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PREM 19/1146

BRITISH RAIL FARES

INDUSTRIAL ACTION BY NUR - AM OF

POSSIBLE LINK CHANGES

BRITISH RAIL FINANCES

POLICY AND MY NEGOTIATIONS

SERGEON REPORT

TRANSPORT

PART 1: SEPT 1979

PART 6: OCT 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.3.83							
10.3.83							
17.3.83							
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4.5.83							
26.4.83							
25/4/83							
PT Ends-							

PREM 19/1146

PART 6 ends:-

MISC 94(83) 10.

25/4/83.

PART 7 begins:-

I. Gow to MCS

4/5/83

CONFIDENTIAL

2
Prime Minister
MS 25/4 Transport
CC NO



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

25 April 1983

ms

See Pidd

RAILWAY STAFF NATIONAL TRIBUNAL

Thank you for your letter of 14 April.

I should have been very surprised if you did not remain concerned about the slow delivery of the productivity initiatives. I have consistently applied pressure on the Board to go further and faster. And, of course, we are entirely at one in wanting improvements in the negotiating machinery which can be - and has been - used by the unions as a brake on progress. At long last, the Board are facing the issue. Consultations with the unions on ways of speeding up the procedures are beginning.

Sir Peter Parker is in no doubt about the importance I attach to this. But we must not delude ourselves into thinking that progress will be fast or easy. ASLEF is still smarting from the events of last year and has not changed its spots. And there are signs that the NUR, under its new leadership, will be much more ready to make common cause with the footplate-men. Moreover, progress on improving the negotiating machinery lies in the hands of the Board and the unions: we are not party to the negotiating agreement and can take no part in the present discussions between the two sides about the changes that are needed. Unilateral access to arbitration is particularly questionably but thorny, since there exist other cases, for example the fire services, gas manual workers or blast furnacemen, where there is not only unilateral access but binding arbitration too.

Lord McCarthy's current term of office is due to expire in November. I have no control over appointments to the RSNT, so I can lay claim to no formal locus in the decision whether he should be reappointed. The Chairman of RSNT is appointed by agreement between the Board and the Unions, or, failing agreement, by ACAS. But I shall, naturally, discuss the matter with

CONFIDENTIAL

TRANSPORT: BR Fares
Pg 6.

CONFIDENTIAL

Sir Peter Parker and his successor. As you say, we shall want a man to head the Tribunal who can command confidence on all sides. I should warn you that there are signs that the unions may want to get rid of McCarthy and replace him with someone who is more sympathetic to their way of thinking!

I have been given an assurance that Sir Peter Parker will be writing to me on his return from Japan and Hong Kong about the Board's approach to the 1983 pay negotiations. I shall then call him in for discussions and shall use the opportunity to reinforce the points I have made about changing the machinery, arbitration and the chairmanship of the Tribunal. I will, of course, keep you and our colleagues in touch with this.

I am sending copies of this letter to the recipients of yours.

Yours

D How

DAVID HOWELL

CONFIDENTIAL

25 APR 1983

25 APR 1983

LCCNO

2



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

14 April 1983

The Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

Prime Minister

mt

15/4

BRITISH RAIL: RAILWAYS STAFF NATIONAL TRIBUNAL

Thank you for your letter of 7 April.

I remain concerned that despite the acceptance by ASLEF of the productivity conditions recommended by McCarthy, they have not yet been fully implemented. The fact that union leaders can continue to exploit the ambiguities in the 1981 understandings on pay and productivity reinforces the need to overhaul the arbitration arrangements. I accept that these are not the only cause of the railways' industrial relations problems but as experience has shown, they can be used by the unions to slow down and impede progress in achieving the necessary improvements in productivity.

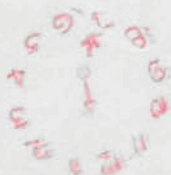
I am glad that industrial relations will feature prominently in the objectives for the new chairman. I think we should include the removal of unilateral access to arbitration among the improvements we should like to see come out of the review of the present arrangements. This would eliminate one of the most frustrating aspects of the recent disputes in BR where issues which have been bogged down for long periods in the negotiating process have then been unilaterally referred to arbitration by the union side, thereby achieving yet further delay.

We shall also need to address the question of the chairmanship of the arbitration tribunal. It is important that this post should be filled by someone who can command confidence on all sides. If Lord McCarthy is to be replaced, it will be important for action to be set in train at the earliest opportunity, given the lengthy processes involved. I think it would be helpful if you could set out your ideas on how you propose to deal with this aspect of the new arrangements.

I am copying this to the Prime Minister, Home Secretary, Secretaries of State for Scotland, Industry, Energy, Employment, Trade and the Environment and to Sir Robert Armstrong and John Sparrow.

GEOFFREY HOWE

BR: Fares Pt 6



15 APR 1983



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

PSO/file
CC.

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

7 April 1983

MS

Prime Minister

*WM
8/4*

Dear Sir Geoffrey

BRITISH RAIL: RAILWAY STAFF NATIONAL TRIBUNAL

Thank you for your letter of 25 March.

I fear you have been misled by the stories you have seen about the outcome of the latest reports from the McCarthy Tribunal. In fact, the Railways Board did not concede anything. On the contrary, it was ASLEF who made the concessions; they accepted all the productivity conditions recommended by McCarthy. And, with my support, the Board took the tough line that they would not pay the 6% to anyone until ASLEF agreed to accept those conditions, whereas McCarthy had recommended that non-footplate staff should get the 6% even if ASLEF did not cave in.

But BR are not yet out of the wood. They still need to get the single manning restrictions removed, (ie second man out of the driving cab and the guard off the back), the "trainman" concept in operation and to have ASLEF's proper co-operation in the application of flexible rostering to all depots. Getting agreement in principle on all the various understandings and conditions is one thing. Securing full delivery of results is another. Some of the union leaders have been able to exploit the 1981 understandings on pay and productivity because they were couched in ambiguous terms. I have made it clear to the Board that, in future, agreements must be specific and any associated payments should be contingent on delivery.

I entirely agree that the railway's industrial relations problems have been compounded by the existing highly formalised negotiating and arbitration arrangements. Peter Parker knows my

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6/2/50
Pr 6

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views on them, and he was, I think, reflecting your feelings and mine a few weeks ago when he said publicly that the machinery is "too damned slow". The Board and the unions are now to review the arrangements. But I think it would be wrong to see those arrangements as the underlying cause of the railway's IR problems. The root cause is the stubborn refusal of some union leaders, particularly in ASLEF, to contemplate change or, where change has been agreed, to ensure delivery.

IR must, I agree, feature prominently in the objectives we give the new Chairman. I shall want to make clear to the person we appoint the high priority we attach to securing substantial improvements not only in streamlining the negotiating machinery and ensuring that productivity deals are watertight, but also in changing attitudes both in the workforce and among managers. None of this will be easy; some of the changes that are needed will doubtless be met with sustained resistance from the unions.

Copies of this go to the recipients of copies of your letter.

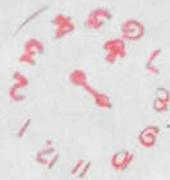
Yours sincerely

Andrew Melville

for

DAVID HOWELL

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



LE B. APR 1950

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cg/nc

Prime Minister²

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

MUS 29/3

25 March 1983

The Rt. Hon. David Howell MP
Secretary of State for Transport

BRITISH RAIL: RAILWAY STAFF NATIONAL TRIBUNAL

I have seen your minute of 14 March to the Prime Minister about the outcome of the BR arbitration case.

I am glad that you have been keeping up the pressure on the Board to take a firm line in response to McCarthy but I gather from recent Press reports that they have since conceded 6 per cent to ASLEF without securing agreement on all the outstanding productivity issues. It is essential to get the message across to the unions that there is no money available for pay increases unless they deliver on productivity.

I believe that the industrial relations problem of the railways is bedevilled by the jungle of overlapping and interlocking agreements with arbitration at its heart. In drawing up the objectives for the new BRB Chairman we must give high priority to the need to overhaul the arbitration arrangements. We must also consider how best to deal with the problem of Lord McCarthy's personal influence on the existing arbitration apparatus.

I am copying this to the Prime Minister, Home Secretary, Secretaries of State for Scotland, Industry, Energy, Employment, Trade and the Environment and to Sir Robert Armstrong and John Sparrow.

GEOFFREY HOWE

010

Transport



RECEIVED BY
21 MAR 1983
PRIVATE SECRETARY

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

18 March 1983

Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of
Lancaster
Privy Council Office
Whitehall
London SW1A 2AT

Union file
w/ 24/3
Any Pros - Not GR.
cf - no.

Dear Chancellor of the Duchy,

I spoke to you on Thursday evening about this correspondence which I have had from Joel Barnett. You will see that the firm in his constituency, the Standard Railway Wagon Company Limited, has secured an agreement for a project to introduce a new fleet of high-capacity air braked rail vehicles, but the project is threatened by the pressure on BREL for all manufacturing work to be placed at Shildon. Although Joel Barnett's letter is carefully worded, it is clear that he is supporting his constituency firm's opposition to the pro-Shildon pressure groups and of course this is totally consistent with the line being taken by Michael Foot and the Labour Party in the Darlington By-election.

I have checked with Sir Peter Carey that there is no procedural objection to use being made of this correspondence, subject to there being no public mention of the company's name, and it may well be that Willie Whitelaw can use it when he is in the constituency after the weekend and that David Howell can use it in the Debate on Wednesday. Obviously, David will wish to warn Joel Barnett that he intends to refer to the matter.

As I write, I am not quite clear whether the Section 8 referred is Section 8 of the Industrial Development Act or of some similar legislation operated by the Department of Transport. No doubt David's office will be able to advise.

Yours sincerely
Patrick Jenkin

PATRICK JENKIN

(Approved by the Secretary of State and signed in his absence)



1983 III 14 15:37

HOUSE OF COMMONS
LONDON SW1A 0AA

The Rt. Hon. Patrick Jenkin, M.P.
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
LONDON.
SW1E 6RB

Self
I am seeking
advice

TO <i>M/Gates</i>	COPIES TO
FOR ADVICE (AND	<i>Fisher</i>
DRAFT REPLY IF	<i>W.H.M.</i>
APPROPRIATE)	<i>W.Ron</i>
PLEASE BY:	<i>M. Keble</i>
<i>M.G.</i>	<i>M. Dea</i>
<i>21/3/83</i>	<i>M. Frost</i>

8th March, 1983

Dear Patrick,

I enclose a letter I have received from the Managing Director of the Standard Railway Wagon Company Limited in Heywood in my constituency. As you will see, he refers to the scheme requiring a contribution under section 8 and to the fact that his application was made on 28th February last. I am sure you will appreciate how serious the problem is in a town like Heywood where there is already a very high level of unemployment and I should be glad if the application could be considered urgently.

Yours sincerely,

The Standard Railway Wagon Company Limited

(A MERCANTILE CREDIT COMPANY)

Registered Office:
Green Lane, Heywood, Lancashire.

GREEN LANE
HEYWOOD
LANCASHIRE OL10 1NB

OUR REF LTR/KMC

YOUR REF

DATE 28th February, 1983.

Telephone: Heywood 64135/9
Telex: 63327

Registered in England No. 275210

The Rt. Hon. Joel Barnett M.P.,
House of Commons,
London,
SW1A 0AA.

Dear Joel,

You will be aware of our efforts to obtain orders for our Heywood works which hopefully will secure the future viability of the Company and save jobs in this very depressed area.

To this end, we have been in negotiation with British Rail and the British Steel Corporation over many years and have at last succeeded in putting a case together for the introduction of a new fleet of high capacity air braked vehicles on terms which are competitive with road transport. - To do this we require the willing support of our labour force and of our parent Company who are to provide the necessary funds on preferential terms over an extended period to reduce unit costs.

In addition to this the scheme requires a contribution from the D.O.T. under the terms of the Section 8 agreement and our application for grant was lodged on Friday, 28th January, 1983.

We now learn that great pressure is being brought to bear by British Rail Engineering through Local Authorities and sympathetic M.P.s for all the manufacturing work to be placed at Shildon. We, on our part are naturally concerned about the plight of fellow railwaymen who might lose their jobs through no fault of their own. However, we can see no justification for such support which if successful would lead to the closure of our Heywood plant and a loss of 150 jobs.

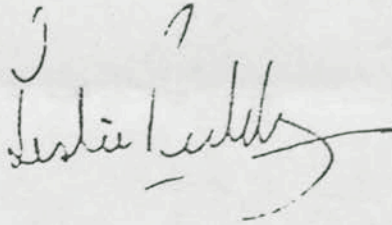
The lobbying on behalf of Shildon takes no account of our contribution to the scheme and that without the building work my Group would lose interest in the entire concept following which no orders would be placed for wagons and the railway business would be lost to road.

/Cont'd.....

The Rt. Hon. Joel Barnett, M.P.

I would therefore, be obliged if you would draw the importance of the foregoing to the attention of your colleagues in the House if only to bring some commonsense into the discussion as further vacillation can only delay matters and put vital jobs at risk.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'L.T. Reddy', with a long horizontal flourish extending to the right.

L.T. Reddy.

BRIEF FOR DEBATE ON
RAILWAY WORKSHOPS
on
TUESDAY 22nd MARCH 1983

Background:

On 17th February, British Rail announced plans to rationalise its engineering business with total losses of 3,500 jobs. These job losses will take place at Shildon (2000 jobs), Horwich (1100 jobs) and Temple Mills (300 jobs). The Opposition have clearly picked this issue to turn attention to Shildon which is next door to Darlington. This brief concentrates on Shildon and the Darlington Region.

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A. The Closure of Shildon and the Darlington By-election

On 17th February, British Rail announced plans to rationalise its engineering business and announced the closure of the British Rail engineering works at Shildon, County Durham, with the eventual loss of about 2000 jobs. The choice of this particular issue by the Labour Party as a subject for debate is obviously a desperate bid to recover the flagging Labour vote in Darlington. Shildon is next door to Darlington and about 200 workers live in the constituency of Darlington. Labour is determined to make Shildon a political football - an aim which has become evident during the by-election campaign and an aim which is not confined to the Labour Party.

The main point to bring out in this debate is the opportunism of the Labour Party and the Alliance in trying to make a political issue out of a closure which would have been unavoidable which ever Party was in Government. Darlington voters and workers at Shildon deserve to be told the truth and not to be treated as electoral 'fodder' for any short term bribe political parties choose to offer.

B. Shildon - a political football

Michael Foot during a visit to Shildon has promised that a Labour Government would keep Shildon open. Bill Rodgers for the SDP also announced that the SDP would save the works, but a few days later Mr Tony Cook the SDP candidate announced they would give Shildon a two year reprieve.

The NUR shop stewards in Shildon have criticised the candidates for making it a political football.

The Conservative candidate Michael Fallon has emphasised that he will not buy votes over the Shildon issue but has said that he favours some sort of BR/Industry task force to help provide opportunities for employment - (along similar lines to BSC help at Corby), and Ministers have reiterated this point and criticised Labour and the SDP of playing 'Ducks and Drakes' with Shildon.

Labour's Hypocrisy

To listen to Labour politicians one would think that they had never sanctioned works closures themselves. Under Labour, industrial plants closed often were there were no longer adequate markets to enable them to remain viable. However, while allowing closures Labour did nothing to encourage alternative long term employment because they did not recognise the importance of small business and private enterprise in the provision of employment in the future.

Closures under Labour occurred for example at BSC works at:

Ebbw Vale
East Moors
Shelton
Glencarnock
Bilston

Shipbuilding Yards. Eric Varley then Secretary of State for Industry admitted that 'certainly some yards will close...I can't

speculate as to which yards, but it's absolutely certain'. (Time, 26th June 1976). When electoral defeat loomed for Labour in April 1979, Gerald Kaufman announced that the Marathon Shipbuilders would be reprieved.

C. Shildon - Closure of BREL Workshops - Background

Shildon makes and repairs wagons for BR itself; to a limited extent for private customers; and for export.

BR have concentrated wagon building there and the range of trades is not as great, and the layout not as flexible, as at some other work eg Doncaster, which they now intend to use for any residual wagon work.

The Shildon workers are 'heavy fabrication trades' ie Plater, Welder, Riveter, Fitter. There are no vehicle building craftsmen, and very few electricians, so that diversification to other BREL activities would not be practicable.

1. Why must it close, irrespective of BR's investment limit?

Shildon is a single-purpose works with capacity to build 1500 wagons a year, and to repair 15000 a year. The BR requirement for wagons has dropped very dramatically with the change from wagon load traffic, and the use of the larger air-braked wagons.

BR do not require any new wagons this year and their annual requirement in the period 1983-86 is not expected to exceed 150 a year - which is far below the viable capacity of Shildon. The requirement is determined by the customers that the rail freight business can attract. It has nothing to do with investment limitations.

2. What are BR's plans for closure?

BREL have given a lot of thought to ways in which they could help to alleviate the closure. They have consulted BSC, who have wide experience in this type of problem, and engaged consultants to conduct a study of possible job-creation. They will support the efforts of the local Enterprise Trust. (NB John MacGregor opened the Darlington and South West Durham Enterprise Agency on 8th March. Negotiations have been underway for several months to start an Enterprise Agency at Shildon itself.

3. Is the problem that Shildon Works are out of date?

The problem is not that Shildon is out of date, or inefficient. British Rail have never suggested that. The problem is that Shildon's workload has declined to the point where the plant can no longer be run on a viable basis. BR's total new wagon build programme is not expected to exceed 150 wagons per year during 1983-86, while Shildon's capacity is 1,500 new wagons per year. The Congo order, recently won, is only for 115 wagons. The current level of wagon repairs is only 9,000 wagons per year, while the plant has a capacity to repair 15,000 wagons per year. It is a problem, therefore, of capacity compared to the likely workload, rather than the performance of Shildon itself.

4. Is the closure the result of investment limitations?

Government support for the railways is at record levels. They received nearly £1 billion in grant last year. The investment ceiling has been maintained at the same level in real terms as under Labour but BR are spending below their investment ceiling. Even so, BR has been investing more under this Government than under Labour. Nearly £1600 million has been invested by BR since 1979 compared to just over £1100 million over the previous 4 years. We all want to see British Rail carrying out more investment, but this will not solve Shildon's problem. The situation is more complex than that. The decision of BR to withdraw from the individual wagon load business, and the introduction of modern freight wagons (ie for Speedlink services and full trainloads), has had an impact on Shildon's workload which cannot be overcome by investing in other things.

5. Why is no new work available for Shildon?

Shildon is a specialist works which builds and repairs freight wagons only. Other workshops, which traditionally have done a wider range of work than Shildon will be able to handle the expected workload.

6. Is the closure of Shildon the result of the Serpell Report?

No. The Serpell Report identified over-capacity as a crucial problem facing BREL, but it is something British Rail have been grappling with from well before the Serpell Committee was set up. British Rail originally informed their unions in March last year of the need to close Shildon. Following consultations with the unions, the closure was temporarily withdrawn, while both sides discussed how to tackle the problem of over-capacity. Despite every effort to find an alternative solution, management have now concluded that the closure of the Shildon Works is unavoidable. It is a management decision taken by British Rail in the normal course of running its business.

7. What has the Government done to help?

The Government has done a great deal to help BREL win export orders - Ministerial visits, trade delegations etc. Where appropriate it has supported the financial arrangements BREL was able to offer overseas buyers. There is no real prospect that exports can replace the decline in home orders. The world railway engineering market is becoming increasingly competitive, particularly for wagons. The recent order of 115 wagons for the Congo was a major achievement but Shildon has a capacity for 1500 new wagons a year.

8. What would happen if Shildon were reprieved?

If Shildon were reprieved, it is likely that BR would have to make cuts in other BREL works.

D. Government Help to Shildon/Darlington

It would be useful if members could draw attention to the help

being given to the Shildon/Darlington area and the greater opportunities for small businesses and for employment in the Chancellor's Budget.

DARLINGTON & SHILDON - NEW BUSINESSES AND REGIONAL AID

Shildon and Darlington are 'Intermediate' Areas, recent developments include:

1. Darlington and S W Durham Travel to Work Area

Since 1966, around 55 manufacturing firms have located projects in the area. Of these, 18 have since closed. The remaining firms employ a total of 3,800 people and include Carreras Rothman which opened in 1971 and Darchem which opened in 1974. More recent positive developments include the following:

- Cleveland Bridge & Engineering Co Ltd opened a new £26 million factory at Darlington in January 1982, and have recently won a £20 million contract to supply steel sections for a new power station in Berlin.
- Tallent Engineering, Darlington, have increased their workforce by 80 as a result of a contract to supply suspension arms for the Ford Sierra.
- Fine Fare is to build a 56,000 sq ft super store at Bishop Auckland employing 180 people by mid-1983.
- GEC Telecommunications, Aycliffe, are recruiting 165 workers in 1983 as a result of their job-sharing scheme.
- Construction of a new £1½ million office and shops development in Aycliffe town centre has begun with the expectation of 100 new jobs.

