressed the desirability of keeping the pay settlement as low as possible commensurate with avoiding major and prolonged disruption (which is very costly for BR), affordability and the need to recruit, retain and motivate their staff. The Chairman fully understands our position but still believes that in the light of the low settlement last year, the pressures I have outlined above, and the current negotiating climate, BR might need to edge up this year's pay settlement over that of last year.

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

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY