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do you have these papers
HJ 11/5.



Speke to BR
naming +

① no
lunch
PA
M/S
10/5

10 DOWNING STREET

Prime Minister

Naming the Airey Neave locomotive

I really think the lunch with
BR would best be avoided: it would
be difficult to spend an hour or so
with BR without criticising their
lamentable performance - this would
come out as a story that you
dressed them down, are anti-rail etc.

Agree I ask Sir P Parker if
he would want to postpone the
ceremony until after June 9? Or if
not say that you will be happy to

go ahead with the naming
ceremony but can't stay on for the
lunch? Yes no

MLW 9/5



DEPARTMENT OF TRANSPORT
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Miss Caroline Stephens
10 Downing Street
LONDON SW1

29 April 1983

Dear Miss Stephens - 2/3/5.

Further to your letter of 19 November
I now enclose briefing material for the
Prime Minister's use when naming the
locomotive "Airey Neave" at Euston Station on
14 May.

If you have any queries please let
me know.

Yours sincerely

See Faulkner

MISS S I FAULKNER
Private Secretary

NOTES ON BR PERSONALITIES

1. In addition to Sir Peter Parker, the Prime Minister is likely to be introduced to Mr Bob Reid, Sir Robert Lawrence, Jim O'Brien and Dr John Prideaux.

2. Bob Reid is the Chief Executive of the Railways. He is a career railwayman. He is tough, hard-headed and business-oriented. He has done more than anyone else to improve the railway's management and performance over the last year or so. For example, he pushed through the new arrangements for managing the different railway sector businesses on a separate basis in the face of strong resistance.

3. Sir Robert Lawrence is Chairman of the BR Property Board. He, too, is a career railwayman. But he has branched out into the National Freight Consortium, the National Bus Company and the property world. He has displayed a flair and commercial acumen highly respected in the property market.

4. Jim O'Brien is the Regional General Manager. He is an energetic manager and a good publicist.

5. Dr John Prideaux is the Divisional General Manager. He is young, lively and clever. But he has come up against little intellectual competition in BR, where his own high estimation of his ability is shared. His aim seems to be to get what is "best" for the railway rather than to achieve the financial performance and the improvements in the railway that the Government requires.

NAMING OF "THE AIREY NEAVE"

BRIEFING NOTES

- A. Main Line Electrification and Inter City
- B. Serpell
- C. Investment
- D. Grant
- E. Management
- F. Pay and Productivity

THE LOCOMOTIVE AND EAST ANGLIA ELECTRIFICATION

1. The locomotive to be named is an electric one. It was built in 1965 and has been used on the West Coast Main Line between Euston and Scotland. It has now been refurbished for use on the East Anglia lines out of Liverpool Street. These lines are already electrified as far as Colchester. In December 1981 the Government agreed to electrification from Colchester to Harwich, Ipswich and Norwich. Work is in hand and should be completed to Ipswich and Harwich in 1985, and Norwich in 1987.

2. As part of the same scheme the Board proposed to electrify the 2 lines to Cambridge, from Royston and Bishops Stortford where electrification ends at present. The case for electrifying both these lines did not seem so strong as for the rest of the scheme and we asked the Board to reconsider it, which they are still doing. We expect a further submission in a few months.

MAIN LINE ELECTRIFICATION AND INTER-CITY

BACKGROUND

1. The Inter-City business is BR's showpiece. Since 1976 BR have invested some £400m in new traction and rolling stock, viz:

- 95 High Speed Trains. These diesel trains are BR's fastest, running at 125 mph, and are used on the non-electrified main lines, principally those to Leeds, Newcastle, Edinburgh, Sheffield, South Wales and the South West of England. Each train has 2 power cars, costing £750,000 - in total, around £150m.
- 925 Mark III day coaches (including HST coaches) each costing around £200,000 - in total, around £185m.
- 210 Mark III sleeper coaches (which amounts to complete renewal of the sleeper services, other than some which are being withdrawn). Each one costs about £280,000 - in total, around £60m.

2. Inter-City is running at a loss, estimated at £160m for 1983. In June 1981, the then Secretary of State set the business the target of achieving a 5% real return on assets in 1985.

Electrification

3. At present, just under a quarter of the Board's network is electrified - some 2600 route miles out of 11,000. The Board have for some time been arguing for a substantial extension of the electrified system. The largest option considered by the joint BR/DTP Electrification Review, published early in 1981, would have increased the electrified proportion to 52% of the network over 20-30 years.

4. Electrification is just another form of traction. Its advantages over diesel are that fuel costs are less and the vehicles are simpler and cheaper to maintain. Its disadvantage is the capital cost of the fixed works which are needed first. The right time to invest in electrification, where there is a financial case, is when the existing rolling stock needs to be replaced.

5. The main beneficiaries of electrification would be the Board's commercial businesses, Inter-City and freight. In his policy statement of June 1981, the then Secretary of State for Transport invited the Board to put forward a 10-year programme for the electrification of potentially profitable main line routes: and he indicated a Government commitment to such a programme subject to a number of conditions, one of which was the production by the Board of a satisfactory plan for moving Inter-City to profitability by 1985.

6. BR have just submitted a revised "Prospectus" for Inter-City covering the period up to 1988. They claim it shows a satisfactory path to profitability - though not by 1985 - and that the way is now open for a decision on the ECML.

7. IN CONFIDENCE: By the time of the naming ceremony, the Secretary of State expects to have told Sir Peter Parker that the Prospectus is not yet satisfactory. It misses the target for profitability without adequate explanation and relies more on revenue growth than cost reduction. So the way is not yet open for the ECML decision. However, BR expect to produce a longer-term and more detailed strategy for Inter-City in the summer.]

LINE TO TAKE

8. Recognise potential advantages of main line electrification, but need to see clear financial case based on plans for Inter-City to achieve financial target. Government must be satisfied on strategy for Inter-City before reaching decisions on East Coast Main Line electrification. Rest of 10 year programme to be considered as part of review of long-term future of railway.



B.

SERPELL REPORT

BACKGROUND NOTE

B

1. The Serpell Committee was asked to examine the finances of railways and to report on options for securing improved financial results in an efficient railway.
2. The Report identified ways in which finances of railways might be improved without changing the size of the network. The Committee suggest gross savings of over £200 million a year by 1986.
3. Serpell also illustrated the costs of operating a range of different networks on various cost assumptions. But the "network options" are illustrative only; they are neither policy proposals to choose between nor closure proposals.
4. The Committee made no recommendation about level of commuter fares, and no mention of a 40% increase. But they noted that, with season ticket discounts, some commuters are paying less than off-peak travellers, and suggested that this warranted further examination. The Government has said that there will be no sudden big increase in rail fares.
5. It would be wrong to dismiss different ways of meeting local transport requirements which might be cheaper and which might ensure the continuation of public transport in rural areas, (eg bus substitution).
6. The Secretary of State has already told Sir Peter Parker he is expected to achieve the potential cost savings and efficiency improvements identified by Serpell. The Government wants more efficient and modern services. It recognises the need for a high quality national rail network, but is determined to ensure that the country gets value for the £900m a year of public money spent on supporting the railways.



SPEAKING NOTE [for use if necessary]

Serpell Report identified potential cost savings of £200m - must ensure these are realised. Report will form important input to consideration of longer-term issues; not meant to be a detailed policy prescription. Important we now concentrate on achieving modern and efficient railway. Must be prepared to consider new approaches if taxpayer and traveller are to get value for money. Serpell sets scene for this debate.



c.

BRB INVESTMENT

1. The Government has maintained the Board's investment ceiling at the level set by the previous Administration.
2. The Board have not in recent years invested up to the ceiling. BR say this is due to the over-tight constraint of the EFL; the Department believe that more investment would be possible if efficiency improvements and cost savings were made.
3. The 1982/83 investment ceiling was set at £462m; the latest Public Expenditure White Paper shows BRB's estimated investment for the year as £295m [**IN CONFIDENCE:** latest indications from BRB are for investments of about £270m, a shortfall of over £190m on the ceiling]. BRB now recognise that more investment should have been possible within the agreed financial limits.
4. For 1983/84 no investment ceiling has yet been set because (a) the Serpell Report has made future levels of investments a matter for debate; (b) BRB's investment in 1982/83 was so far below the ceiling that it would be unrealistic to expect BR to increase capital spending to that level in 1983/84.
5. BR have invested over £3 billion at current prices since 1975; the Serpell Report concluded that no major increases in investment were necessary immediately and that there was no hard evidence of a backlog in investment.



EXTERNAL FINANCING LIMIT

6. The 1982/83 EFL was revised mid-year to £923m which included a £33m increase to cover the transitional costs of manpower reduction schemes [**IN CONFIDENCE:** BR's latest figures show an undershoot of £76m on this limit. If they had not had to bear the costs of the year's strikes, estimated at £80m, there would have been an even greater undershoot].
7. The 1983/84 EFL is set at £960m, broadly equivalent to the original 1982/83 EFL.



LINE TO TAKE

8. The Government has not starved BR of investment funds. The problem has been BR's inability to make the best use of funds available to them. They must cut their costs, improve their efficiency and tailor their services more closely to demand; it is vital that the Board secure productivity improvements from their workforce and avoid useless and damaging strikes that siphon off available investment funds.



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GRANT

1. British Railways receive a grant of over £2m every day. This is "compensation" for the Public Service Obligation imposed in 1974, to provide a passenger service "broadly comparable with" the service given in 1974.

2. The Government has imposed a grant ceiling for 1983 of £860m. The Board submitted a claim marginally under this; but have now indicated formally that they wish to submit a revised, lower, claim in May/June.

LINE TO TAKE: Welcome BR's decision to revise their 1983 ^{grant} ~~pay~~ claim.

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E.

MANAGEMENT

The Board are carrying through two major management changes:-

- a. bottom line management responsibility for the railway given to five sector directors - inter-city, provincial, London and South East, freight and parcels. This should give sharper focus to squaring costs with the service provided and the demand for rail travel;
- b. they have announced a move to a two tier (Regional/Area) management structure eliminating most of the intermediate Divisional hierarchy. [**IN CONFIDENCE:** This is expected to save over 5,000 administrative posts. The changes are already underway, on a gradual basis, with minimum publicity.]

LINE TO TAKE: Welcome Board's moves to improved efficiency.

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F.

PAY AND PRODUCTIVITY

Background

1. Railways Board have, in recent years, sought a number of wide ranging productivity measures. Rail unions have opposed nearly every measure and managed to block some for lengthy periods of time.

2. In wake of rail strikes last year, and a series of arbitration awards by the Railway Staff National Tribunal (Lord McCarthy) in favour of the Board, unions have had to concede nearly all productivity measures sought by Board. Some issues await final settlement; the Board say they are quietly confident of securing agreements. Their tactic of taking a tough line with unions - eg refusing to pay last year's pay increase until last month because unions would not agree to productivity - has met with some success.

The year ahead

3. Board will have to face a number of problems during the coming year:
 - a. pay - the rail unions have claimed about 30% pay increases for this year. The Board have yet to finalise their pay strategy; they are considering various options including a two year deal. The Secretary of State for Transport has made clear to Sir Peter Parker that the right course would be an opening offer at, or very close to, zero;

 - b. negotiating machinery. Sir Peter Parker has publicly complained that the BR negotiating machinery is inadequate and slow. But changes have to be agreed with the unions. Board have appointed consultant to review procedures and have started discussions on changes with the unions. There is much scope for disagreement between the Board and unions here;

 - c. breakaway rail union. Members of the National Union of Railwaymen and the Associated Society of Locomotive Engineers and Firemen (NUR and ASLEF) upset by union sanctions imposed on

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them for working during last year's strikes are seeking to form a new union - the Federation of Professional Railway Staff (FPRS). During 1982 strikes Sir Peter Parker pledged that Board would not sack non-strikers who were subsequently expelled from their union. In the infancy of splinter union, the Board repeated this pledge and the FPRS are taking full advantage of it. The leaders of the breakaway union claim about 750 members. If the group becomes significantly large then it will doubtless make a case for negotiating rights. If the Board agree to grant the new union negotiating rights then existing unions would see this as a breach of the BR closed-shop agreement; industrial unrest would follow.

LINE TO TAKE

4. If any of these issues are raised, the Prime Minister may wish to remind Sir Peter Parker of necessity to keep pay increases to the absolute minimum commensurate with the Board's ability to pay and its recruiting needs, while at the same time pressing forward with all speed with the essential productivity improvements that must be made to reduce the Board's costs.