2. Regional Aid

a) Assisted Area Changes

Following the Government's review of regional industrial policy in 1979, the Bishop Auckland Employment Office Area was down-graded to a Development Area on 1 August 1980 and was further down-graded to an Intermediate Area on 1 August 1982. Darlington and Aycliffe were down-graded to Intermediate Area status on 1 August 1980, and therefore the whole of the Travel to Work Area now has Intermediate Area status.

b) Selective Financial Assistance

Between May 1979 and 31 December 1982, £12.9 million has been offered under Section 7 of the 1972 Industry Act towards the cost of 35 projects. This has provided 3,453 additional jobs and safeguarded a further 2,213. (Project costs £92.4 million).

In addition, Section 8 assistance amounting to £308,000 has been offered for 19 projects in the same period.

c) Industrial Estates/Advance Factories

At 31 December 1982, 25 factories totalling 27,676 sq metres were complete and available which included 7 reserved units (6,046 sq metres). During 1982, 11 units totalling 1,509 sq metres were occupied.

SPECIAL EMPLOYMENT SCHEMES

1.	Temporary Short-time Working Compensation Scheme: (potentially redundant jobs supported) Darlington Travel to Work Area	453
2.	Job Release Scheme: Darlington Travel to Work Area	378
3.	Young Workers Scheme: Darlington Travel to Work Area	826
4.	Community Programme Darlington Travel to Work Area	162
5.	YOP (number of entrants between 1.4.82 and 31.1.83) Darlington and Sedgfield Local Authority Areas	3,720
	Total beneficiaries	5,539

SHILDON

The Government recognises the damaging social consequences of any major closure of a business. All Government Agencies will be working with BR, the local authorities and other people locally to find new opportunities and new jobs. BREL have made it clear that they want to work locally through development trusts to help create new work and BREL are prepared to provide financial resources to help in this work. (Members may like to draw a parallel with the BSC-funded scheme at Corby).

E. BUDGET - Help for Small Business and Employment

CHANCELLOR IN HIS BUDGET SPEECH announced many measures helpful to small business. Many areas where the Conservative Back Bench Committee for Small Business and the various small business groups had submitted proposals for improvement received favourable attention. Since 1979 this Government has now introduced over 100 measures to assist small firms. Preliminary details of the more important of this year's measures are given below.

BUSINESS START-UP SCHEME - Now to be called BUSINESS EXPANSION SCHEME. Scheme extended to April 1987. Annual relief increased to £40,000. Restriction on proportion of issued capital qualifying for relief removed (formerly 50 per cent). Relief available for investment in existing trading companies as well as new companies.

LOAN GUARANTEE SCHEME - Extended to May 1984. Further £300 million

to be made available.

SMALL ENGINEERING FIRMS INVESTMENT SCHEME - This scheme, previously most successful, to be re-opened to run for three years to 1987. £100 million to be made available to provide grants of one third of cost of high technology machine tools by small engineering firms.

INFORMATION TECHNOLOGY - Further grants to be made available to assist with initial investment and marketing of new technology.

ENTERPRISE ALLOWANCE - Pilot scheme, whereby grants of £40 per week for up to a year are made to unemployed to assist them in setting up a business, is to be extended to whole of UK from 1 August 1983.

SMALL COMPANY CORPORATION TAX - Rate reduced to 38 per cent on up to £100,000. Full rate of 52 per cent charged on profits over £500,000. Effective marginal rate is 55½ per cent.

EMPLOYEE PROFIT SHARING SCHEMES - Existing annual limit of value of shares which can be made available to an employee free of income tax is increased from £1,520 to 10 per cent of earnings with maximum of £5,000.

CAPITAL GAINS TAX - Retirement relief increased from £50,000 to £100,000.

CAPITAL TRANSFER TAX - Relief on minority shareholdings in private trading companies and tenanted farmland increased from 20 per cent to 30 per cent.

OTHER ASSISTANCE not specific to small business includes income tax (higher personal reliefs, higher thresholds for higher rates of income tax and investment income surcharge), national insurance surcharge (down from 1½ per cent to 1 per cent from August 1983), higher ceiling of £30,000 for mortgage interest relief and increase in CTT threshold to £60,000

JOB SPLITTING SUBSIDY for part-time job release scheme.

Government help available for Intermediate Areas

- a. Selective assistance using powers under section 7 of the Act including:
 - i in-plant training scheme;
 - ii exchange risk guarantee scheme;
- b. Inclusion in the assisted areas factory building programmes of the English Industrial Estates Corporation;
- c. Assistance from the quota section of the European regional development fund;
- d. Loans from the European Investment Bank.

In addition the following assistance measures are available on a national basis and therefore to manufacturing firms in the area:

- a. General support arrangements under section 8 of the Industry Act 1972 for assisting large projects;
- b. Six schemes offering assistance under section 8 of the Industry Act as follows:-
 - i Flexible manufacturing-including robotics-scheme
 - ii Coal-firing scheme;
 - iii Private Sector steel;
 - iv Microelectronics industry support programme;
 - v Computer aided design and test equipment support;
 - vi Small firms loans guarantee scheme.
- c. Support for innovation; a general support facility for promoting research and development. Special arrangements within this facility include:
 - i Microelectronics application projects;
 - ii Information technology;
 - iii Fibre optics and optoelectronics scheme;
 - iv Electronic computer aided design, manufacture and test;

- v Computer aided design and computer aided manufacture;
- vi Software products scheme;
- vii Advisory service for small and medium-sized companies.

Conservative Research Dept
32 Smith Square LONDON SW1

KM/CR
18.3.83

010
CONFIDENTIAL

at JV
Transcript 2
Prime Minister

Prime Minister

MCS 14/3

BR: RAILWAY STAFF NATIONAL TRIBUNAL

mr

1. I now have a firm indication of what Lord McCarthy's Tribunal will recommend when they report tomorrow.

2. McCarthy will recommend a pay supplement for driver-only operation on the Bedford/St Pancras line of £6 per shift - £1 more than the Railways Board offered. The Tribunal will also recommend immediate payment of the withheld 6% pay increase to NUR and TSSA members on the grounds that they have broadly co-operated in productivity changes. But I gather McCarthy will tell ASLEF that they must make further productivity concessions before the withheld 6% can be triggered for their members. He may well also add that the supplement for operating Bedford/St Pancras should not be paid until the trains are running.

3. I have made it plain to the Railways Board that we expect them to pay no more to get the Bedford/St Pancras line going than can be justified commercially. The Board assure me that that is and will remain their stance. Getting the new service into operation, with driver-only operation, is expected to yield a gross annual saving of £0.5m. This would be reduced by £100,000 a year by the £5 a shift payment the Board have already offered ASLEF plus the supplements the NUR have already accepted. The extra £1 per shift that McCarthy will recommend would add about £15,000-£20,000 a year to the pay bill.

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In deciding how to respond, BR will have in mind not only the interests of their customers on Bedford/St Pancras (whose patience is long since exhausted), but also the prospects for driver only operation on the rail freight business where the potential benefits are far more important.

4. I have consistently made it clear to the Board that they must take a firm line in response to McCarthy. On my instructions, my officials reinforced that message this morning. At the moment, the Board have a powerful lever in the withheld 6%; I have left them in no doubt that they must not relax their grip on it until they are satisfied that the unions will deliver the productivity gains BR have been seeking and which are long overdue.

5. I am copying this to the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Scotland, Industry, Energy, Employment, Trade and the Environment, and to Sir Robert Armstrong and Mr Sparrow.

JH.

DAVID HOWELL

14 March 1983



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Transport

MR SCHOLAR
✓

PK

cc Mr Mount
Mr Owen

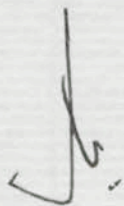
FORTHCOMING REPORT OF THE RAILWAYS STAFF'S NATIONAL TRIBUNAL
(McCARTHY)

The latest report from the McCarthy tribunal, expected tomorrow, will recommend an extra £1 a shift for driver-only operation on the Bedford-St Pancras line; and that the outstanding 6% be now paid to the NUR and TESSA, but not to ASLEF until further progress has been made on the productivity measures outstanding, notably flexible rostering, on which ASLEF is still dragging its feet. BR is understood to be content with an extra £1 a shift, which will probably cost less than £20,000 a year but will save £½ million a year on costs. It is not yet known if the NUR will accept it.

Mr Howell will probably be reporting all this to the Prime Minister shortly, together with his view of the merits of the award. The Department of Transport attach great importance to driver-only operation, not only on the Bedpan line but also in BR's freight business. They are likely to say that BR should accept the award provided that the NUR cause no further difficulties about driver-only operation.

The RSNT is, believe it or not, the last possible stage of the industrial relations procedure. The recommendation is non-binding, and if it is not accepted there is no further mechanism for resolving the dispute.

As with all McCarthy reports, I think we would be well advised to examine the small print before reaching a judgement about whether BR should accept it; but at present I remain doubtful about the need for BR to make any further concessions at all.

14 March 1983



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

John Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

Prime Minister (2)

Ms 7/3

7 March 1983

Dear John,

BRITISH TRANSPORT HOTELS

I wrote on 23 February about the outcome of British Rail's public tender offer for sale of 21 British Transport Hotels. At that stage the Railways Board had decided to accept offers for 10 hotels at a sum of £25.85 million, and to put the remaining hotels up for sale by private treaty.

The Board have now just signed contracts for 8 of the remaining 11 hotels. These are Newcastle, Hull, Peterborough, Moretonhampstead, Glasgow (Central), Inverness, Perth and Aberdeen. They are being sold to a single buyer, Ecletsecure Ltd, which is part of the Virani Group. The price (£4.6 million) is better by some £700,000 than the reserve which had been put on them.

This leaves the Board with 3 hotels: Manchester and Leeds, on which active negotiations are proceeding, and the North British at Glasgow where the hope is to sell it soon to form part of an eventual redevelopment.

I am copying this to Michael Scholar, to Private Secretaries to members of E(DL) and to Sir Robert Armstrong and Mr Sparrow.

*Yours sincerely,
Richard Bird*

RICHARD BIRD
Private Secretary

Transport
BR fares, P46



SUBJECT

as Martin



10 DOWNING STREET

From the Private Secretary

4 March 1983

SERPELL AND THE FUTURE OF THE RAILWAYS

The Prime Minister held a meeting about the Serpell Report and future railways policy yesterday evening. The Ministers who were present were, the Chancellor of the Exchequer, the Chief Secretary, your Secretary of State, the Secretaries of State for Scotland, Wales and Employment. Sir Robert Armstrong, Mr. John Sparrow and Mr. Peter Gregson were also present. The papers before the meeting were minutes from your Secretary of State dated 31 January and 17 February; from the Chancellor of the Exchequer dated 4 February; and Mr. Sparrow's minute of 4 February.

Your Secretary of State said there were four issues on which decisions were required. First, the immediate task of containing and reducing BR's costs, and the ever-increasing Exchequer support to the railways; the future chairmanship of BR, and the brief which should be given to the next Chairman; the longer-term structure of the industry; and how the Government should go about its work in reaching decisions on these matters.

In discussion of the short-term issues it was generally agreed that action should be taken immediately on the urgent and identifiable measures suggested in the Serpell Report, and in particular the proposed cost savings. Some of these had been suggested in general terms by Sir Peter Parker, and it was essential to involve him in the process of implementing these changes. Your Secretary of State would be thinking further about the future chairmanship. The objectives for the new Chairman would become clearer as the Government's consideration of the longer-term policy issues progressed. The brief for the incoming Chairman would have to take account of the fact that Ministers were not yet ready to take final decisions about railway policy in the longer term and would therefore need to preserve the Government's freedom of action in that respect while applying maximum pressure for the attainment of the Government's objectives in the short term.

On the longer-term issues, it was suggested that the objectives should not be cast in terms of a particular network size, linked though that was with the crucial issues of cost and manpower control. A tidy and simple structural blueprint would probably be impracticable and undesirable; it would be useful to distinguish between national inter-city services on the one hand

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Vokes ✓

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and local services on the other; different solutions might be appropriate for different regions and for particular services within those regions. The emphasis should be as far as possible on encouraging private sector initiatives where these appeared to be realistic. Separation of responsibility for track and signalling on the one hand and the operation of services on the other (for example on the model of the Pullman service or existing private enterprise rail freight services) might sometimes be appropriate. It was desirable to try and encourage local decisions about the best form of transport to meet local needs. It would however be necessary to avoid the problems which had been encountered with the PTE concept, in particular the politicisation of transport decisions and the increased pressure for spending by local authorities which might lead only to rate increases or pressure for more grant from central Government. It might be that in some of the new localised structures, local choices would have to be made between different modes of transport. In others, like the Cambrian coastline where no parallel road system existed, no such choice might be available. In other cases again there might be experiment, always within the strict limitations imposed by safety, with different and more cost effective modes of rail transport; for example with small light-weight units. Elsewhere there might be scope for experimentation through converting existing rail rights of way into bus-ways or lorry-ways. It was pointed out that change in the direction envisaged would mean abandoning the policy decision which laid upon BR the duty to maintain services at the 1974 level. This policy change, however, could not be made until decisions on these longer-term options for restructuring the railways could be taken and until something could be put in place of the 1974-based objective.

Summing up the discussion the Prime Minister said that the Secretary of the Cabinet would arrange for an Official Group to be set up under the Department of Transport's chairmanship to consider the issues of railway policy in the longer-term in the light of the Serpell and Goldstein reports and the ideas set out in paragraphs 16 and 17 of the Secretary of State for Transport's minute of 17 February. The Group should take account of the suggestions made in the discussion, in particular the wish to promote innovation and diversity, within a cost and manpower constraint, and to devise different solutions for differing local circumstances across the country.

The Group should also look at possible changes to the grant system which would be designed to apply maximum pressure to reduce and control costs. The Group was not however expected to reach conclusions about the closure of any part or parts of the network or that the network should be maintained at its present size. Those options remained open for consideration by Ministers in due course on the basis that had already been made clear publicly by the Government in its comments on the Serpell Report. The Group should prepare a report setting out a range of possible approaches for discussion by Ministers. The work would inevitably take a considerable time.

Appropriate measures would need to be taken to ensure that the Group's papers and discussions were handled on a strictly "need to know" basis. She could reconvene this Group of Ministers for discussion of the Official Group's report in due course.

/Meanwhile

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Meanwhile the Secretary of State for Transport should press ahead as quickly as possible with the BRB to secure the short term savings identified by the Serpell Committee, and should report progress to his Ministerial colleagues. The Secretary of State for Transport should also prepare in due course, in consultation with Treasury Ministers and the Central Policy Review Staff, a brief for the incoming Chairman on the lines indicated in the discussion.

I am sending a copy of this letter to Johh Kerr (HM Treasury), John Gieve (Chief Secretary's Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Barnaby Shaw (Department of Employment), Richard Hatfield (Cabinet Office), Gerry Spence (CPRS) and Peter Gregson (Cabinet Office). I would be grateful if you and they ensure that my letter is seen only by those specifically authorised by your Minister to do so.

M. C. SCHOLAR

Richard Bird, Esq.,
Department of Transport.

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Transport
Prime Minister (2)



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

MUS 23/2

John Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

23 February 1983

Dear Mr Kerr

BRITISH TRANSPORT HOTELS

I am writing to let you know about the outcome of British Rail's public tender offer for sale of 21 of the 23 British Transport Hotels.

The Railways Board have now decided to accept offers from 4 separate bidders for a total of 10 hotels at a sum of £25.85m. This is about £1.8m above the independent valuation of the 10 hotels concerned. These sales are expected to be completed by the end of March.

For the remaining 11 hotels, all combinations of tenders were judged to be too far below valuation to be acceptable. The Board therefore intend immediately to put these 11 hotels up for sale by private treaty and are reasonably confident these can be sold, for in excess of £10m, and perhaps up to £14m, over the next 3 to 6 months. They expect some of the hotels to be sold very quickly, since they figured, in combination with others, in some of the unsuccessful tender bids. The total proceeds should then be close to the original independent valuation.

Although BR had said that they would give some preference to bids for 8 or more hotels, there was in fact only one. This covered all 21 hotels, but was not acceptable because it was for a sum about 20% below valuation, and was very little different from the earlier offer, made last year by a consortium led by senior BTH managers, and rejected as being too low. The management consortium did not in the event participate in the tender process, although they had been expected to do so.

My Secretary of State has made it clear in Parliament that the decision on which tenders to accept or reject was

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entirely one for the Railways Board to make, with the help of their financial advisers, Morgan Grenfell. Neither he nor the Department has been involved in the selection process.

The successful tenderers will be informed early tomorrow afternoon together with the hotel managers. Morgan Grenfell will then be issuing a press release, and the unions will be told.

The fact that the tender offer has not resulted in the immediate sale of all 21 hotels will be a disappointment to the Board, particularly since their hope of keeping a sizeable chain together will not be achieved. It will no doubt be argued that they should have sold 18 of the hotels to the management-led consortium last summer. The Board can counter this by pointing out that they expect to realise substantially more money by the route they have adopted. The management-led consortium were given every opportunity to participate in the tender, although in the end they were unable to raise the necessary financial backing.

I am copying this to Michael Scholar, to Private Secretaries of members of E (DL) Sub-Committee, and to Sir Robert Armstrong and Mr Sparrow.

Yours sincerely

Sue Faulkner

fp.
RICHARD BIRD
Private Secretary

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MS

PRIME MINISTER

Serpell Report and Railway Policy

BACKGROUND

Your meeting on 21 February has the following purposes:

— *Flag A*
 — *Flag B*

i. to reach some preliminary broad conclusions about the issues of railway policy raised by the Serpell Report (and the minority Goldstein Report) in the light of the minutes from the Secretary of State for Transport of 31 January and the Chancellor of the Exchequer of 4 February;

ii. to review the Government's public stance on railway policy during the remaining life of this Parliament;

— *Flag C*
 — *Flag D*

iii. to give guidance, and to make arrangements, for future work (relevant are Sir Robert Armstrong's minute of 3 February, not copied elsewhere, and Mr Sparrow's minute of 4 February copied to the Chancellor of the Exchequer and the Secretary of State for Transport).

MAIN ISSUES

Railway policy

2. The main issues of railway policy are:

i. the need for short term savings through improved productivity and efficiency, less expensive investment, better planning, etc;

ii. long term and politically contentious questions about network size, commuter fares, and structural changes such as regionalisation and privatisation.

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3. So far as the short term is concerned, it is likely to be common ground that the Serpell and Goldstein Reports have identified matters which need to be put right as soon as possible. It is not clear what savings can be expected from these improvements. The Serpell majority report suggests that they might amount to around £220 million a year and that, given these savings, we might retain a railway of much the same size as now with no more in grant from the Government in real terms by 1986 than in the period between 1975-1980. Mr Goldstein is much more sceptical about the amount of savings attainable. The best way forward would seem to be to ask the Secretary of State for Transport to pursue these matters vigorously with the British Railways Board. In order to provide impetus and discipline to this short term work, he might be invited to circulate as soon as possible an action plan with time scales for the various items and an assessment of the savings to which realistically they are likely to lead.

4. On the long term there are likely to be some differences of view, for example:

i. the Secretary of State for Transport is likely (see his minute of 31 January) to want to shift attention away from questions of network size to his ideas about regionalisation and privatisation;

ii. the Chancellor of the Exchequer and the CPRS, while agreeing that regionalisation and privatisation should be pursued, will want to keep the fundamental issue of network size firmly in view;

iii. the Secretaries of State for Scotland and Wales may wish to rule out now some of the more radical options about network size on political grounds; some Ministers may feel similarly about the issue of commuter fares.

The main question is whether Ministers wish all the options for the longer term to be examined with a view to possible action in the next Parliament; or whether they want to place some limitation on the options to be considered.



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Public stance

5. Depending on the discussion of the main policy issues, you will wish to look again at what the Government's public stance should be during the remaining life of this Parliament. Mr Scholar's letter of 24 January expressed the hope that Ministers would stand on the passage in the Secretary of State for Transport's statement in the House on 20 January, ie:

"It would be quite wrong to respond with snap judgements or closed minds to any of these ranges of options, whether they concern track and signalling, rolling stock, network size or fare structure, or new objectives for the Railways Board."

The Secretary of State for Transport has in fact given a clear impression that the most extreme options on network size are unlikely to be considered seriously. On the assumption that work on the longer term issues is likely to take a considerable time, the question is whether the Government should rest for the remaining life of this Parliament on the holding statements which have already been made, or whether these statements should be modified in some way.

6. There is a particular problem about the expiry of Sir Peter Parker's appointment on 11 September. As the Secretary of State for Transport has pointed out, it would be desirable to give the new chairman strategic objectives and some indication of the longer term levels of social subsidy which the Government is prepared to put into supporting the railways. It would however be difficult to do either without taking a view on the long term policy issues discussed above. Is it therefore inevitable that the new chairman will have to be recruited and appointed with a remit to take vigorous steps to improve efficiency in the short term but on the understanding that the longer term policy is under review?

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Future work

7. Assuming that there is agreement about the short term work on the lines of paragraph 3 above, the main question will be the content of future work on long term policy. In his minute of 4 February Mr Sparrow has argued that this work should be guided by a Ministerial decision as to whether the railway system should meet purely commercial objectives or should also meet non-commercial objectives, and what these non-commercial objectives might be.

8. As to the arrangements for future work, you have already decided, but not yet indicated to your colleagues, that a Ministerial Group on railway policy should be set up in the MISC series under the chairmanship of the Chancellor of the Exchequer. It is likely that there will have to be an official group to support the Ministerial Group. It will probably not be necessary to discuss that at your meeting. The Secretary of State for Transport may well wish any such group to be chaired by his Department, but the Treasury may well see difficulties in that, and there may be a case for neutral chairmanship. You will wish to ask Sir Robert Armstrong to make appropriate arrangements in due course.

HANDLING

9. You will wish to invite the Secretary of State for Transport to open the discussion and then invite contributions from the Chancellor of the Exchequer and Mr Sparrow. The Secretaries of State for Scotland and Wales are likely to have views to express.

CONCLUSIONS

10. You will wish to reach conclusions on the following points:

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- i. whether the Secretary of State for Transport should be asked to circulate an action plan for the short term as soon as possible;
- ii. whether all the options for the long term in the Serpell and Goldstein Reports and the Secretary of State for Transport's ideas about regionalisation and privatisation should be considered; or whether some limitation should be placed on the options to be considered;
- iii. whether the Government's public stance for the remaining life of this Parliament should be to rest on the holding statements already made; or whether these statements should be modified in some way;
- iv. whether the recruitment and appointment of a new chairman should be on the understanding that the longer term policy is under review;
- v. whether the future work by officials on the longer term should be guided by purely commercial objectives, or by non-commercial objectives which might be further defined by a Ministerial Group;
- vi. whether the work should be carried forward by a Ministerial Group under the Chancellor of the Exchequer on the lines you have already approved, with appropriate support from an official group subject to further advice from Sir Robert Armstrong in due course.

PLG

P L GREGSON

18 February 1983

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POLICY UNIT
18 February 1983

PRIME MINISTER

MA

SERPELL AND THE FUTURE OF THE RAILWAYS

Short term: David Howell's minute correctly identifies the decisions that have to be taken and the order of priorities for the next few months. I follow the numbering of David's paragraphs:

8: At the meeting, I think you might usefully take the following approach:

a. Which targets are we going to choose for the new Chairman? If we set targets for reduction in government grant and for fares and manpower levels, then we do not need to set a target for network size.

Those targets will compel British Rail to adapt the size of network that logically follows. This is much the most sensible way.

b. If we set new objectives for parts of the business - eg freight - we must make sure that those objectives fit in with our overall targets. (a) comes before (b).

c. We must free the railways from the detailed scrutiny of the DoT, which has far too many people watching and wasting the time of their opposite numbers in British Rail. What matters is to get the overall targets right.

d. We must watch the idea of "transitional costs" - which can, all too easily, be a device for wasting large sums of public money with no long-term benefit.

David Howell rightly says in paragraph 9 that the short-term task force, the DoT, Treasury and others, could get on with these questions without prejudicing decisions about the longer term.

Long-term

David's public position on closures is just tolerable and worth holding on to for the moment. The "extreme" options are ruled out. We can define what is "extreme".

/The formulation

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The formulation - "we do not want to see substantial cuts in the network" - is highly evasive and rather more dubious. Nobody wants to see anything painful. I suggest we move away from this formulation as far as we can and start saying things more like: "We wish to run a good efficient rail service where there is a real demand for it, but there is no justification for running empty trains at the expense of taxpayers who don't use them".

17 (a): Regionalisation may well be the way to bring back effective managerial control, customer loyalty and staff enthusiasm. But we have to face the potential conflict between sectoral management - freight, inter-city - and regional management. Serpell pointed out the dubious nature of the Inter-City concept. After all, ^{if} you separate Southern Region, you can also easily separate off the Inter-City lines into the old railway companies.

(b): The PTE concept does smarten up the service and so ought to be encouraged, but we have to face the fact that PTEs continue to lose money and that, London apart, their social justification in terms of relieving congestion is not always certain. If the national Exchequer is to contribute, here too there must be limits on grant.

← (c): High-quality alternate bus services are a must for any real reform of the railways.

18-19: I think David's proposed public posture seems sensible, as does his emphasis that railway reform will take a good five years.

20: We suggest that David should have the approval he seeks. The first report from the short-term task force should be submitted to a similar meeting at the end of March.

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for meeting

folder

Prime Minister

MUS 18/2

Prime Minister

SERPELL AND THE FUTURE OF THE RAILWAYS

1. You have convened a meeting on 21 February to consider the issues raised by the Serpell Report. These are complex in substance, but also present difficulties in both presentation and timing. This minute sets out my views on the matters with which we now have to deal.

TIMING

2. One important constraint is that, as agreed when his appointment was renewed, Sir Peter Parker steps down from the chairmanship of the British Railways Board (BRB) in September. We must in good time before then find the right new Chairman; I am making an intensive search and believe we shall also have to use head-hunters. We must give the new Chairman a clear brief.

3. Another constraint is that when we announce our plans for the new Metropolitan Transport Authority (MTA) for London we shall need to show how this fits in with our plans for the future of British Rail.

PRESENTATION

4. The rail lobbies sought to create confusion and anxiety before the publication of the Serpell Reports, and a good deal of that has persisted. Some of this is bound to continue until we can steady things with a new Chairman and a fresh statement of policy. In my judgement, there is now a widening recognition that a lot needs to be put right within BRB, and a widening

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expectation that we shall move to radical changes in policy. A very healthy debate has been opened up. In it, the rail lobbies will become more and more shrill. We shall have to develop a strong and positive line.

5. I now turn to the issues of substance.

IMMEDIATE ACTION ON COST SAVING

6. I have made clear to Peter Parker that I look for prompt action. The Board are themselves keen to make progress on the savings they have identified. I am keeping the pressure on the Board, through our financial instruments, and my statements in the House. But the intolerable delays in bringing the productivity and pay issues to a conclusion show that the way will continue to be hard. And there is bound to be internal conflict until a new Chairman is in the driving seat. So during the interregnum we cannot look for rapid improvement and indeed will have to make special efforts to maintain the momentum. I hope we can agree that we must reinforce efforts in the direction we want, by being ready to recognise such achievements as are gained, without weakening the pressure for better performance.

THE NEXT FIVE YEARS

7. We shall need to settle with the new Chairman clear targets for what he and the new team he will form are expected to achieve. These must include:

- a. targets on grant reduction, investment levels, unit costs and manpower;



- b. remedying the very clear weaknesses in engineering, financial control and planning;
- c. reforming the industrial relations machinery which has shown that it is now an impediment to necessary changes;
- d. working to the new policies that we shall set on the longer term shape of the railway - I come to this below.

8. The sort of man we must have will rightly insist on a clear statement from us of the framework within which he is supposed to work.

- a. are we going to modify the grant system?
- b. are we going to set new objectives for parts of the business?
- c. when we get a management which has our full confidence with a grip of the finances and working fully to our objectives, will we move to a different regime of control, so as to free them from the very detailed monitoring and scrutiny of individual decisions into which my Department has been far too deeply drawn by failings in BRB?
- d. what will be the rules on financing transitional costs?



9. I propose we commission work urgently on all this by my Department, with the Treasury and the CPRS, so that we can take decisions, whatever views we take about the longer term shape of the railway. These issues should not present us with any acute conflicts of political objectives. Nor need they present us with major problems of presentation.

10. Many other specific points in the reports will also need to be followed up to get the framework clear. There are important questions on parts of the BR freight business, and also on the sort of conditions that will encourage private investment in wagons and terminals.

11. I now turn to the longer term issues.

NETWORK

12. The so-called "options" in the Serpell Reports, which have had such attention, are not detailed proposals. They merely present costs and revenues of different parts of the passenger network. On the freight side they are particularly limited by the sparsity of the information furnished by BRB.

13. I have publicly ruled out the "extreme" options - shrinking the railway to a few hundred miles on the one hand and pouring in billions on the other. But I have left the rest open. This is certainly a very uncomfortable position for many of our supporters, who will come under pressure to seek reassurance about the future of individual lines. There is here an acutely difficult problem of presentation. I have taken the following position:

- a. we have always said we do not want to see substantial cuts in the network;



- b. if there is any change in that policy it will be announced after full consultation;
- c. the guarantee of individual services is that none can be closed except through the statutory procedure which involves a public inquiry and a specific decision by me taking all the factors into account, but
- d. we cannot treat the whole network as sacrosanct for ever and we must be ready to examine what is the most cost effective way of meeting today's genuine transport needs. Serpell tells us what it all costs more clearly than hitherto and that must be the starting point for better decisions;
- e. I have not ruled out any but the extreme approaches described above.

14. I suggest that for the present we hold to that.

15. We shall have to give a lot of thought to what our policy is to be. I do not myself believe that there is a point at which the Government decides and enunciates a great central view about the size of the future network. To do so would be in conflict with our justified scepticism about central plans of that kind. Change should come about as railway operators respond to market changes and local needs and shape the services they can offer to customers' demands. To get this process moving I am sure we now must look at the whole structure of BR, and decide how much change we would be ready to see, and how quickly.



INNOVATION AND STRUCTURES

16. Change is beginning to be brought about within the railways by their new introduction of "sector management" with identified managers responsible for the bottom line results of particular businesses. It is in its very early days. I agree with the Serpell Committee that this should be pushed further. We must also anyway go for:

- a. 'privatising' branch lines, where possible or specific operations;
- b. much more contracting out by BRB to private enterprise;
- c. fundamental changes in BREL, leading to privatising of manufacture.

The last of these will meet intense hostility from the railway unions, but we should be able to rely on strong and wide support.

17. But I believe we should now aim to go much further. Even under the monolithic nationalised industry format a very substantial re-shaping of the railways and a massive run-down in manpower have in fact taken place. But strong lobbies have come into being to defend and try to increase the very large subsidies from the taxpayer whose continuance has become vital to many rail jobs. The political difficulties in securing change are now piled on top of very great internal difficulties. So, despite the new and welcome efforts by rail management to re-shape the business, I think that now is the occasion to consider bigger reforms including:



- a. breaking-up BRB into parts (e.g. the present Southern Region, Scotland, Wales and possibly other divisions, or even a separate track authority);
- b. extending the PTE concept so there is more real choice locally about paying for transport;
- c. different mechanisms for securing high quality bus services in place of rail services that should be closed;
- d. other changes/^{as} may be suggested by the CPRS report on State Monopolies.

18. My view is that there is strong public support for the railway but not for BRB. We shall lose nothing if we start to open up debate about the possibility of radical changes. These questions will also take a lot of work. We just do not have within Government enough information to reach conclusions on all of these matters, and on some of them we shall have to have the co-operation of the Railways Board - which will for the time being present problems of handling and of confidentiality - and for some we may well need to commission further studies - e.g. on options for BREL. So we would need to continue to explain publicly:

- a. that we are preparing a brief for a new Chairman;
- b. that we intend to formulate new policies for the railway through the debate which the Serpell Committee has opened up;



c. that we will be ready to consider the suggestions, already coming to us, for changes in the way of running the railway and in deciding what to pay for it.

19. We should recognise that railway reform will constitute a programme extending over at least one Parliament.

20. I therefore seek agreement that we should, through the appropriate mechanisms:

- (i) set in hand the work listed in paragraphs 7 and 8 which will be the basis for a brief for a new Chairman, with the aim of getting a first report four weeks from now.
- (ii) Set in hand, for a longer time-scale, work on the issues in paras 16 & 17 on the future structure of BR and the railway industry.
- (iii) Maintain the public position on the 'network' in para 13.
- (iv) Decide later, and in the light of work as at (ii) above, whether we wish to reach decisions on long-term network size.
- (v) endorse the line in paragraph 18.

CONFIDENTIAL



21. I am sending copies of this to Geoffrey Howe, George Younger, Nicholas Edwards, Leon Brittan, Norman Tebbit and to Sir Robert Armstrong and Mr Sparrow.

David Howell

DAVID HOWELL

17 February 1983

CONFIDENTIAL

Transport
BR Fares, Pt 6



7 FEB 1985



CONFIDENTIAL

Transport

→ C JV

9/10/83

Prime Minister

(2)

To note.

MUS:15/2

Prime Minister

BRITISH RAIL ENGINEERING (BREL) - WORKSHOP CLOSURES

I am writing to let you, and colleagues, know that British Rail have decided that they should accelerate the announcement of intended closure of 3 of their Engineering Works. The works concerned are Horwich near Bolton (apart from the foundry and spring works), and Temple Mills, Stratford in East London, both of which would close by the end of 1983; and Sildon, County Durham, which would close during 1984.

The Railways Board had originally intended not to announce the closures, which are necessary to eliminate substantial over-capacity in the business, until April. They now feel that it would be better to act now, because the unions are in any case expecting an announcement and delay might look like vacillation; because the unions currently have a number of issues to handle, including McCarthy, the BTH hotels sale, Serpell and the 1983 Pay Round, and this item might usefully be added to that list, rather than evoking a separate reaction; and because they judge that the present NUR leadership offers hope of handling with less risk of disruptions than will a newly elected General Secretary in a month or two's time.

The question of BREL will inevitably arise at a meeting next Thursday of the Rail Council, which Sir Peter Parker chairs with the leaders of all the rail unions, and the Board have decided that they must make clear their intention then followed quickly by a formal announcement if they are to avoid charges of bad faith. The timing of this kind of decision - which is of course one for BR - is always a difficulty for us. But it will at least

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be apparent that an earlier announcement is not part of a Serpell 'package' and arises from problems which have already been in the pipeline for some while.

The need for closures is incontrovertible. It arises primarily from the modernisation in the BR freight business, which now needs far fewer wagons than formerly to carry its traffic. Shildon and Temple Mills are wholly wagon or container works, and the demand for their products is no longer there. BR orders for new wagons at Shildon will cease entirely next month. It is only the recent Congo order which will keep this activity going for a short while longer. There will be 2000 redundancies at Shildon and 310 at Temple Mills. Any residual wagon repair work will be undertaken elsewhere e.g. at Doncaster or Wolverton.

At Horwich the workload had been mainly on passenger vehicles and has been linked in the past to overflow from other works. That no longer applies, and such work as remains can be more efficiently undertaken elsewhere. 1400 redundancies will be needed at Horwich (300 jobs will remain in the foundry and spring works).

The Railways Board judge that some kind of industrial action may be inevitable as a reaction to these proposals, but they hope that it will be confined mainly to the works concerned. They think it unlikely that trouble will spread to the railway as a whole.

They also intend to warn the unions that a further works will need to close in due course, but that they have not yet reached a decision on which, since this will depend on the nature of the workload, at home and abroad, that they can obtain in the next year or two. (The likely candidates are Swindon or Derby Locomotive Works).

CONFIDENTIAL



I am copying this minute to colleagues on E(NI) and to Sir Robert Armstrong and Mr Sparrow.

David Howell

DAVID HOWELL

15 February 1983

CONFIDENTIAL



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FILE

Transport. R. J.

10 DOWNING STREET

From the Private Secretary

7 February, 1983

SERPELL AND THE FUTURE OF THE RAILWAYS

The Prime Minister was grateful for your Secretary of State's minute of 31 January.

Mrs. Thatcher has decided to convene a discussion of the issues raised by the Serpell Report, and we will be in touch with you about the arrangements for this.

I am sending a copy of this letter to Margaret O'Mara (HM Treasury), John Gieve (Chief Secretary's Office), Barnaby Shaw (Department of Employment), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

M.C. SCHOLAR

R. Bird, Esq.,
Department of Transport

CONFIDENTIAL



FILE
BIC JV
Transport
R57

10 DOWNING STREET

From the Private Secretary

MR HATFIELD
CABINET OFFICE

B/F

SERPELL REPORT: FUTURE HANDLING

The Prime Minister was grateful for Sir Robert Armstrong's minute (Ref:A083/0387) dated 3 February about the handling of the issues raised by the Serpell Report.

The Prime Minister has decided that she would prefer the first collective discussion of the report to take place in a smaller group, on the lines of paragraph 5(ii) of your minute. She would like this to be followed by deliberation in a Ministerial group as in paragraph 6 of your minute.

We will accordingly be arranging a meeting as soon as is convenient. I would be grateful if, after that meeting, you would set up the Ministerial group as you have proposed.

M. C. SCHOLAR

7 February, 1983

CONFIDENTIAL

CONFIDENTIAL

Prime Minister

MUS 4/2

Qa 06251

To: PRIME MINISTER

From: JOHN SPARROW

4 February 1983

Serpell and the Future of the Railways

1. David Howell sent me a copy of his minute to you of 31 January.
2. I agree with much of what he says but would like to offer two suggestions.
3. First, the short term action for getting cost savings and greater efficiency should be started at once even if it is not possible to make top level changes before the Autumn. With cost reductions possibly amounting to some £200m. a year any delay is expensive.
4. Secondly, on the longer term task we shall get into a muddle if we do not structure our approach carefully. Ministers must reach a clear idea of the overall objectives before they and officials become enmeshed in considering the means of achieving them. The fundamental question which Ministers must settle right at the outset is whether they want a railway system designed to meet a purely commercial objective which at its lowest would involve no net cost to taxpayer or ratepayer (this may result in no railway at all!) or whether they want one designed to meet other objectives. The answer to that question will determine how any subsequent detailed work should be carried out.
5. If the choice is for a commercial railway with no other policy objectives, then officials could start detailed work on how and how quickly to achieve it. Privatisation and/or regionalisation could be ways of achieving this goal.
6. If, on the other hand, Ministers decide that they want a railway system designed to meet other (i.e. non-commercial) objectives, then a totally different perspective is needed. Commercial objectives (other than the need for highly efficient management) become subordinate to the

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non-commercial objectives on which the continued existence of the railway system will depend. This makes it imperative that the non-commercial objectives are clearly thought out by Government, that they are regularly reviewed thereafter, and that the system is run at the lowest possible cost to the taxpayer. Apart from services designed to meet the agreed non-commercial objectives, other services would continue if - and only if - they contributed profit and so reduced the overall cost to the taxpayer. The system would thus consist of:

- (a) services to meet defined and costed non-commercial objectives;
- (b) other services contributing profits.

7. These points are addressed in the attached note, which sets out the necessary decision-making process. It involves the creation of a small Ministerial Steering Group supported by a small Official Group assisted (at the appropriate time) by BR and consultants.

8. I am sending copies of this minute to David Howell, Geoffrey Howe, and Sir Robert Armstrong.

DS.

Att

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DESIGNING THE LONG-TERM SYSTEM

1. The sequence for tackling the question of the long term size and shape of the railway system, following a Ministerial decision against a railway system designed to meet a purely commercial objective, should be as set out below:

(i) Ministers determine their non-commercial objectives.

These might include -

- (a) avoiding congestion on roads, and in city centres;
- (b) maintaining geographical links, with particular reference to the isolation of rural communities;
- (c) keeping freight (either generally or of specific types) off the roads.

(ii) Ministers express a view on features of non-commercial service such as -

- (a) whether peak-time-only operations are acceptable on particular services;
- (b) whether minimum service frequencies should be set;
- (c) whether fare levels should, in real terms, be changed or maintained.

(iii) Ministers indicate any broad constraints, e.g. -

- (a) overall net cost (perhaps in terms of share of GDP);
- (b) for any given service, the point of unacceptability in terms of minimum traffic levels and/or maximum cost.

(iv) Ministers set criteria for considering alternatives, such as 'buses, minibuses, and novel uses of rail routes - including concreting (but not at this stage settling operating responsibility).

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2. These four stages should be completed during the summer. The following four stages (which might take about twelve months) would require input from BR and from consultants and therefore probably could not be undertaken until the new management team at BR is in place in the Autumn:

(v) Guided by the decisions at (i) to (iv) above, officials prepare a series of costed options (not forgetting the costs of moving from the present system to the new one). The costs would be net of contributions received from any profitable operations on the system.

(vi) Ministers eliminate some options by further refining the guidance.

(vii) Officials carry out more detailed costings of the refined options, incorporating any additional factors not previously specified but which would help to reduce the cost of the system to the taxpayer or ratepayer. At this stage officials also develop alternative means of achieving those options (e.g. Passenger Transport Authorities, regionalisation, privatisation).

(viii) Ministers make final decision on the system, the means of achieving it and how it should be run.

3. The whole process should result in a clear rationale for the system, for the extent of BR's role in operating it and for the size of the public resources to be devoted to it from central or local Government grant. At that point guidance could be given the new BR management about its objectives and the constraints in which it had to operate. This would need to be coupled with instructions to run the business as efficiently as possible together with mechanisms to encourage the Board so to do. Current procedures for rail closures would need to be relaxed.

Transport - BR Fares Pt 6

24 JAN 1993

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COMPTROLLER

B

cc J.V.



Prime Minister (2)

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

MUS 7/2

[Handwritten mark]

PRIME MINISTER

SERPELL

I have seen David Howell's minute of 31 January and agree that we must use the opportunity of Serpell to follow up the structural possibilities he mentions, keeping the fundamental question of network size clearly in view, though it may be for decision in the longer term.

2. But the immediate priority must be to use the material provided by Serpell to get to grips with the cost and management problems of the railways. Serpell provides a basis for tackling the deep-rooted problems of BR's finances; and they have to be tackled however the railways develop in future. And if the impetus of Serpell is not to be lost, we must make a start now.

[Handwritten arrow pointing left]

In hand
MUS

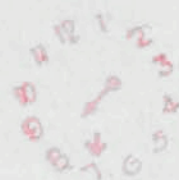
3. I therefore think it would be useful if we could discuss David's minute with colleagues, so that we can give the clearest possible steer to officials about the further work now to be done.

4. I am copying this letter to David Howell, Sir Robert Armstrong and John Sparrow.

[Handwritten signature]

GEOFFREY HOWE
4 February 1983

E 4 JAN 1983



COMPTON

CONFIDENTIAL

PRIME MINISTER

C
Prime Minister
cc J.V.
①

Agree to take a Transport

S (ii) followed paper at E?

Or do you prefer S(i) ; or S(ii)?

Serpell Report: Future Handling

MS 4/2

with P.M.

The Secretary of State for Transport minuted you on 31st January with his views on the Serpell Report and proposals for further work and action on railway questions.

2. The main points in his minute are:

- (i) the issues raised in the Report about network size are not the only radical issues which need to be addressed; restructuring on a regional basis and privatisation should also be pursued;
- (ii) there is a need to start preparing for the succession to Sir Peter Parker in September; in particular the new chairman will need a clear statement of objectives;
- (iii) for the next few months there should be a holding operation during which short term improvements are pressed ahead and there is reassurance that there will be no snap decisions on network size;
- (iv) he would like to put proposals for collective discussion on the future strategy of BR, the brief for the new chairman, intermediate issues of cost saving and improved efficiency and the longer term approach to network size.

3. I am sure that an early collective discussion of the issues raised by the Serpell Report would be desirable. At the very least the Government needs to tackle two problems:

- (a) To define and establish a durable holding position on railway policy for the remaining life of this Parliament, with minimum restrictions on freedom of action thereafter.

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- (b) To set in hand a programme of work which ensures both that all matters requiring attention in the short term are dealt with vigorously and that Ministers are better equipped to take major strategic decisions about the future of the railways early in the life of the next Parliament.

The paper covering the matters envisaged by the Secretary of State for Transport should be a useful step forward, so long as it concentrates on the broad strategic issues and avoids getting into detail at this stage about precisely how BR might be reorganised or precisely what should be said to the new chairman.

4. The discussion will inevitably touch on some very difficult issues. The Secretary of State for Scotland has already made his views clear about the size of the network and these are likely to be shared by the Secretary of State for Wales. Treasury Ministers will be keen to keep open the options for radical decisions about network size in the longer term. They will also no doubt be anxious that the Secretary of State for Transport's new ideas about reorganisation and privatisation are not allowed to distract attention from the main issues. They will probably agree that these ideas should be examined but may point out that they are unlikely to provide a solution to the main difficulty that a large part of the railway network can continue in existence only with very large subsidies from the taxpayer.

5. We had provisionally planned to take the Serpell Report at E later this month. If you would prefer a smaller group, there are two main options:

(i) E(NI), ie Chancellor of the Exchequer, Scotland, Industry, Transport, Chief Secretary, Energy, Employment, Trade and Environment with the addition of Wales.

(ii) An ad hoc group confined to the essential Ministers, ie Scotland, Wales, Transport, Chief Secretary and Employment, with the addition of either the Chancellor of the Exchequer or the Secretary of State for Industry depending on who might have to chair any follow-up group.

Followed by B. Overton


CONFIDENTIAL

6. Depending on how the meeting goes, you may wish to set up a Ministerial Group to work out in more detail the broad approach favoured by the meeting with a view to reporting back to some wider forum at a later stage (for example if it is thought desirable to issue some policy statement). My suggestions for such a Group would be:

Chairman: Chancellor of the Exchequer or Secretary of State for Industry

Members: Secretary of State for Scotland
Secretary of State for Wales
Secretary of State for Transport
Chief Secretary, Treasury
Secretary of State for Employment

In addition it would probably be desirable to add to the Group the Secretary of State for the Environment because of his general concern with the English regions, and a Minister who would make a contribution on the broad political issues such as the Lord President or the Chancellor of the Duchy of Lancaster.

REA

Robert Armstrong

3rd February 1983

CONFIDENTIAL

1. Both reports show:
 - major deficiencies in systems for management information and control.
 - large scope for increases in efficiency.
 - no major backlog in renewals was demonstrated to the Committee's satisfaction.
 - that the case for a high investment railway was not sustained.

2. The Committee did not find that increased support was needed given some help with transitional costs to achieve savings.

3. We will study Committee's ideas and suggestions carefully, in consultation with BR's Chairman. Expect and hope for full public debate on longer term, and action on short term measures to improve financial results. We will make no snap judgments.

4. Future lies largely in BR's own hands. If suggested improvements are forthcoming, future will be bright: better, more efficient railway services, which will give travellers a more efficient railway and taxpayers better value for money.

5. Levels of support will have to be decided in light of Committee's reports and reactions to them. But Committee make clear that there is considerable scope for improving value for money in railways. We will be willing to consider proposals from Board for transitional financial assistance.

3 February 1983

MR SCHOLAR

SERPELL REPORT: FUTURE HANDLING

Mr Mount
I reflected that in
putting the RTA note to the
PM.
M

I am dubious about the arrangement which Robert Armstrong proposes for future work.

David Howell rightly proposes to put a paper to E, explaining what he intends to do over the next few months. If this follows his minute of 31 January, I think it will be on roughly the right lines.

If E approves this paper, the best thing is surely for David to go away and pursue his plan, undertaking to report progress to E in, say, 2 months' time.

This seems to me better than setting up a small Ministerial group now:

- (a) Because a group, however small, would have to contain the geographical Ministers who might be reluctant to contemplate even the beginnings of radical change.
- (b) Because there is a great deal of work to be done before even the broad outlines of a new policy could be put to Ministers for discussion.

If the Prime Minister feels a small group would be necessary to evaluate David's plans when they are in a more finished state, she could set one up later.

FERDINAND MOUNT

FM

~~Transport~~
PRIME MINISTER

SERPELL DEBATE

The Opposition's Motion is:

"That this House opposes massive rail network cuts and commuter fare increases and condemns the Government for its failure to reject outright the Serpell Report."

Mr. Howell wanted the Government amendment to delete "and condemns the Serpell Report" and to insert:

"but calls for positive attitudes to railway improvement and reform, welcomes the opportunities, following the Serpell Report, to pursue a better deal for both the rail customer and the taxpayer, to cut costs and raise efficiency and to establish a clear direction for the railway's future".

I told his office that, although I could not consult you, because you were engaged with President Mubarak, I felt sure that you would not wish "opposes massive rail network cuts and commuter fare increases" to be left in; nor would "but calls for positive attitudes to railway improvement and reform" commend itself to you.

After discussion with Mr. Howell, he has agreed that the amendment should be to delete everything after "House" and to insert:

".... welcomes the opportunities, following the Serpell Report, to achieve a better deal for both the rail customer and the taxpayer, to cut costs, raise efficiency, and establish a clear direction for the railway's future, both for those who work within and for those it serves."

Leighton

MCS

2 February 1983



Prime Minister (2) ed JV A

Prime Minister

This is all pretty satisfactory

I have asked Sir R Armstrong for advice on the handling of this. To note at this stage. Mes 2/2

SERPELL AND THE FUTURE OF THE RAILWAYS

1. Your Private Secretary's letter of 24 January said you would like to have my considered views on the Serpell Review and my proposals for further work and action on railway questions.

The Serpell Reports

2. It is a pity that the Committee could not produce an agreed Report. This has obviously weakened the impact of what they say and the Reports have not delivered a clear message to public opinion against the intensive mis-information from the railway lobbies. But it will come to be seen that the Committee has thrown a searchlight on to many aspects of the railways which were previously hidden from public view, has greatly reinforced and quantified concern about sloppy cost control, high engineering costs and management failures and has sharply questioned the rail lobbies' constant assertions that large and immediate additional injections of public money are needed to stop the system crumbling.

3. What the Committee says about where all the money goes in supporting the railway has been used to arouse anxiety about the future of the network and about our intentions. In fact the network options put forward by the Committee are not detailed plans and do not provide in themselves a basis for decisions on the ultimate shape of the railway. If they are right, they point to the reductions in system size that would be needed to reduce the long term burden of the 'social' railway on the taxpayer. I do not suggest that we should now take a decision about the long term size of the network since that ought to follow from other changes (including possible greater de-centralisation of railway control - see below) and from changes in the railway's performance. But issues hitherto closed have now been opened up for debate - for instance that regular guaranteed bus services could provide better local transport at lower public cost.



4. However I do not think that the only radical issues on which we should concentrate are ones about the network size. The Committee have assumed that we shall continue with the single monolithic nationalised industry running the railway which we have inherited from post-war years. This need not be so. A far greater market and customer orientation could come from encouraging a different pattern to emerge.

5. For example, in the last year BR has at last begun to organise its main businesses on separate and more manageable lines. I believe this could go much further and that we should give serious consideration, for example, to separating off at least the Southern Region. Other regional systems might also be run better on a more local basis, with a greater local say in deciding, and paying for, uneconomic passenger services.

The prospects for moving to the private sector a large range of related railway activities, from track maintenance to carriage cleaning and station catering, and in general for dismantling the excessive central overheads of the system should now be vigorously pursued. So should the opportunities for outright transfer of some branch lines to private firms (one or two promising schemes have come forward), as well as the potential for contracts between BR and private sector and local interests for the operation of services. Conversion of some tracks for road vehicles is also possible.

We also need to ensure that any changes of this kind dovetail with our proposal for a Metropolitan Transport Authority which will have to do business with the variety of different rail and bus companies which would be operating in the Greater London area.

6. I hope it will be agreed that this strand of thinking should be prominent in our work and that we should start to introduce it into debate. I have already commissioned work on these ideas within my Department. Controversial legislation will be involved



and we must recognise that we are setting out on a programme of change which could stretch many years ahead. But we need to move promptly to start the process of change going.

7. Sir Peter Parker's appointment expires on 11 September. We have now to prepare the brief for his successor and find and appoint the right man to take over. Bigger changes in the Board may then be needed in consultation with the Chairman to get reform going.

8. In the light of the above, the brief for the new Chairman should cover:

- (i) our strategic objectives and requirements as to the way we want the railways to develop.
- (ii) An indication of the long term levels of social subsidy we are prepared to put into supporting the railways.
- (iii) Our requirement to see the immediate cost problems of the railways and the persisting restrictive practices tackled with a renewed vigour - including the very tricky problem of reducing and, if possible, privatising the equipment building subsidiary.
- (iv) Clarity in the terms on which the railway authorities and my Department will work together in the future.

Handling

9. For the next few months I shall need to keep the outgoing team intact and maintain the enthusiasm of some of the very



considerable talent inside BR, and of the workforce, for the big changes ahead. BR's finances are obviously poor and the underlying cost trends are still unsatisfactory. But they have taken short term action to stabilise the position and they will be within their EFL this year.

Meanwhile the railways will have to be kept running and improvements with appeal to the customer pushed ahead (such as less awful commuter stations); pay and other current industrial relations matters will have to be handled. Reassurances that we are planning no snap decisions on network size will have to be repeated to meet strong political sensitivities in some areas. I intend in the debate later this week to combine my strong criticisms of BR as it stands, and my clear indication that we intend to act radically in relation to the railways, with reassurance on these aspects.

Next Steps

10. Once this week's debate is out of the way I would like to bring forward proposals, for collective discussion, on;

- (a) The future structure of BR and how to get from here to there.
- (b) The brief for the new Chairman.
- (c) Intermediate issues, including the vigorous pursuit of cost savings and inefficiencies as highlighted by Serpell.
- (d) Our long term approach to the size of the network, closures and alternatives.

CONFIDENTIAL



11. I am sending copies of this to Sir Geoffrey Howe,
Sir Robert Armstrong and Mr Sparrow.

JG.

DAVID HOWELL

31 January, 1983

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Transport - Bntil Paul A 6

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CONFIDENTIAL

Transport

HL



10 DOWNING STREET

bc JV
BI

From the Private Secretary

24 January 1983

SERPELL Report

BK1

As I mentioned to you on the telephone this morning, the Prime Minister hopes that your Secretary of State will, when he is ready, let her have his considered views on the SERPELL Report, and his proposals for future action. The Prime Minister would then wish to consider how best to carry forward discussion within the Government on the way forward.

The Prime Minister is also anxious to combat the impression which has been given wide currency in the media that the Government has ruled out any particular options, whether they be substantial closures, or relate to track and signalling, fare structure or other issues. She hopes that Ministers will stand on the passage in your Secretary of State's submission to the House on Thursday as follows:

"It would be quite wrong to respond with snap judgements or closed minds to any of these ranges of options, whether they concern track and signalling, rolling stock, network size or fare structure, or new objectives for the Railways Board."

I am sending a copy of this letter to Margaret O'Mara (H.M. Treasury), John Gieve (Chief Secretary's Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

Richard Bird, Esq.,
Department of Transport.

CONFIDENTIAL

Q2

B

PRIME MINISTER

SERPELL

We have got off to a bad start on SERPELL. Please see Willie Rickett's note attached.

I am afraid that the only way of recovering the ground lost will be at your Questions next week. You could say that our policy to date had, indeed, been to maintain the status quo, but we now had the SERPELL Report, which provided the material for informed consideration of the long term issues, and that the Government would be undertaking such considerations with an open mind. No options would be ruled out in advance.

After yesterday's statement this will be an uncomfortable position to hold.

On the substance of the matter, I think the Department of Transport needs to be flushed out. They have already had a clear preliminary steer from you in the letter I sent recording your views on the draft statement. Should they be invited now, within a week or so, to let you have their proposals on future action on SERPELL? You could then consider how you wished to handle the matter.

I have told the Department of Transport that in making any further comment on SERPELL over the weekend, they should stand on the passage in Mr. Howell's statement as follows:-

"It would be quite wrong to respond with snap judgements or closed minds to any of these ranges of options, whether they concern track and signalling, rolling stock, network size or fare structure, or new objectives for the Railways Board."

and make no further assertions to the effect that there would be no major closures.
21 January, 1983.

MUS

1. MR. SCHOLAR

2. PRIME MINISTER

STATEMENT ON THE SERPELL REPORT

You will probably want to read the attached Hansard extract which reports this statement and the subsequent questions.

You will see almost all the questioners asked Mr. Howell to repudiate either the whole report, or parts of it.

Predictably, the Secretary of State was asked for assurances that there would be no major closures. Mr. Howell gave much the same reply each time he was asked this question and the following is an example:

"I have made it clear that the Government do not want to see a substantial number of closures. If there were to be a change in that policy, it would be after informed debate. That debate will be more informed as a result of this report, and any decision will be debated in the House and declared before the House."

If Mr. Howell was trying to get across the fact that the Government's policy would not be changed until after the report had been carefully considered, and that any change would be reported to the House, he did not succeed. As you know, he has been widely reported as having ruled out substantial closures. It was the sentence: "it is not the Government's wish to see substantial closures in the network" that was picked up, and not the subsequent caveat that "if, as a result of a long-term review, a different policy were necessary, the House would be informed". One reason for this may have been that Mr. Howell said in reply to Hector Monro that he "believed that the extreme options are not acceptable they are not part of the area where we must apply our minds seriously to the future of the railway system".

/The other main

The other main criticisms made by the Opposition were:

- (a) that the report proposed large fare increases, and in particular a fare increase of about 40 per cent for London and the South East; *it doesn't
MCS*
- (b) that the report suggested that the safety standards of British Rail are too high, and that savings can be made by curtailing track and equipment maintenance at present considered essential by the Board;
- (c) that the report acknowledged that acceptance of its options would lead to congestion on the railways;
- (d) that it was quite improper to appoint Travers Morgan and Peat, Marwick, Mitchell & Co. as consultants, and to pay them more than £500,000, when Mr. Goldstein and Mr. Butler had an interest in these companies;
- (e) that the report's recommendations would destroy British Rail Engineering Ltd. and that it would be foolish to allow British Rail to buy steel from abroad rather than from BSC; and
- (f) that the report did not even consider British Rail's proposed investment programme, that it showed anti-rail bias, and that it would simply delay crucial decisions on the investment needed in British Rail.

LM

21 January 1983

British Railways (Serpell Report)

3.51 pm

The Secretary of State for Transport (Mr. David Howell): With permission, Mr. Speaker, I will make a statement on the Serpell committee on railway finances.

I am publishing today the full reports to me and copies are now available in the Vote Office. The committee was appointed on 5 May last year after the British Railways Board had proposed a review. As the House knows, the committee was chaired by Sir David Serpell, who has held many public offices, including membership of the Railways Board, for a number of years. The members were Mr. Bond, a member of the board of the Rank Organisation, Mr. Butler, a partner in Peat Marwick Mitchell and Co., and Mr. Goldstein, a leading transport consultant and engineer. Their work was delivered to me immediately before Christmas, as I informed the House on 23 December, and copies were sent forthwith to Sir Peter Parker. There is a majority report by Sir David Serpell, Mr. Bond and Mr. Butler and a minority report by Mr. Goldstein.

The committee was asked to examine and report on the shorter-term financial prospects of the railway and on the options for many years ahead. The majority document fully reflects this. The minority document by Mr. Goldstein gives more attention specifically to the longer term, and places a different emphasis on certain aspects.

The Government are grateful to the committee for its hard work and speedy efforts. The reports explore the broadest range of issues about our railways of any inquiry since nationalisation. I should particularly like to take this occasion to pay tribute to Sir David Serpell, who has discharged a most difficult task with great ability and integrity.

The railway serves many customers and communities, but it also requires major support from public funds, which this year will exceed £900 million. There has been growing concern about the state of the railways, their cost and their future. These reports now give us a basis for decisions and for action.

The committee does not support the view that yet larger injections of public funds are needed to preclude extensive closures, or that large parts of the system are at risk from lack of maintenance with present levels of support. No major backlog of renewals was demonstrated to the committee's satisfaction. Nor did the committee accept the case for what it called "a high investment option", although it recognised the need for some changes in existing investment priorities and for possible increased investment in the late 1980s. Nor do the reports recommend huge rises in commuter fares, as some wild speculation has suggested. The best way to keep fares down is by cutting costs; the reports point to large scope for that. Nor do they suggest that safety should or would be prejudiced.

The committee has given close attention to the opportunities for considerable improvements in efficiency and the reduction of costs over the next five years. It has drawn attention to particular areas where present shortcomings need to be remedied.

I welcome the efforts by Sir Peter Parker and his board to improve their management arrangements, to reduce costs and to get rid of restrictive practices. The reports now published point to further large scope for improvements in

efficiency. I have made it clear to the British Rail chairman that I regard these improvements as the top priority for action flowing from the committee's reports, and I remain confident that they can be achieved. Vigorous and immediate action by the board will have my full support.

The committee has not made recommendations about closures or the longer-term shape of the railways, but it has set out broad illustrative options for consideration. It would be quite wrong to respond with snap judgements or closed minds to any of these ranges of options, whether they concern track and signalling, rolling stock, network size or fare structure, or new objectives for the railways board. The committee makes it clear that more work would be needed to be done to translate any of these illustrations into policy options. Indeed, it would be foolish to come to settled conclusions on any one of these questions in isolation. Other questions—such as the relationship between road and rail services and subsidies for public transport generally, the introduction of private capital and the relationship between British Rail and the private sector—also remain to be determined.

The public have the right to know more clearly what value for money they are getting from their railway services and how funds for public transport can best be used. We now have the opportunity for informed discussion about the sort of railway that we want and are prepared to pay for. It is on this basis that the Government now propose to reach lasting decisions that will be in the best interests of the nation.

Mr. Albert Booth (Barrow-in-Furness): Does the Secretary of State realise that most of those who have studied the network options A and B in the report, for a so-called commercial railway, have been absolutely appalled to find that an 84 per cent. cut in our railway network is involved and, if implemented, would leave no lines operating in Scotland north of Edinburgh or Glasgow, no eastern main line beyond Newcastle, no lines in Wales beyond Cardiff and no lines whatsoever in the west country? The Secretary of State said that the committee did not accept the case for a high investment option, but will he concede that the committee did not even examine the proposals for main line electrification? It did not consider British Rail's proposed investment programme. Does that not show the most horrendous anti-rail bias on the part of the committee?

When the Secretary of State said that the report did not propose fare increases, I wondered whether he had read the chapter that refers to an option for substantial real increases in fares in London and the south-east. Has he looked at the amount that the report suggests might be saved? The figure is about £55 million, which implies an increase in fares of about 40 per cent. The report suggests that acceptance of its options would lead to congestion, which is a contradiction of the aims that we thought were intended for the running of a modern railway service.

Chapter 6, which refers to the writings of Travers Morgan, carries a clear implication that the safety standards of British Rail are too high and suggests that savings might be made by curtailing track and equipment maintenance that is currently considered essential for the high standard and safety of British Rail. Is that not absolutely disgraceful?

I have serious doubts about the propriety of paying more than £500,000 to consultants in which members of

[Mr. Albert Booth]

the committee had a direct financial interest. This report appears to show blatant disregard for the needs of passengers. It uses a financial criterion that bears no comparison with that used by any other national railway system. All it does is waste time and delay critical decisions that need to be taken to maintain our railway service. As such it should be totally rejected.

Mr. Howell: The right hon. Gentleman, in his indignant condemnation of a substantial report—I do not believe that he can possibly have studied it fully and thoroughly—overlooks the fact that it was the British Railways Board that eagerly sought this review and welcomed the setting up of the committee. Now that the committee has come to several conclusions that the right hon. Gentleman does not immediately accept, it would be sensible if he were to examine and evaluate them rather than jump up and condemn the whole thing out of hand.

The right hon. Gentleman mentioned the question of the network options. I have already said that they are illustrations. Neither I nor the Government wish to see substantial closures. If that policy were changed, it would be after a long and informed debate. That remains our policy.

There is a statutory procedure for closures which is endorsed and reinforced in this report. The right hon. Gentleman does himself no justice by shutting his mind to any consideration of the value for money to be obtained from different sizes for the rail network.

The question of electrification investment depends upon the ability of British Rail to bring forward proposals on how it can put its inter-city business into profit. I believe that it is intending to bring forward those proposals quite soon. I look forward to receiving them.

The right hon. Gentleman talks about anti-rail bias. When the committee was set up, its chairmanship and the committee members were welcomed by British Rail. That undermines what he has said on that matter. This report does not confirm the speculation, which was given a good run by Opposition Members, of a 40 per cent. increase in commuter fares. In looking at the structure of fares, it is necessary to examine the suggestions on the size of the discount. There is no mention of 40 per cent. in the report. Nor is there any suggestion that safety would be prejudiced.

As to the appointment of the consultants, I and my Department chose Mr. Goldstein and Mr. Butler and their consultant firms in line with proper procedures.

Travers Morgan has made studies of railways throughout the world, including British Rail. It is a very substantial and reputable firm. For the right hon. Gentleman, because he does not like the immediate conclusions and because they do not confirm his prejudices, to try to undermine the committee and the consultants to the committee is a transparent and feeble reaction. I hope that he will give a more open-minded approach to a very full and substantial report.

Mr. Booth: The Secretary of State should acknowledge that British Rail has said that the reports are a disappointment to it. In its view, the committee has reflected its inability to agree on important issues. British Rail stated that the report contains unreliable information. It makes few specific recommendations. BR has said that

the report mixes procedural matters with policy, and little attention is paid to the need to maintain momentum behind the current initiatives.

Can the Secretary of State confirm that that is what British Rail has said? if so, how can he suggest that this is regarded by those currently responsible for running British Rail as making any sensible contribution to the important debate that should be taking place on maintaining and sustaining the railway system?

Mr. Howell: British Rail has indicated to me that it sees constructive aspects in this report and it wishes to build upon them. It is true that it has expressed disappointment. There are criticisms in both the majority and minority reports. British Rail has a perfect right to challenge and to meet those criticisms. I do not think that there is any indication that British Rail is taking the oyster-minded approach of the right hon. Gentleman and closing its mind to the challenges in these reports. This report shows that there are substantial opportunities for cost savings, thereby building on the spirited efforts that Sir Peter Parker and the board have made in trying to overcome some of the absurd restrictive practices and poor customer service in the industry. British Rail is ready to take those opportunities, obtain the cost savings and run a high quality modern railway on the basis set out in the report.

Sir David Price (Eastleigh): Is my right hon. Friend aware that the snapshot judgment he condemns becomes inevitable if a report gets dribbled and leaked to the press and the media in the way that this report has been? Is my right hon. Friend aware that many of us on the Transport Select Committee were the last people to receive the report, although it was being discussed throughout the media? Does he accept that the main conclusion of the report is along the lines that the committee thinks that British Rail can improve its efficiency and reduce costs while keeping the railway "at broadly its present size."

Is he aware that practically none of the leaks suggested that?

Mr. Howell: My right hon. Friend is entirely right. That is the most important conclusion. I deplore the great deal of speculation. As soon as I received the manuscript of the report, I reported that fact to the House. The printers have been working on producing a report of 200 pages, 19 maps and many diagrams since that time so that hon. Members might have copies of the report and the supporting material.

In the meantime, it is true to say that there has been a certain amount of highly selective speculation—that is to be deplored—including putting out "facts" that were not facts at all and giving a totally false perspective. Now that the entire report and supporting documents are available, it will be wise and prudent for those who are interested in the future of a modern railway to study what is of value in this report and to look at it in a balanced and critical way.

Mr. Gordon A. T. Bagler (Sunderland, South): Does the right hon. Gentleman agree that this report is almost in line with the Beeching report in as much as it will create tremendous alarm throughout the transport industry? Will he give an undertaking, either now or in debate, that a large part of this report will be consigned to the dustbin? Will he concede that the six options as to the size and scale

(shou railway that will remain will mean that in the northern region nothing can travel east to west on British Rail north of Leeds and south of Edinburgh? All six options in the report suggest a direct distinction and separation between east and west.

Will the right hon. Gentleman also take this opportunity to say that he does not accept the recommendations that are designed to destroy British Rail Engineering Ltd? Some of us have had a very short time to look at this report. Will the right hon. Gentleman confirm that British Rail's policy is to buy British, so that the purchase of 100 per cent. of rails from the British Steel Corporation will continue? That is criticised in the report. Will he turn that down at once? Does he accept that many of us believe that this report reads more like Hans Christian Andersen? It is not a serious report. Will he consign it to the dustbin?

Mr. Howell: I do not think there is any comparison between this report and the work of Dr. Beeching. The report covers a wider area. It is concerned with the cost and structure of the railway. The report also puts forward a number of illustrative options of what the public is getting in the way of value for money in transport services in the railway system. I do not think that it compares with the Beeching report at all. The hon. Member said "Put it in the dustbin". One of his hon. Friends yesterday said "Burn it." That does no credit to the hon. Gentleman. When he studies the report, he will see that it contains information and illustrations that are of importance and value. Let them be tested against the views of British Rail. As a railway man, the hon. Gentleman will see that there is information of considerable value for building a better future for the railways.

The future structure of British Rail Engineering Ltd is considered in the report. The aim of the report is to identify ways in which the capacity of British Rail Engineering Ltd. to build railway equipment can be preserved and made competitive. It looks at the different relationships that might be developed between BREL and British Rail to achieve that aim. If the right hon. Gentleman and his hon. Friends are really interested in the future of British Rail's engineering capacity and in the competitive supply of equipment, both at home and abroad, I should have thought that they would be interested in these opportunities and would support discussions to see how they could help BREL.

I very much hope that British is best, that British equipment will be competitive and will be supplied to our railway system. That is what we all want to see. The best way of achieving that is to ensure that BREL has a proper structure and is highly competitive. The report puts forward a number of options on how that might be achieved.

Mr. Stephen Ross (Isle of Wight): Does the right hon. Gentleman agree that the report contains no comparisons with other countries and is short on recognition of safety standards and on replacement and transition costs? Does he also agree that Serpell seems to assume that the present recession will continue ad infinitum? I agree that a debate will have to take place on this detailed report, but will the Secretary of State ease the purse strings of British Rail so that it can at least place some orders for badly needed replacement rolling stock? Will he also look at map C2 and say who will take the train to Crianlarich?

Mr. Howell: As I told the House yesterday, the £960 million external financing limit for 1983-84 allows for an increase in British Rail's investment projects. A number of projects are in the pipeline, including some for new forms of rolling stock.

The Government have always said that they look with sympathy at the financing of transitional costs to meet the problems of adapting a great service and industry to future needs. That has been reflected not merely in words but in action and money as well during the last two years when transitional costs have been met.

It is true that the report looks at our system and needs and does not go too far into international comparisons. Those can vary from countries that run their systems at a huge loss to others that are desperately trying to cut the loss and to those that run relatively economic systems. We must choose what is best for us, what we can afford and how we can best achieve it. The report helps us along that road.

Dr. Brian Mawhinney (Peterborough): Has my right hon. Friend noticed that, despite the fact that he told the committee that it need not concern itself with electrification, it has commented negatively on the prospect of main line electrification, particularly the east coast main line, in paragraph 8.14? I accept that British Rail must recover from the disastrous strikes of last year, cut its costs and become more efficient, but does my right hon. Friend accept that if he were influenced by that paragraph his decision would be viewed with disquiet by a number of his hon. Friends?

Mr. Howell: That paragraph shows that decisions about electrification, including the immediate proposition for east coast main line electrification, turns on the board's capacity to put its inter-city business into profit. The board will bring those figures forward shortly and I look forward to receiving them. It is on that basis—that is in no way altered by the Serpell report—that we shall reach decisions on the worthwhileness and timing of further electrification projects.

The report looks back a long way and looks forward a long way. It requires a more sober and balanced reaction than we had from the right hon. Member for Barrow-in-Furness (Mr. Booth) this afternoon.

Mr. Les Huckfield (Nuneaton): Does the right hon. Gentleman accept that the conclusions in the report are far worse than anything recommended by Dr. Beeching, because at least even Beeching recommended that there ought to be a basic rail network? Does he also accept that by his refusal to condemn those parts of the report that refer to the network many parts of the country will now be wondering whether under the Conservative party they will have railway services in the future?

Even if the right hon. Gentleman will not condemn those parts of the report that refer to the route network, will he condemn those parts of chapter 6 that specifically say that safety standards in track maintenance and signalling ought to be reduced?

Mr. Howell: I do not accept that this report is comparable with the Beeching report. The hon. Gentleman is asking me to dismiss information that is valuable both to British Rail and the tax-paying and travelling public about how best we develop the railways. I have frequently said that the Government do not wish to

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see substantial closures. If, as a result of a long-term review, a different policy were necessary, the House would be informed of the Government's views and would wish to debate them.

I do not accept that there should be any prejudicing of proper safety standards, so long as the right hon. Member for Barrow-in-Furness does not use safety arguments to justify unnecessarily high costs. I know that he wants as much as I do to see a tight-cost, safe and efficient railway.

Mr. Roger Moate (Faversham): Does my right hon. Friend agree that the right hon. Member for Barrow-in-Furness (Mr. Booth) has used selective quotations for the purpose of scaremongering to an extent that almost verges on dishonesty? By suggesting that the report urges wholesale closure, is not the right hon. Gentleman quoting directly contrary to the principal conclusion in the main report that, given greater efficiency and reduced costs, the railways can be maintained at broadly their present size without any increase in subsidy in real terms? Will my right hon. Friend therefore give the lie to the suggestion that either the report or the Government are in favour of major cuts in the present size of the network?

Mr. Howell: My hon. Friend is absolutely right. The reaction of the right hon. Member for Barrow-in-Furness was below his usual standard. He knows that the report contains a number of valuable conclusions. My hon. Friend has reminded us that the conclusion in the majority report is that, with the railway broadly in its present shape, substantial savings could be achieved over and above those on which British Rail is now working.

I have made it clear that the Government do not want to see a substantial number of closures. If there were to be a change in that policy, it would be after informed debate. That debate will be more informed as a result of this report, and any decision will be debated in the House and declared before the House. That is the Government's position and I am sure that it is the right one.

Mr. Ted Leadbitter (Hartlepool): The right hon. Gentleman will be aware that at Question Time yesterday the House was alarmed because this report was not before it. The right hon. Gentleman knew then that he would be making this statement today, yet hon. Members did not receive the report until 2.30 pm. Surely that is an abuse of the House.

The right hon. Gentleman has read and studied the report. Is he prepared to say, given that his knowledge of the report is greater than that of hon. Members, that he will oppose the proposals and options on the removal of subsidies on the inter-city lines? Will he remove the electrification and safety options? Indeed, is he prepared to remove the option on buying British? Will he also state whether he will uphold the principle of a fully developed and invested rail system as part of an integrated transport system in the United Kingdom.

Mr. Howell: I am prepared to enter into debate with the hon. Gentleman and any others on sensible measures, consistent with the nation's resources, to support and develop a modern and highly efficient railway system. As part of that, unlike the right hon. Member for Barrow-in-Furness, I am prepared to look at new facts and illustrations—including the engineering costs, which have

never before been examined except by the railway industry itself. Those figures are now available to the public. I am to consider where investment priorities can be switched for the greater benefit of passengers and customers—who also come into the equation—and the railway system. That is what I am prepared to do.

I resent the hon. Gentleman's remarks about abuse of the House, because I have taken the greatest care to ensure that the full report, with all the maps, all the details and all the diagrams, is available to all hon. Members. I do not accept his remarks about abuse of the House.

Mr. Dafydd Wigley (Caernarvon): Does the Secretary of State accept that this is a thoroughly negative report and that in putting forward six options it creates maximum uncertainty, which must have an effect on the economic regeneration of the areas affected? Does he further accept that by saying that he will consider all six options he is adding to the uncertainty and that in areas like Wales, where with three of the six options we would have nothing but a transport desert, grave difficulty will arise for those who are trying to overcome the unemployment problem?

Mr. Howell: In putting forward illustrative options the report tells us the value that we are getting for the money being spent on a number of railway and transport services. Although I have said that it is the Government's view that we do not want to see substantial closures and that a change of policy would follow only after the most intense and careful debate, the hon. Gentleman owes it to his constituents, the transport services, and the transport standards that his constituents want, to try to find out whether they are getting the right value for money from the considerable expenditure that is involved in some of the lines described in the report. His constituents will expect that of him. Far from condemning it or merely saying that it should not be considered, he ought to set out his views on some of the facts in the report. I should welcome them.

Mr. Harry Cowans (Newcastle upon Tyne, Central): Will the Secretary of State do the honourable thing and withdraw his allegation yesterday at Question Time that right hon. and hon. Members of the Opposition were indulging in scaremongering? Is he not aware that the cat is now out of the bag and that many of the points made by my right hon. and hon. Friends are included in the options in the report? Is he not further aware that in the north, in Scotland and in Wales the rail communications system is being decimated? Is he further aware that the option put forward to buy steel on the Continent for track flies directly against what the Prime Minister has argued about people buying British? Is this not nonsense in anybody's terms.

Mr. Howell: The hon. Gentleman has put forward again the point that what is included in the report, and what his hon. Friends were saying was included in the report, are firm recommendations, including a statement that there would be a 40 per cent. increase in commuter fares. I know the hon. Member studies these things very carefully. I hope he will take the opportunity to read the report in full. If he does, he will see that these are not firm recommendations. They are illustrative options to show where the money is going. He would be the first to say that we should have value for money and good, integrated transport systems. The options deserve study and we

should not close our minds to any changes in the structure and pattern of our railway system. That is not a constructive approach. I do not believe that in his heart of hearts it is one that he wants either.

Mr. Alex Pollock (Moray and Nairn): Can my right hon. Friend confirm that, notwithstanding the options outlined in the report, there is no foreseeable threat to the future of the Aberdeen-Inverness line, which is so important to the communities in the north-east of Scotland?

Mr. Howell: The Serpell report considers a number of illustrative options. My hon. Friend will have to take it from me that it is not the Government's wish to see substantial closures in the railway system. I cannot stand here, and I never have sought to do so, and guarantee the future of the entire system for all time. No Transport Secretary has undertaken that and I would not seek to do so.

Mr. Ronald W. Brown (Hackney, South and Shoreditch): Is the Secretary of State aware that the more constructive part of the Serpell report has been canvassed for many years in the House by many hon. Members, particularly as it affects London? Of course, successive Governments have not implemented the proposals. Has the Secretary of State any comments on paragraph 6 of the section on the longer-term options, where there is full support for subsidies for London commuters? Will he remember that in the Transport Bill which is now in Committee upstairs he is not proposing to pursue that policy? Will he tell us that he is prepared to take that paragraph out of Serpell and make sure that there are adequate subsidies for commuters in London?

Mr. Howell: I think that the hon. Member is confused about the Government's attitude towards subsidies for transport, and certainly London Transport. This year London is receiving a larger share of national taxpayers' support for transport than ever before, and very substantial levels of subsidy support for London's transport system are fully supported by the Government. In the Serpell report the question is raised of the level of subsidies. In one paragraph it is made clear that the subsidies are well worth while because they prevent totally unacceptable and anti-social congestion on the roads, so that is a sensible policy.

Several Hon. Members *rose*—

Mr. Speaker: Order. I propose exceptionally to call five more hon. Members from either side, which will give much more time on this statement than on others.

Mr. David Mudd (Falmouth and Camborne): Can my right hon. Friend give me a simple message of encouragement and reassurance that I may take back to Cornwall? For the last 20 years, whenever there has been a hint of a rail closure in Cornwall, we have seen hotels and guest houses converted to old peoples' homes and private nursing homes, with a loss of tourist capacity. Industrialists who had expressed an interest in coming to Cornwall decided that it was not for them. There are six options in Serpell, and three of them ignore Cornwall. In the remaining three there is the total elimination of the vitally important economically and socially relevant Falmouth to Truro branch line. What will the Secretary of State tell me to say to my constituents about this?

Mr. Howell: My hon. Friend can take one comment from me and a comment of comfort from the Serpell

committee report. First, as I have already said a number of times, it is not the Government's wish to see substantial closures in the network. I have made that absolutely clear. Second, the Serpell report, by illuminating some of the expenditure on railways, indicates ways in which better transport facilities can be brought to rural and outlying areas by the better expenditure of funds and a more imaginative development of the transport system than Opposition Members are prepared to acknowledge. That will be for the benefit of my hon. Friend's constituents and is a message worth taking to them.

Mr. Alexander W. Lyon (York): Is it possible to make a reasonable assessment of what the level of subsidy to British Rail should be, without international comparisons, when every other major country gives subsidies to its railways which are far in excess of ours? Is it not absurd that in the chapter on British Rail Engineering Ltd. the Serpell committee should have examined and rejected the desire of British Rail to keep BREL going on the basis that there is no alternative information about its productivity and its capacity to make profits? It states specifically that the information is not available, yet it goes on to suggest that it might be privatised as one of the options.

Mr. Howell: On the second point, the committee considered a number of options, of which privatisation is one, and putting it much closer to British Rail is another. The committee's basic concern—as it is mine and would, I hope, be that of the hon. Gentleman with his constituency interest—is to see that the capacity, competitiveness and effectiveness of British Rail Engineering, with regard to both engineering maintenance and railway building, are maintained. That is a common concern and one to which options like these address themselves.

As to international comparisons, it is not true that every country subsidises its railways to a much larger extent than we do. To take one example to do with urban systems, we are often told that we have a low subsidy for the London transport system, but the subsidy for the greater Tokyo rail system is only 5 per cent., which is infinitely smaller than anything here. Many countries have different circumstances and many are seeking to reduce their railway deficits. We have to be sensible and confident and choose the levels that we want for our railway system. That is the right starting point.

Mr. Matthew Parris (Derbyshire, West): Does my right hon. Friend agree that there is a distinction between a constructive attitude to rail transport on the one hand and a sentimental attitude to every current aspect of British Rail practice on the other? If this report directs our minds to that distinction, it will have done a service.

Mr. Howell: Yes. I agree with my hon. Friend. I agree with his point, without in any way condemning it, about a sentimental attitude. We are dealing, in many cases, with part of our heritage which is of great beauty and value. The rights of way on which railways run are precious. All these matters should be considered in developing a system that meets our future service needs as well as preserving important parts of our heritage.

Mr. Peter Snape (West Bromwich, East): Will the Secretary of State accept that the network options, including the 1,600 miles of railway that will be left under option A, to which my right hon. Friend the Member for Barrow-in-Furness (Mr. Booth) referred, in chapter 14 of

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the report, that the reduction in safety standards of signalling appears in chapter 6, paragraph 25, that the proposals to dismember British Rail Engineering Ltd. appear in chapter 7, paragraph 30, and that the real increase in commuter fares, which he has denied, appears in chapter 2, paragraph 22, of the majority report? Is the right hon. Gentleman aware that an even greater increase is projected in chapter 3, paragraph 40, of the minority report? Will the right hon. Gentleman accept that the only speculation in which I am prepared to indulge, and in which I have indulged over the past fortnight, is the date of his resignation before he does any more damage to the railways?

Mr. Howell: The hon. Gentleman told me yesterday that there were a number of proposals in the report. In the areas that he mentioned, they are not proposals, but options. The hon. Gentleman talked of a 40 per cent. increase in commuter fares, which proves to be wholly incorrect. The implication that there were firm recommendations—the hon. Gentleman said, I think, that these were for the winding-up and selling of BREL—is wrong. It was wrong yesterday. It is wrong today.

Sir Hector Monro (Dumfries): Does my right hon. Friend agree that there will inevitably be grave concern when some of these railway maps are published tomorrow? Will he go some way to allay these fears by saying today that some of the extreme options are not acceptable and, if possible, that the route mileage in Scotland will be largely maintained?

Mr. Howell: I believe that the extreme options are not acceptable. They are there as a valuable framework for us to consider the future. They are not part of the area where we must apply our minds seriously to the future of the railway system. I have already described the Government's broad stance on particular parts of the network. If that were to change, it would be on the basis of informed policy and of debate in the House and on agreement of the best value for money that can be obtained through spending taxpayers' money on transport. That is how we shall proceed. I hope that my hon. Friend will be reassured by my remarks.

Mr. David Stoddart (Swindon): If the Secretary of State thinks that my right hon. Friend the Member for Barrow-in-Furness (Mr. Booth) was scathing about the report, he should have heard his hon. Friend the Member for Christchurch and Lymington (Mr. Adley) describing the report on the "World at One". That really was scathing. Instead of congratulating Sir David Serpell, does the right hon. Gentleman not consider that the report is notable only for its incoherence? Does he agree that it is a report that few people will understand?

Is the right hon. Gentleman aware that I understand perfectly well that the Serpell recommendations, if accepted, will undermine our railway network and that they have already caused fear and uncertainty among railway men and rail employees throughout the country? Does he appreciate that if the recommendation that British Rail Engineering Ltd. be privatised were brought into operation, it would be a complete disaster for passengers, for British Rail and for safety standards throughout the railway system?

Mr. Howell: To take the hon. Gentleman's first point, even my hon. Friends can sometimes be wrong or a little premature in their judgment. I do not consider that the right hon. Member for Barrow-in-Furness was very scathing. The right hon. Gentleman simply displayed a closed mind, because he was not prepared to examine the work that has gone into the report and the options available in trying to see how best the railway system can be developed. The hon. Gentleman falls into the trap of saying that the report contains recommendations. I urge him to read it. He will find much of value. He will see that much of the report is aimed at options and ways in which railway engineering and building capacity can be made more competitive and adaptable. The danger is that if the railways do not adapt they will die. That is the spirit in which the report draws attention to these matters.

Mr. Robin Maxwell-Hyslop (Tiverton): As my right hon. Friend wants hon. Members to understand the documents that he has laid before the House, will he say why the important passenger flow diagram in the supplementary volume does not show the route between London and Exeter as an inter-city route, which it is, but shows the route as far as Salisbury as London and the south-east, when Salisbury has nothing to do with the south-east? Will he explain why the brown colour code for freight does not appear anywhere, and why some of the lines are coloured black, although there is no black colour code? Are these printers' errors? Or are they errors by the consultants?

Mr. Howell: The definitions by British Rail as to which parts of its rail system are inter-city and which lie within London and the south-east are for British Rail itself to determine. I share with my hon. Friend recognition of the fact that they change from time to time and that they are difficult to follow. If there are any particular aspects of the maps, diagrams or engineering work on which he would like special guidance and help, I shall be glad to give it to him personally or, preferably, to direct him to officials and engineering experts who can equal his own engineering expertise in this matter.

Mr. Derek Foster (Bishop Auckland): Is the Secretary of State aware that, with the levels of investment envisaged in the report, it may be difficult to see the survival of British Rail Engineering Ltd. either in the public sector or in the private sector? Is he aware that he may be envisaging the destruction of railway communities far beyond what has hitherto been conceived? Far from the home market being a home base on which to export railway equipment, we may be running the risk of importing great amounts of rail equipment.

Mr. Howell: I realise the hon. Gentleman's particular worry about the capacity of British Rail Engineering Ltd. and the need for orders. The report expresses its view that in the second half of the 1980s there will need to be increased investment in rolling stocks and traction equipment. That is right. Overall, we now live in an age in which it is clear that the very high levels of investment historically in the railways will probably not be maintained and that world-wide it will be necessary to look for new markets for our railway equipment. I have sought to support British Rail Engineering Ltd. and other railway equipment firms in finding those markets around the world. I shall continue to make every effort to do so, but

we must be realistic. We must not imagine that we can always maintain markets simply by spending on one project resources for which there might be a greater need elsewhere.

Mr. David Crouch (Canterbury): Is my right hon. Friend aware that his calming words of assurance that the possible rise in fares will be minimal will be heard with a sigh of relief throughout the country? May I draw his attention to paragraph 2.22 of the main report, which refers to the fares paid by London and south-east passengers—1 million passengers a day—who are British Rail's best and most regular customers? Most of them pay their fares well in advance by purchasing a yearly season ticket. Is my right hon. Friend aware that the report suggests that these passengers should be subject to a substantial, real increase in fares? Will he bear in mind that he needs to give a real assurance to the public that this real and substantial increase will not take place? Will he take note of Mr. Goldstein's strong reservations in paragraph 6.04 of his report, where he points to the dangerous side effects of so increasing fares?

Mr. Howell: My hon. Friend is correct, and I have already referred to those in answer to earlier questions. In turn, I call his attention to paragraph 3.42 of the minority report, where Mr. Goldstein is reported as saying

"While therefore there is certainly opportunity for major financial improvements in BR by radical pricing changes in the L & SE sector, it would in my view be wrong to go forward with other than modest increases without undertaking a very far reaching examination."

The caution concerned about jacking up fares as the way to solve the financial problems is right. As I said in my statement, much the best way to control fares to keep down costs, and there is plenty of scope in the report for that.

Mr. Michael Martin (Glasgow, Springburn): I wish to reiterate my fears about the circumstances of Glasgow, Springburn. It is worth repeating that there is over 30 per cent. unemployment in my constituency and there are only two main employers—the Eastfield railway locomotive depot and the British Rail engineering workshop, which is the only workshop in Scotland. If anything happens to those two employers, will the Minister come to every school in my constituency and tell our children that there is no future left for them in the north end of Glasgow?

Mr. Howell: For two days running the hon. Gentleman has fairly expressed his fears about the local works with which he is concerned. I have said that the aim of the committee was to consider options and ways in which British Rail's engineering and railway equipment building capacities could be made more competitive and thereby beget more business. That must be the desirable aim that I hope the hon. Member for Glasgow, Springburn (Mr. Martin) would share.

However, it was known long before the report emerged that there were problems with the capacity and the orders for British Rail Engineering Ltd. The British Rail management has been struggling with these formidable problems, which have been made no more easy or difficult by the production of a report. Those problems will have to be dealt with, but I understand the hon. Gentleman's worries. As I said yesterday, the social as well as the economic implications must be taken into account.

Later—

Mr. Bob Cryer (Keighley): On a point of order, Mr. Speaker. I seek your guidance. In the ordinary course of

events, when reports are given to Parliament it is accepted that they are subject to the Government chief accountant's rules. In the case of the Serpell report, it is clear that the money received by two firms in which two members of the committee, Mr. Alfred Goldstein and Mr. P. J. Butler, have a direct interest was paid contrary to those rules.

On page 3 of the rules it says

"a candidate firm"—

this is for consultancies—

"will be ruled out, without detailed consideration, if either"—

and there is a list of qualifications—

"there is a clash, or potential clash, of interest that would result from its appointment."

I should have thought that it was incumbent on the Minister to state to the House—because this is a matter for the Public Accounts Committee subsequently—whether there is any breach or potential breach of the rules, as there clearly is in the payments to these two people from firms in which they have a clear and direct interest.

Therefore, Mr. Speaker, I ask you to give a ruling that on this and future occasions any doubts should be clearly stated by the Minister making a statement on a report.

Mr. Speaker: I shall see whether there is any responsibility on my part in this regard, although I doubt it very much.

Mr. Christopher Price (Lewisham, West): I am sorry that I have not been able to give you notice of this matter, Mr. Speaker, but it relates to the answer to a question that I received only at 3.30 this afternoon. It concerns the issue raised by my hon. Friend the Member for Keighley (Mr. Cryer).

In spite of not having been able to give you notice earlier, Mr. Speaker, I beg to ask leave to move the Adjournment of the House, under Standing Order No. 9, for the purpose of discussing a specific and important matter that should have urgent consideration, namely, "the clear breach of the Government chief accountant's guidelines in the appointment of R. Travers Morgan and Peat, Marwick, Mitchell & Co. as consultants to the Serpell committee."

These points have already been made in my hon. Friend's point of order, but Mr. Kenneth Sharp, the Government chief accountant, is clear in his guidelines on two points. First, unless it is a trivial issue concerned with a small amount of money, the matter must go out to tender. The Minister has told us that he clearly breached that guideline and did not go out to tender. He picked two firms which, as we have just heard, received more than £500,000 and Peat, Marwick, Mitchell & Co. continues as consultant in this matter to the Department of Transport, as is made clear in the Serpell report.

Secondly, the chief accountant's guidelines make it clear that consultants should never be appointed in certain circumstances.

They say:

"A candidate firm will be ruled out, without detailed consideration, if . . . there is a clash, or potential clash, of interests that would result from its appointment."

That is not all. The Government chief accountant goes on to say:

"It is . . . anticipated that firms that do not pass these tests would not accept an invitation to make a presentation."

Our principal responsibility in the House is to ensure that Government moneys are spent properly and without leaving the Minister or his civil servants open to accusations of sharp practice, jobs for the boys, corruption or anything like that.

[Mr. Christopher Price]

This matter is so serious that I think that I am justified in asking for the Adjournment of the House so that we may immediately discuss the matter.

Mr. Speaker: The hon. Member for Lewisham, West (Mr. Price) seeks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he thinks should have urgent consideration, namely, "the clear breach of the Government chief accountant's guidelines in the appointment of R. Travers Morgan and Peat, Marwick, Mitchell & Co. as consultants to the Serpell committee."

The hon. Gentleman has made some serious statements to the House and we have listened with deep concern to what he has said. The House knows that I decide not whether the matter is to be discussed but merely whether it is of such a nature that it should be discussed either tonight or on Monday night, taking precedence over all other business of the House. That is the limit of my powers and discretion.

I have given careful consideration to the hon. Gentleman's representations, but I must rule that his submission does not fall within the provisions of the Standing Order and, therefore, I cannot submit his application to the House.

Mr. Michael Foot (Ebbw Vale): On a point of order, Mr. Speaker. I am not in any sense questioning your ruling on the Standing Order No. 9 application and I fully understand your reasons for it. On the other hand, the matter raised by my hon. Friends the Members for Keighley (Mr. Cryer) and for Lewisham, West (Mr. Price) are of considerable importance. It was raised earlier by my right hon. Friend the Member for Barrow-in-Furness (Mr. Booth) but his question dealt with only some of the matters which might arise.

In the light of what has been said today, the Government should make a statement. The matter was raised by my hon. Friends at a time when the Secretary of State for Transport had left the House. He has now returned, doubtless having been informed of the matter. However, this is more a matter for the Leader of the House than for any other Minister, and, through no fault of his own, the Leader of the House is not present. As serious matters of public interest are involved, may we have a statement on the matter from the Leader of the House either tomorrow or on Monday? That is the proper way for it to be dealt with. It cannot be left where it is now.

Mr. Speaker: I am much obliged to the right hon. Gentleman. What he has said will have been heard by others.

Mr. Arthur Lewis (Newham, North-West): Further to that point of order, with which I do not disagree, Mr. Speaker. The answer should be that, with the approval of Mr. Speaker, any Minister may make a statement. As the Secretary of State for Transport is present, is it not in order for him to ask permission of you, Mr. Speaker, to give the pledge for which my right hon. Friend the Member for Ebbw Vale (Mr. Foot) has asked, or, better still, to answer the questions which have been raised in the application under Standing Order No. 9?

I wish to give the Minister the chance to ask your permission, Mr. Speaker, to make a statement which

would resolve matters. It is not a party issue. All hon. Members want to uphold the dignity of the House and our non-corruptible Civil Service. I hope that the Minister will welcome the opportunity to respond to the points that have been made and will make a statement today or ask the Leader of the House for the opportunity to do so tomorrow.

Mr. Frank Dobson (Holborn and St. Pancras, South): Further to the point of order, Mr. Speaker. May I seek your guidance? I am not sure, but I believe that the Secretary of State referred to an independent report when he made the statement on the Serpell report. Is it not the custom of the House for a Secretary of State, introducing what purported to be such a report, to draw to the attention of the House the fact that two members of the independent committee of inquiry had a financial interest in consultancy firms which had worked on the report or vice versa?

Mr. Speaker: There is nothing that I can add to what has already been said. The representations have been heard.

Mr. Christopher Price: Further to that point of order, Mr. Speaker. The Leader of the House was not in his place during the earlier exchanges, but he is now and we all know that he takes a serious interest in the probity of the spending of public money. Had the Leader of the House heard what my right hon. Friend the Member for Ebbw Vale (Mr. Foot) said, I am sure that he would have wished—he looks as though he does so wish—to respond to the serious and important points that were made, if only to promise a statement on the matter tomorrow.

Mr. Booth: Further to that point of order, Mr. Speaker. You will recall that when I first responded to the Minister's statement I said that there were serious doubts as to the propriety of the practice of employing consultants who had a direct financial interest. I did not, for reasons which are understood by the House, make any reference to the guidelines of the Government chief accountant, but that has now been done. In view of that, would it be in order for the Minister to seek permission to reply to the point that was raised?

Mr. Speaker: I shall consider whether I have any responsibility in that regard, but it is clear that I cannot answer off the cuff.

Mr. Arthur Lewis: Further to that point of order, Mr. Speaker. May I take my original point further? As a result of the knowledge that you and I have gained over the years on many vital matters, which I believe the House considers this to be, we realise that, while the Minister and/or the Leader of the House may not be able or wish to make a statement immediately, he can do so later today and can ask leave to do so. That has often been done by arrangement through the usual channels. Therefore, may I ask you, Mr. Speaker, not the Leader of the House or the Minister, to give favourable consideration to such a request?

Mr. Speaker: I am always sympathetic to requests from both sides of the House.

Mr. Stanley Cohen (Leeds, South-East): Further to that point of order, Mr. Speaker. As the Minister is present, it is reasonable and desirable—and he owes it to the House—that he should answer the question that is

being put to him by hon. Members about which we are most concerned. To remain silent is discourteous to the House.

Mr. Ted Leadbitter (Hartlepool): On a point of order, Mr. Speaker. I raise what I feel is a reasonable procedural point of order regarding the business of the House. I do so because of the persistent reluctance of the Secretary of State, and indeed the Leader of the House, to respond to hon. Members' wishes.

The point of order arises from a question which I raised yesterday with the Secretary of State when I asked whether he would consider initiating a debate on the Serpell report because of its importance. Because of the unsatisfactory reply that we have received today, and the importance which you, Mr. Speaker, attach to the report, and in view of his willingness to consider such a debate, will the Minister say what progress he has made with the Leader of the House? That would be a step forward.

Mr. Speaker: Order. That is an entirely different matter.

Mr. David Howell: Further to that point of order, Mr. Speaker. When the right hon. Member for Barrow-in-Furness (Mr. Booth) consults *Hansard*, I think that he will see that I specifically answered the point that is now being raised when he asked me about it. My reluctance to answer it again was based solely on that. However, in case he did not pick up my answer in the hubbub, and for his benefit and that of other hon. Members, I shall answer it again.

I chose, and my Department chose, Mr. Goldstein and Mr. Butler and their consultancy firms. I did so fully in line with the proper procedures and in conformity with the rules for such appointments.

Mr. Cryer: On a point of order, Mr. Speaker. The way in which you have allowed points of order to be raised demonstrates your serious concern over the issue. In outlining and repeating the question, the Secretary of State has not made clear why a breach of the chief accountant's rules was allowed in the first place, and what special considerations he had in mind when he allowed it. If that breach was made on those two occasions for those two firms, why bother to have any rules? Why should firms that follow the rules, or firms that do not even tender when the rules are going to be breached, be discriminated against? Two firms have been singled out and those that followed the rules have clearly failed to get any business.

The Secretary of State owes it to the House, because we have a duty to scrutinise expenditure—

Mr. Speaker: Order. We have come to the end of points of order on that issue. We have gone into it at length and the Secretary of State has made a statement. If hon. Members wish to pursue the matter, they must do so in some other way.

Mr. Christopher Price *rose*—

Mr. Arthur Lewis *rose*—

Mr. Speaker: I shall not take any more points of order on that issue.

Mr. Arthur Lewis: On a different point of order, Mr. Speaker. Can you advise me how, without appearing to grovel to you, I can say that we greatly appreciate the kind way in which you have acted in this matter?

Mr. Speaker: May I say, having listened to the exchange yesterday, that if the hon. Gentleman is a groveller, I would fear to face anyone standing up.

PA
 Prime Minister

MR SCHOLAR

cc Mr Mount
 Mr Ingham

The revised Serpell statement
 is attached. Both Fendie and I think
 it much improved and now in line with
 your views. Agree to it?

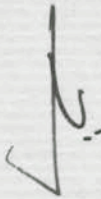
CABINET: THE SERPELL REPORT

MCS 19/1

It seems to us possible that one of the Prime Minister's colleagues may seek to raise the Government's response to the Serpell Report under the industrial relations item in Cabinet tomorrow. The Secretary of State for Scotland, in particular, may seek assurances in line with his recent letter. In case this should happen, we suggest that the Prime Minister should have with her the revised version of Mr Howell's statement, which will presumably be circulated tonight. In response to any suggestion that the Government should provide assurances that it has no intention of making closures or of asking BR massively to increase commuter fares, the Prime Minister could say:

(i) The statement deals with both the size of the network and the fares structure in a carefully considered manner, by putting them both firmly in the context of the wider debate that must now take place about the sort of railway that we want and are prepared to pay for. There is no implication in the statement that the Government has particular intentions or has made particular decisions.

(ii) The whole purpose of the statement is to keep the Government's options open, and it would be quite wrong to deal with a report of this importance by closing any of the avenues which might eventually lead to reduced losses by BR.


19 January 1983



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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B1
JV

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

CONFIDENTIAL

19 January 1983

Dear Michael,

SERPELL REPORTS

A first draft of my Secretary of State's Commons statement on the Serpell reports on railway finance was circulated on 14 January. I now enclose the final version. This incorporates comments made by the Prime Minister and others on the earlier draft. The Statement will now be made on Thursday 20 January, and the reports will be published the same afternoon. No embargoed copies will be issued.

I am copying this to private Secretaries to Members of the Cabinet, the Chief Whip and to Richard Hatfield.

Yours sincerely,

Richard Bird

RICHARD BIRD
Private Secretary



SERPELL REPORT: STATEMENT

1. With permission Mr Speaker I will make a statement on the Serpell Committee on railway finances.
2. I am publishing today the full reports by the Committee and copies are now available in the Vote Office. The Committee was appointed on 5 May last year after the British Railways Board had proposed a review. Their work was delivered to me immediately before Christmas, as I informed the House on 23 December, and copies were sent forthwith to Sir Peter Parker. There is a majority report by Sir David Serpell, Mr Bond and Mr Butler and a minority report by Mr Goldstein.
3. The Committee were asked to examine and report on the shorter term financial prospects of the railway and on the options for the longer term. The majority document fully reflects this. The minority document by Mr Goldstein gives more attention to the longer term, and places a different emphasis on certain aspects.
4. The Government is grateful to the Committee for their hard work and speedy efforts. The reports explore the broadest range of issues about our railways of any inquiry since nationalisation. I should particularly like to take this occasion to pay tribute to Sir David Serpell who has discharged a most difficult task with great ability and integrity.
5. The railway performs major transport functions. It also requires major support from public funds which this year will exceed £900m. There has been growing concern about the state of the railways, their cost and their future. These reports now give us a basis for decisions and for action.
6. The Committee does not support the view that yet larger injections of public funds are needed to preclude extensive closures, or that large parts of the system are at risk from lack of maintenance with present levels of support. No major backlog of renewals was



demonstrated to the Committee's satisfaction. The case for a high investment strategy was not sustained.

7. Nor do the reports recommend huge rises in commuter fares, as some wild speculation has suggested. The reports confirm the view that the way to keep fares down is by cutting costs; and they point to large scope for that.

8. The Committee have given close attention to the opportunities for considerable improvements in efficiency and the reduction of costs over the next five years. They have drawn attention to particular areas where present shortcomings need to be remedied.

9. I welcome the efforts by Sir Peter Parker and his Board to improve their management arrangements, to reduce costs and to get rid of restrictive practices. The reports now published show the very considerable extent of those tasks. I have made it clear to Sir Peter that I regard achievement of these improvements as the top priority for action flowing from the Committee's reports. Vigorous and immediate action by the Board will have my full support.

10. The Committee have not made recommendations about longer-term policies for the railways, but have set out broad illustrative options for consideration. It would be quite wrong to respond with snap judgements or closed minds to any of these ranges of options, whether they concern track and signalling, rolling stock, network size or fare structure, or new objectives for the Railways Board. The Committee makes it clear that more work needs to be done to translate these illustrations into policy options. Indeed, it would be foolish to come to settled conclusions on any one of these questions in isolation. Other questions - such as the relationship between road and rail services and subsidies for public transport generally, the introduction of private capital and the relationship between British Rail and the private sector - also remain to be determined.

11. The public have the right to know more clearly what value for money they are getting from different railway services and



how funds for public transport can best be used. We now have the opportunity for informed discussion about the sort of railway that we want and are prepared to pay for. It is on this basis that the Government now proposes to reach lasting decisions which will be in the best interests of the nation.

~~cc J.V.~~

Prime Minister

Written before

Treasury Chambers, Parliament Street, SW1P 3AG | communicated

your views.

MS 18/1

The Rt Hon David Howell MP
 Secretary of State
 Department of Transport
 2 Marsham Street
 London SW1P 3EB

18 January 1983

2 Dns.

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SERPELL REPORT ON RAILWAY FINANCES

I have seen the draft statement (circulated by your office on 14 January) which you propose to make on Wednesday when the Serpell Reports are published. Overall this is very much on the lines I would support, in face of the difficulties caused by the extensive and at times misplaced public comment of recent weeks. I understand that you will be taking a further detailed look at the drafting yourself so I will confine my comments at this stage to substance.

Our prime objectives must be to keep both reports in the public eye without any suggestion that one carries greater weight than the other; to pursue the maximum possible savings in the short term; and to keep open the debate on network size. I have seen George Younger's letter of 14 January and I have to say that I see no prospect of keeping the debate open on the basis he suggests of positively reaffirming a policy of no major closures. No doubt the sensitivities on this issue are as great in Scotland as they are elsewhere. But we shall simply leave ourselves where we were before Serpell if we cannot maintain a non-committal stance.

For much the same reasons, I think it is entirely right that your statement says very little about the many issues apart from network size raised by Serpell, on all of which further time is needed to reach a considered view. It will of course be equally important, despite the very considerable pressures which I know you will face, that you are entirely non-committal in answering the supplementaries which will be raised on most of these issues.

There is one specific amendment I should like to see in the statement. Paragraph 8 as at present drafted, and in particular the third sentence, carries a strong implication that it is a sufficient next step in the process of securing short term economies for the Board to get on with it. I wish that this were the case.

But the Board's past record and their known, hostile, attitude to Serpell's findings leaves me in no doubt we shall need to give the Board a strong steer on what constitutes acceptable progress. For these reasons I should be grateful if you could delete the third sentence of this paragraph. More generally, until we have reached a considered view over the coming weeks about the position of the Board itself, it seems to me that we should take care not to link our fortunes too closely with theirs.

I am copying this letter to Cabinet colleagues, the Chief Whip and to Sir Robert Armstrong.

Handwritten signature

LEON BRITTAN

18 JAN 1953

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5 6 7 8 9 10

Transpt: Bitch Rent
PTB



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

Prime Minister (2)

We will get a
revised draft statement

Immunus.
18 January 1983

ML 18/1

Dear David,

SERPELL REVIEW ON RAILWAY FINANCES

My minute to you of 14 January crossed with your Private Secretary's letter circulating the first full draft of your proposed statement. We have of course subsequently spoken.

It is a little difficult to reconcile my earlier comments with your present draft, mainly because you separate your comments on possible closure at paragraphs 6 and 9.

I will not therefore comment on your draft. But I do think, for the reasons already stated, that you need to be more clear and robust in confirming that there are no plans for closures on the lines of the Serpell illustrations - and, as I have suggested, that there are plenty of other avenues for savings to be explored first.

I am not saying that the present network must be regarded as sacrosanct. Nor do I think, in any case, that there is any risk of debate being stifled once the Serpell Report is published. But we surely must avoid the impression that any eventual closures will be other than an undesirable necessity. It is therefore surely right to stand by the Government's present position that we do not want to see major cuts in the network.

I really do fear a very strong public reaction against the kind of statement you propose, and it would do us great political harm.

I have now seen the Prime Minister's comments on your draft statement and these do not seem incompatible with what I am suggesting. I return to my earlier point that Serpell clearly identifies great opportunities for savings without the need for us to get caught at this stage on the political hook of closures.

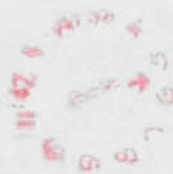
I am copying this letter to the Prime Minister, to other Cabinet colleagues, the Chief Whip, Sir Robert Armstrong and John Sparrow.

Yours truly,
George

Transport
BR Fares, PtG

07

18 JAN 1987



Transport



SERPELL REPORT - BRIEFING FOR PMs QUESTIONS

(ASSUMING REPORT WILL BE PUBLISHED WEDNESDAY
19 JANUARY)

My RHF said on 23 December last that he had received the Serpell Committee's advice in the form of two reports. My RHF and the Chairman of the Railways Board have been studying them urgently. My RHF intends to publish the reports very shortly and the proper time to comment on these will be when they have been fully and carefully studied. I hope a thorough and well considered public debate will follow. That is in the best interests of both travellers and taxpayers alike.

HOUSE OF COMMONS

Mr John Townend (Con - Bridlington):

171 To ask the Secretary of State for Transport, if he has now received the Report of Sir David Serpell's Committee on the Review of Rail Finances; and if he will make a statement.

MR DAVID HOWELL

I have now received the Committee's advice. There is a majority report, and in addition a minority report by Mr Goldstein. In accordance with the terms of reference, the Committee investigated fully the improvements in efficiency which would secure better financial results, and have illustrated a wide range of options for alternative longer-term policies, but have not made recommendations. The Chairman of the Railways Board and I will now be studying the reports urgently.

BM

File



bc: Mr. Watters
Mr. Mount
Mr. Ingham
RTA

10 DOWNING STREET

From the Private Secretary

17 January, 1983

Dear Richard,

SERPELL REPORT ON RAILWAY FINANCES

The Prime Minister has now studied the draft statement on the Serpell Committee Report which you circulated under cover of your letter to me of 14 January.

Mrs. Thatcher thinks that the draft statement is, in its present form, too anodyne. She would prefer the statement to be more on the lines of your Secretary of State's minute to her of 12 January, highlighting four points:

- the cost savings to be achieved;
- the necessary management improvements;
- the Serpell Committee's conclusion that there is no case for a major new programme of capital investment in the railways; and that
- the system is not at risk from lack of maintenance with present levels of support.

The Prime Minister has also commented that the second sentence of paragraph 7 might better read "The Report confirms the view that the way to keep fares down is by cutting costs; and that there is ample scope for cuts".

In summary, the Prime Minister would like the draft statement more fully to reflect the substantial criticisms of BR which appear in the Majority Report; to indicate that decisions on action flowing from the Report to improve BR's management arrangements, to reduce costs, and to get rid of restrictive practices should be taken immediately; and that longer-term decisions will have to wait upon the further work required to turn the Report's broad illustrative options into firm alternative policy proposals.

Finally, the Prime Minister has suggested a revised version of paragraphs 8-10 of the statement. I have set this out in the attachment to this letter.

/I am

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CONFIDENTIAL

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I am sending copies of this letter to the Private Secretaries to the Chief Secretary and the Secretaries of State for Scotland and Wales.

Yours sincerely,

Michael Scholer

Richard Bird, Esq.,
Department of Transport

CONFIDENTIAL

1. "The public have the right to know more clearly what value for money they are getting from different railway services and how funds for public transport can best be used. We now have the opportunity for informed discussion about the sort of railway that we want and are prepared to pay for. It is on this basis that the Government now proposes to reach lasting decisions which will be in the best interests of the nation."

CONFIDENTIAL

WUP ?
JV A



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

mb

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street

14 January 1983

Dear Michael,

In his minute of 12 January to the Prime Minister about the handling of the Serpell Committee reports on Rail Finances, my Secretary of State said that he would be circulating the text of the Parliamentary statement he proposed to make to coincide with publication of the reports.

A first draft of this statement is attached. He will be doing further work on this over the weekend, particularly the section in square brackets which will be finalised when he has seen an advance text of the statement British Rail intend to make on publication. The final version of the statement will be circulated at the beginning of next week.

My Secretary of State proposes to publish the reports and make the statement on Wednesday afternoon (he will also be answering oral questions that day). He understands that this timing is acceptable to the Lord President.

I am copying this to Private Secretaries to members of the Cabinet and the Chief Whip and to Richard Hatfield in Sir Robert Armstrong's office.

Yours sincerely,

Richard Bird

R. BIRD
Private Secretary

CONFIDENTIAL



SERPELL REPORT: DRAFT STATEMENT

1. With permission Mr Speaker I will make a statement on the Serpell Committee on railway finances.
2. I am publishing today the full reports by the Committee and copies are now available in the Vote Office. The Committee was appointed on 5 May last year after the British Railways Board had proposed a review. Their work was delivered to me immediately before Christmas, as I informed the House on 23 December, and copies were sent forthwith to Sir Peter Parker. There is a majority report by Sir David Serpell, Mr Bond and Mr Butler and a minority report by Mr Goldstein.
3. The Committee were asked to examine and report on the shorter term financial prospects of the railway and on the options for the longer term. The majority document fully reflects this. The minority document by Mr Goldstein gives more attention to the longer term, and places a different emphasis on certain aspects. ~~~~~
4. The Government is grateful to the Committee for their hard work and speedy efforts. The reports explore the broadest range of issues about our railways of any inquiry since nationalisation. I should particularly like to take this occasion to pay tribute to Sir David Serpell who has discharged a most difficult task with great ability and integrity.
5. The railway performs major transport functions. It also requires major support from public funds which this year will exceed £900m. There has been growing concern about the state of the railways, their cost and their future. These reports now gives us a basis for decisions and for action.

what aspects

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6. The Committee does not support the view that yet larger injections of public funds are needed to preclude extensive closures, or that large parts of the system are at risk from lack of maintenance with present levels of support.

7. Nor do the reports recommend huge rises in commuter fares, as some wild speculation has suggested. The reports confirm the ~~Government's~~ view that the ~~best~~ way to keep fares down is to keep costs down. - *Amsh says, cutting costs*

8. The Committee has given close attention to the opportunities for further improvements in efficiency over the next 5 years. They have drawn attention to particular areas where shortcomings need to be remedied. These are matters for the Board to deal with. As the House knows, Sir Peter Parker and his Board have fought hard with our support, in trying to secure necessary changes; in improving their management arrangements; reducing costs and getting rid of restrictive practices. I welcome the Board's efforts in these very difficult fields. The reports now published show the extent of the tasks that still remain and I have made clear to the Chairman of the Board that I regard achievement of these improvements as the top priority for action flowing from the Committee's reports. Vigorous action by the Board will have my full support.

9. The Committee have given their conclusions about these shorter term issues. In accordance with their terms of reference, they have not made recommendations about longer term policies, but have set out possibilities for consideration. It would be quite wrong to respond to them with snap judgements or closed minds. The public have the right to know more clearly what value for money they are getting from different railway services and how funds for public transport can best be used. The network cuts described in the Committee's reports are purely illustrations of these issues. In no sense are they considered plans for proposals for changes that would be desirable let alone necessary. (No plans for closures on any of these scales exist or are before us.)



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10. What these reports do is give an opportunity to end the very sterile debate of the past, which has been harmful to the interests of travellers, of taxpayers and of the industry itself. We now have the opportunity for informed discussion about the sort of modern and efficient railway that we want and are prepared to pay for. It is on this basis that the Government now proposes to reach lasting decisions which will sustain a good railway service to the nation.

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CONFIDENTIAL





10 DOWNING STREET

(1)

Prime Minister

Serpell

At flag A are minutes from

David Howell

At flag B a note from John

Sparrow.

At flag C a note from me ~~which~~

~~write~~

At flag D a summary of the Serpell

Report

At flag E Fewdie's commentary.

This will undoubtedly come up

PTO



at Questions next week. Would

you like a brief talk with

Ferdie, Bernard and Alan

Walters on Monday?

Yes please

MS 14/1



Transport CC JV



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2)

MLS 14/1

CONFIDENTIAL

The Rt Hon David Howell MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

MW

14 January 1983

Dear Secretary of State,

SERPELL REPORT ON RAILWAY FINANCES

Thank you for copying to me your minute of 12 January to the Prime Minister.

It is clear that when the report is published there will be very considerable controversy. As you recognise the issue of possible rail closures is very sensitive indeed and I am not sure that what you propose to say on the subject is well advised. Surely our present position is right, that we do not wish to see major cuts in the network. I think we can perfectly well have the public debate you envisage without giving any reason to suppose that the Government itself has changed its position. Also, I think we must hold that line until after the election, there is no doubt that the continuation of their rail services will be seen by many rural areas as a touchstone of our commitment to them and to their way of life. These areas, not just in Scotland, are the main sources of our support and concern about rail closures would undermine that support to a very considerable extent.

In any case, the main conclusion I take from the Serpell Report is that abundant opportunity exists for savings and for a more efficient operation, without reducing the network. It seems to me right that these other opportunities should be tackled first. That would be a politically safer stance to adopt but would also be perfectly justifiable in terms of what the Report says.

I therefore suggest that you could dwell in your statement on the other opportunities for savings and say something much briefer and less dangerous about closures - perhaps on the lines of the attached.

I look forward to seeing a draft of the full statement in due course.

I am copying this minute to the Prime Minister, to other Cabinet colleagues, the Chief Whip, Sir Robert Armstrong and John Sparrow.

Yours sincerely

A.S. White.

Approved by the Secretary of State  
and signed in his absence



These reports raise the broadest range of issues about our railways since nationalisation and it would be absurd to respond with snap judgements.

The first point to make is that the Committee did not agree that major parts of the network are now at risk from lack of maintenance, as has repeatedly been asserted. Nor does it accept that large increases in resources are needed immediately to prevent extensive closures.

The network cuts described in the report are only illustrations. In no sense are they considered plans or recommendations from the Committee.

The Government's position remains that we have no wish to see major cuts in the network. No plans for closure related in any way to the illustrations in the report exist or are before us. What we must now do is to establish the facts and hear the arguments. Social as well as financial factors will have to be considered. There must be full discussion of any changes in Parliament and in public debate so that the deep questions raised by the reports can be properly considered.



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3 pp. JW  
A

Prime Minister

ant

SERPELL REPORT ON RAILWAY FINANCES

I should be grateful to know if you and colleagues are content with my proposals for the publication of the Serpell Committee reports as set out in this minute.

As you know I was committed to making the reports available to the Railways Board as soon as I received them. BR have taken advantage of this to mount a campaign of partial and slanted press stories. However recent press comment suggests that this policy may have back-fired on the Board as the media have increasingly recognised that they were getting a very one-sided view.

on Wednesday  
MS


The reports and the engineering Annex will be available at the beginning of next week. I would propose both publishing them and making a statement to the House on the first suitable day after Parliament returns and am consulting John Biffen about this. The Committee do not intend to give a press conference (although it is possible that Mr Goldstein and possibly Mr Butler, will be questioned by the media).

←

In my statement I must adopt a neutral stance as to the relative merits of the majority report, and the minority report from Mr Goldstein. As required by their terms of reference, the Committee have illustrated options and not made recommendations. Both reports carry the message that much is wrong in BR at present. They show clearly that the future of the railway industry is in its own hands and not dependent on taxpayers' largesse and I shall emphasise this. The Board asked for a review because they claimed that the Government was giving them an impossible task. The Committee were clearly not persuaded of this.

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On many issues - excessive maintenance and engineering costs, structure of the industry, a new management attitude under a new team, prospects for improved service, putting the customer first - a strong line from the outset will be both appropriate, and welcome to our supporters. The present Board have recently begun a more spirited attack on the problems but it is obvious that the time has now come for a whole new approach under a new Chairman.

But two issues will be particularly difficult in the current climate, as newspaper speculation has already shown. - namely fares and changes in the size of the network.

On fares, we can emphasise that the more costs are reduced, the lower fares can be. Neither report mentions or even implies the 40 per cent rise in commuter fares quoted by the media.

On network reductions, the position obviously is still more politically sensitive. To my mind it is vital to keep this issue open but it will be very difficult. The options examined are illustrative only. There are no firm proposals underlying them for particular cuts or closures. But they show how very costly some services are, and how even in purely transport terms the traveller and the taxpayer get very bad value for money. For at least the last decade, any rational debate about the network has been completely stifled, and there is no doubt that a thorough and informed public debate on these issues - and on alternative forms of transport - is long overdue. Moreover, it would be absurd to make snap judgements on a report which is perhaps the most wide-ranging about the railways since they were nationalised.





It is however right to warn my colleagues that the moment I appear to depart from the previous position - that we do not wish to see major cuts in the network - continuing and persistent questions will inevitably start up about the future of particular services. For example, even Option C1 in the report - deleting the worst performing services - would be very far from painless. It would in fact involve withdrawing passenger services from a large number of stations, including almost all those in Wales and the North of Scotland, and many in such places as Suffolk and the South West. The map in the report looks reassuring but in fact many of these lines would be retained for freight service only. So I think that our response on the future size of the network will be a key point to get right in our reaction to the reports.

On balance, as I have indicated, I think that this debate must take place in due course, and that we must keep the door open for decisions on network size when the time is right. I attach a draft of what I might say about this aspect on publication. I shall circulate a draft of the full statement as soon as possible.

There will inevitably be demands for an early debate. Subject to John Biffen's views, I suggest that we should welcome that as soon as Parliamentary business allows.

I have confined this minute mainly to the mechanics of publication, not to the substance of the reports. As mentioned, they raise major issues for the future of the railways which will require a radically new approach in many fields, to be carried through under the new Chairman. I shall circulate a note to colleagues, discussing these issues as soon as the actual publication of the reports is out of the way.



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I am copying this to Cabinet colleagues, the Chief Whip  
and to Sir Robert Armstrong and John Sparrow.

*DA*  
↵

DAVID HOWELL  
12 January 1983

CONFIDENTIAL



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CLOSURES SECTION : PROPOSED DRAFT

These reports raise the broadest range of issues about our railways since nationalisation and it would be absurd to respond with snap judgements.

One issue on closures of which the Committee does dispose is that large increases in resources are needed immediately to prevent extensive closures. Serpell does not support that. Nor does it agree that major parts of the network are now at risk from lack of maintenance, as has repeatedly been asserted.

I believe it is right that the public should know more clearly just what kind of value for money they are getting from certain lines and services and the different ways in which funds for public transport can best be used. The network cuts described in these reports are only illustrations. In no sense are they considered plans showing what changes would be desirable, let alone necessary. No plans for closure on any of these scales exist or are before us.

So let us establish the facts and hear the arguments. It would be quite wrong to stifle discussion of any changes before Parliament and the public have thoroughly studied the reports and the deep questions they rightly raise.

CONFIDENTIAL



Transport ! Carlinago Pt 6.







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JV

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MS

Qa 06215

To: PRIME MINISTER

From: JOHN SPARROW

12 January 1983

First Reactions on Serpell

1. I was disappointed by the majority report, mainly because it fails to come to grips with what I see as the essential problems of the railway industry, and because as Mr Goldstein points out, the rationale behind the various options is not fully worked through.

2. In the first place, the industry is contracting. It evolved in a period when it had clear advantages over any other form of inland travel: those advantages no longer exist, and future technological change is unlikely to favour railways (at any rate as we now know them). It cannot compete economically with the much greater flexibility of road transport now that that is widely (although not universally) available. Secondly, attitudes within the organisation are essentially defensive - what Mr Goldstein rather kindly describes as 'custodial' - when what is needed is a clear perception of the reduced role which railways will play in an efficient economy, and the determination to change the railway so as to fit that role. Thirdly, the 'public service' concept is debilitating; subsidy is rife and is regarded as normal, or essential, or even desirable. Fourthly, and because of these factors, the management is often ineffective.

3. In his minority report, Mr Goldstein sees most of this, but even he seems to me not to follow his perceptions through to their conclusion. Put at its bluntest and most pessimistic, there may be no reduced scale of operation or level of service at which a UK railway system with traditional technology is commercially viable - perhaps not even the report's options A and B.

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4. In deciding what to do about the report, we need to distinguish clearly between short term and long term decisions and actions. There is much in the Majority Report that can be acted upon promptly to improve BR's performance in the short term, but it will take longer to evaluate the options and to determine a policy for the future of the railways within a policy for inland transport. For this latter task, Serpell does useful service in highlighting the principal problems, for example the costly rural lines. We will also need to develop a strategy for handling the vociferous lobby groups who oppose changes to the railway network.

5. The first requirement is to strengthen the management. It would be wrong to blame Sir Peter Parker for the problems of British Rail because he has to operate through a management which consists almost entirely of people who have lived all their lives in the railway culture and with an obligation to run the rail system at or near its 1974 size. The need is to give the next Chairman not merely authority but positive instructions to find and recruit the best executive management that he can, preferably with a larger proportion coming from outside the railway industry. This handpicked team should know that it is expected to be resolute in pursuit of clearly defined objectives laid down by Government, and then left free to manage without political interference. When Government has determined its long term policy, the new Chairman and his team will need to implement it with any consequential changes in their objectives, and they should be appointed with that clear understanding.

6. Few of the short term cost improvement measures identified by Serpell need be held up by the longer term considerations of rail network shape and size. Department of Transport should immediately take up the issues of engineering improvements, planning improvements, etc, with a view to BR producing a new Corporate Plan later this year, showing how the improvements are to be implemented. In parallel, work can also be started immediately to review fully the activities of BREL and determine its future and prospects for privatisation of the rolling stock manufacturing activities.

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7. Closure procedures need reviewing to see what changes are needed. I see no merit in the idea of BR running buses, or being responsible for "heritage".

8. The longer term strategy for the railways will need careful political handling, and in any case, major changes will require legislation to amend the 1974 Transport Act. One point that Serpell and Goldstein make clearly is that a relatively modest contraction of the network (mainly rural lines) produces very large savings in cost to the tax payer (without however eliminating subsidy entirely - the cheapest of those options still shows an overall deficit of over £500 million/year). The various options, including those illustrated by Serpell, need fuller evaluation. This work should be set in progress as soon as possible.

9. Meanwhile, it is essential that all of the longer term options are kept open, despite the inevitable pressures that the prospect of a general election will produce.

10. I am sending copies of this minute to David Howell and to Sir Robert Armstrong.

JB.

CONQUEROR

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De TD  
transport



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Michael Scholar Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

10 January 1983

CF/ please make these  
changes to new copies

of the  
Reports.

MCS 14/1

Dear Michael,

COMMITTEE ON THE REVIEW OF RAILWAY FINANCES

All four members of the Serpell Committee have asked that two additional sentences should be added to the published version of the Majority Report to avoid misunderstanding of the network maps and the description of Option C1.

The first addition concerns paragraph 13.17. The Committee consider the following sentence should be added to the end of the paragraph:

"The second point we should emphasise is that the maps of the network options are illustrative and do not distinguish between passenger and freight services; it should not be assumed, therefore, that all routes carry both freight and passenger services or passenger services of all kinds."

As a consequential amendment, "first" should be added after "emphasise" in line 2 of the original text of paragraph 13.17.

The second addition is to paragraph 14.9, which describes Option C1. The Committee wish to add the following sentence to the end of the paragraph:

"But a substantial number of the more lightly used stations and passenger services no longer operate on lines that remain open for freight or other passenger services."

Mr Goldstein wishes, in line with that addition, to clarify the first sentence of paragraph 3.48 of his Report. He wishes the second line of the paragraph to be deleted and the following inserted:

"by some reductions in services and minor reductions in overall network. Thus in Option C1 ...".

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These changes are significant since they indicate that Option C1 is not as painless as implied in the first text and could apparently involve substantial station closures. My Secretary of State feels that colleagues' attention should be drawn to this point.

My Secretary of State will be writing to the Prime Minister shortly with his proposals for handling the publication and consideration of the Reports.

I am sending copies of this letter to the Private Secretaries of members of Cabinet and Sir Robert Armstrong and to Mr Sparrow.

*Yours sincerely,*

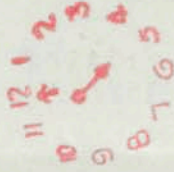
*Richard Bird*

R. BIRD  
Private Secretary

CONFIDENTIAL



11 JAN 1963



CONDOR



PRIME MINISTER

Serpell Report

I attach copies of the internal Department of Transport's summary (which I think a fair, if pedestrian effort), and of the two reports, together with Ferdie's note which you have already seen.

Having now ploughed through the report myself, I think there is much useful material in it:

- (i) it demonstrates - without quite putting it this way - that the railways' finances are now out of control: you can see from table 1.2 how the total grant has been steadily rising in real terms since 1977, so that it now is almost exactly equal to the passenger revenue of £927m. estimated for 1982. Costs per passenger mile have also gone up sharply from 9.4p in 1979 to 11.3p in 1982.
- (ii) the report is quite realistic about the unlikelihood of any rescue coming from revenue growth, and accordingly puts its effort into identifying cost reductions. The engineering chapter (Chapter 6) gives a detailed list of savings which could be achieved through greater efficiency and better management action.

/(iii)



- (iii) Chapter 2 on the passenger business gives a chilling account of the sky-high costs and the very small output of what is called the "Provincial Sector". This is the part of the railway which is neither inter-city nor commuter, and it is responsible for over half the route mileage of the passenger system. Its revenue, however, contributes less than a sixth of the total income of the passenger business. Its average load factor is only 20%. Leamington Spa/Stratford-on-Avon is given as a case in point: its revenue in 1981 was £76,000; its direct costs alone were £525,000.
- (iv) the marketing section (Chapter 5) reveals that BR is the fourteenth largest UK British advertiser. This section very properly identifies the danger of marketing the railway in order to retain or increase their market share regardless of the long term costs of doing so. It also raises the question as to how one justifies expenditure of £11m. on advertising in 1981 by an organisation in such a spectacular loss making position.
- (v) The report is littered with material highly damaging to the railways' management's self-regard - the documented decline in vehicle maintenance, the unrealism of the estimates for increases in the private sector work which BREL expect to secure, the defects in BRs' investment appraisal, and so on.



BR have reacted to this highly critical report by commencing a programme of selective leaks, designed to stir up the commuters and the other pro-rail lobbies. I am sure that their intention is to create the kind of furore which surrounded the CPRS report, in particular on the National Health Services, in the autumn. To counter this we went on the offensive yesterday, with Bernard telling the lobby that they were being used by the rail enthusiasts, and that they would see when the report was published (Monday the 17th is the date suggested) that this was so. I have no doubt that this campaign will hot up over the weeks to come, and that when Parliament gets back you will be asked to repudiate a list of horrors - that captive commuter fares must not be increased, that the network must be retained without any contraction at all, that there must be no changes to the discounts for pensioners etc, and so on. I also expect an attempt by the Department of Transport to defuse this by seeking your agreement to an early statement that no contraction in the basic shape of the railways is contemplated.

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As I see it, we must somehow find a way of riding out the storm without losing room for manoeuvre. The Railways Board, I believe, are furious about the report, which they had been hoping would justify their claims that the railway system had been starved of funds in recent years, and that even safety was beginning to be prejudiced. They will keep up, for a long period, a fierce effort to discredit the report and block off the decisions which we will need if we are ever to stem this growing, and open-ended, drain on public funds.

Agree, if there is time at the end of next week, to a short talk with Alan Walters, Ferdie Mount, and Bernard Ingham about how to handle this?

7 January 1983

Yes  
mf

MCS



CONFIDENTIAL *D*

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB  
01-212 4581



P E LAZARUS CB  
PERMANENT UNDER SECRETARY OF STATE

Michael Scholar Esq  
10 Downing Street  
LONDON  
SW1

5 January 1983

*Dear Michael,*

*MS*

THE SERPELL REPORT

As agreed when we spoke on the 'phone a few minutes ago, I now attach our summary of the main report, and of the minority report by Alfred Goldstein.

As I explained to you on the 'phone, this summary was prepared for the Secretary of State by one of the staff in the Railways Directorate who had been closely involved in the work of the Committee. I have not attempted to check it in detail. But it seems to me a very adequate document, which is a bit long for a genuine summary, but which does enable one to see, within a fairly short time, what the reports are about, and it seems to me that it also gives the right flavour.

As I told you on the 'phone, I would be wholly content for you to use this in any way you wish.

*Yours faithfully*  
*Peter Lazarus*

P E LAZARUS



MAIN POINTS OF THE SERPELL REPORT.

1. The Committee's overall assessment is given in the five-paragraph Conclusion. They see many opportunities to improve efficiency and reduce costs while keeping the railway at broadly its present size. If these opportunities are taken, the Committee believe that the level of Government grant in 1986 could be lower in real terms than the level Ministers considered appropriate between 1975 and 1980 (i.e. about £700m in 1982 prices), before taking account of transitional costs. In the longer term, they see further possibilities for improved efficiency and cost reduction. But increased levels of investment are likely to be needed in the late 1980s and early 1990s. Even so, the Committee doubt whether the amount of PSO grant required in 1992 need be higher in real terms than the present level (i.e. £837m). But if more substantial reductions in grant are to be achieved, cuts in the size of the network will be required.

2. The report is in two Parts. The first examines the finances of the railway, concentrating mainly on the scope for improved efficiency and cost reduction in the period up to 1986. Part II is mainly concerned with options for reducing the level of grant by cutting the size of the network.

3. While the Committee do not make recommendations as such, they either offer advice or set out options.

PART I - EXAMINATION OF THE FINANCES OF THE RAILWAY

4. Chapter 2 - The Passenger Business: for marketing and management purposes the passenger business is divided into three sectors - Inter-City, London and the South East, and Provincial Services. Although the Committee discuss each of these sectors in turn, they warn that all three are inter-dependent and that the definitions of which services belong to which sector contain anomalies.

5. Inter-City: the Committee see no prospect of this sector achieving the financial target set for it by the Secretary of State in 1981 (i.e. full commercial viability by 1985). They doubt if Inter-City's revenues can be increased above the levels forecast



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sector  
Com

in the Board's 1982 Rail Plan but they consider that the sector's costs could be reduced in 1986 by up to £39m as a result of the improvements in efficiency and the cost-reductions they consider attainable.

6. The Committee set out two options for Inter-City:

(a) "Progressive Closure" - the services with the worst operating results would be withdrawn on a progressive basis until what remained was capable of achieving long-term commercial viability; or

(b) Grant-aid the sector - the sector would be set the financial objective of covering a specified and increasing proportion of its costs, meeting the residue from grant.

The Committee comment on these possibilities in paragraph 2.13.

7. London and the South East (L&SE): the Committee did not investigate this sector in detail because their inquiry followed so closely after the MMC's 1980 inquiry.

8. The Committee doubt the justification for the size of the present season ticket discount, and say that it warrants thorough examination. They also say that this is the only sector of the passenger business where a substantial real increase in fares would be likely to improve financial results significantly. If the cost savings and efficiency improvements the Committee believe attainable were achieved, they could reduce the sector's costs by up to £55m in 1986. The Committee endorse the setting of objectives for this sector along the lines of those published in draft by the Secretary of State in 1981.

9. The Provincial Sector: the Committee draw attention to the fact that few services cover even their direct train and terminal costs from revenue, and several services involve costs many times as large as the revenue they generate. About half the total deficit of the passenger business in 1982 will arise from the losses of this sector. The Committee can see little scope for increasing the revenue of the provincial services (outside the areas of the Passenger Transport Executives). But if the improvements in efficiency and cost



reductions the Committee believe to be feasible were achieved, the sector's costs could be reduced by £75m in 1986. Even so, the Committee believe that the sector will continue to require financial support of about £450m a year for the foreseeable future. They take the view that many of the provincial services represent very poor value for public money. Local transport requirements could, in most cases, be met at far lower cost to the taxpayer by other means (e.g. subsidised bus services). The Committee say that the Secretary of State should set objectives for the Provincial Sector similar to those that they favour for L&SE.

10. Local Government Support for Rail Passenger Services: pressure on local government expenditure could induce the PTEs to switch support away from rail passenger services towards bus services. In that event, closure of the rail services might need to be considered. The Committee favour neither the payment of special grants to PTEs for replacement of Diesel Multiple Units nor charging PTEs only the avoidable costs of all the services they support.

11. The Committee considered the case for transferring to local authorities outside the metropolitan areas the responsibility for supporting local rail services. They concluded that the balance of advantage lies in the Government retaining primary responsibility for setting the objectives, and providing the financial support, for the passenger rail services outside the PTE areas.

12. Chapter 3 - The Freight Business: the Committee see a reasonable prospect of the freight business breaking even in the mid-1980s. They warn that the business will remain heavily dependent on the movement of traditional bulk commodities (coal and coke, iron and steel, petroleum, aggregates and building materials). There is some potential for growth in other traffics and for the development of Speedlink, but the Committee advise that the Board should plan such expansion very cautiously. The Committee consider that freight revenue may be significantly less in 1986 than that forecast in the Board's 1982 Rail Plan, but if economies are achieved, forecast costs could be reduced by up to £45m.



13. Chapter 4 - The Parcels Business: the Committee consider that the Board's forecasts of revenue in their 1982 Rail Plan may err on the side of optimism. If cost savings and efficiency improvements are achieved, savings in costs of about £6m in 1986 may be attainable.

14. Chapter 5 - Selling the Railway's Services: the Committee see no necessary conflict between a railway that is customer-oriented and one that is highly cost-conscious. They stress that the Board should not seek traffic unless it can be expected to maintain or enhance the net revenue of the railway in the long term. They suggest a detailed examination of all the Board's reduced fares schemes to establish their resource implications and their continued validity. A simplified fares structure, which the Board are planning, is urgently required. The Committee consider that a brand management marketing system should be developed for the passenger business. The effectiveness of advertising should be analysed, and there should be greater central control over advertising expenditure by the Regions. Investment in automatic ticket machines and automatic revenue collection should be given priority.

15. Chapter 6 - Engineering: The Committee based this chapter of their report on the advice of their consultants, R Travers Morgan and Partners. A separate report, summarising the results of the Engineering Study, has also been sent to the Secretary of State.

16. The Committee have concentrated in Chapter 6 on the opportunities for savings and efficiency improvements identified by their consultants. A summary of these opportunities is given in paragraph 6.59. In all cases, the savings have been judged against 1981 results on the assumption that the measures necessary for their achievement had been taken before that date. This assumption was necessary because the study had to use the latest available factual records, which were for 1981, but the Committee point out that savings actually achievable in later years would not necessarily be the same.



17. Overall, the Committee judge that the Board should be able to achieve net savings in engineering expenditure, relatively small in the next few years but growing throughout the next decade. Efficiency savings would result for example, from a leaner organisation, from better work programming and from eliminating surplus maintenance capacity. In addition, the Committee comment that:-

- their consultants had found little evidence that a significant backlog of track renewal was accumulating. The main lines were generally in good condition, and safety was not being prejudiced;
- in many areas, engineering costs could not be analysed because of inadequate data. Until better information is made available, BRB management will not have a full understanding of the way in which engineering costs are caused;
- the Board have tended too readily to incorporate increased sophistication and expensive optional features in designing vehicles. Over-specification of design has meant that outside suppliers have not been able to offer cheaper designs to meet a performance specification;
- in designing and specifying vehicles the Board need to adopt a more clearly articulated and comprehensive approach, paying more attention to lifetime fleet operation and maintenance costs.

18. Chapter 7 - BREL's Role in the Railway: BRB are the only major world railway, other than India, which manufactures its own stock. While the Committee found that BREL's coach and EMU prices were competitive with those of US and Japanese manufacturers, locomotives produced by BREL were more expensive.

19. Paragraph 7.27 summarises six problems identified by the Committee:

- a. the relationship between BREL and BRB is unsatisfactory causing difficulties in industrial relations and unclear division of responsibility;



b) BREL cannot adjust its capacity rapidly in the light of changed demand;

c) BREL is over-optimistic in its plans to increase work for private parties;

d) BRB's demand for locomotives is insufficient to allow economic production by BREL;

e) policy on overseas purchase is unclear. BREL purchase only 1% of their materials overseas, which seems inconsistent with BRB's policy to purchase abroad where this is commercially advantageous;

f) because BREL has a monopoly in supplying new rolling stock to BRB, its relative efficiency cannot be judged.

20. The Committee identify three options for structural change:-

i. severing the relationship between BREL and BRB, possibly by making BREL a separate nationalised industry;

ii. privatising BREL;

iii. reabsorbing BREL's facilities into BRB and giving up private party work.

21. Chapter 8 - Investment: The Committee consider that the Board are over-estimating the need to increase rail investment over the next decade. They could achieve their aims more efficiently, at less cost, and in some respects the planned increase in the volume of investment is unnecessarily large. In particular planned investment expenditure on track and signalling could be reduced.

22. The Committee say however that the Board should increase their investment on some items which would reduce costs and increase efficiency. Examples include level crossing



modernisation, automatic ticket-issuing machines, radio signalling and equipment needed to reduce the costs of infrastructure renewal and maintenance. The Committee also endorse the Board's view that investment in traction and rolling stock will need to be increased substantially in the late 1980s.

23. The Committee did not look in detail at the arguments for main line electrification, but say that the case will need review in the light of their findings.

24. Other key points in Chapter 8 include:-

- substantially increasing the level of investment would not be justified by improvements in operating results;
- the Board should give more thought to the timing of benefits expected from investment schemes, and should give highest priority to schemes where either the facilities or equipment can no longer be used in their present state or where substantial efficiency improvements are obtained and rapid pay back of invested capital is achieved;
- thorough review of the Board's internal procedures for project appraisal is required, and a substantial programme of backchecks should be carried out. The Department should gradually withdraw from project appraisal;
- there is little scope for introducing private capital into rail investment because of the Treasury's rules.

25. Chapter 9 - Management, Manpower and Information: the Committee commend the Board's introduction of sector management, but consider that sector directors should be give further authority.

26. On productivity the Committee stress that the Board should do their utmost to achieve the initiatives they are developing



although this will place strains on industrial relations. There is ample scope for further savings, and the financial benefits will be substantial. Some of these benefits should be passed to the customer and the taxpayer as well as to the staff. The Secretary of State should help the Board by meeting the transitional costs of redundancies.

27. The Committee found serious deficiencies in the Board's information systems, especially as regards engineering and manpower. These require rapid improvement. In particular the Board's use of computers should be developed urgently.

28. The Committee endorse the conventions under which the Board allocate costs to businesses, but consider that the rules for applying them in practice should be reviewed. They point out that the track costs presently allocated to the passenger businesses are significantly over-estimated.

29. Chapter 10 - Relations between the Department and the Board: the Committee consider that the relationship between the Department and the Board requires change and improvement. The relationship has been impaired because:-

- the Board's Plans have been over-optimistic; their performance unsatisfactory and their data collection inadequate;
- there have been some inconsistencies in Transport Ministers' policies and lack of clarity in their specification.

30. Paragraphs 10.12 - 10.16 suggest action by the Board and the Department to improve their relationship. The Committee do not consider the changes they suggest will require legislation, but suggest that the Board should produce their accounts and plans on the basis of the financial rather than the calendar year.

31. Chapter 11 - Grant Mechanisms: the Committee say that support to the railway should be paid in respect of the part of the railway which is to be supported as a whole rather than separately to different business sectors or services. The Board should be allowed to "vire" grant between business sectors. A number of revisions to the grant procedures are suggested (paragraph 11.8), including regular reviews of the Public Service Obligation and more published information about the Government's strategy for the railway and the assumptions on which annual grant settlements are based.

32. The Committee consider that weighted passenger miles maximisation is insufficient as a possible objective for the railways because it does not



provide the right guidance for Ministers. They refer to an alternative of grant-aiding the traveller direct, rather than paying support to the railway.

33. Chapter 12 - Planning and the Railway's Financial Prospects: the Committee are critical of the methodology used to produce the 1982 Rail Plan. They suggest that in future the Board should produce one Plan, based on the most likely course of events, built up from material produced by sector, regional and functional management. Resource provision should be planned on conservative assumptions about demand, and contingency plans, with appropriate triggers, should be prepared.

34. The Committee make their own assessment of the railway's financial prospects in 1986. They suggest that it is more likely that revenue in 1986 will be lower than the Board's forecasts than that it will be more. But scope is identified for reductions in the Board's planned costs of some £220m. Such savings would be offset, to some extent, by transitional costs, and any implications for revenue or for additional investment. Achieving the savings would require resolute commitment by the Board, clarity of Ministerial policy and Government assistance to meet transitional costs.

35. About £170m of the cost reductions and savings identified would benefit the passenger business. The Committee conclude therefore that the PSO grant requirement for 1986 could be kept below the levels of grant in real terms that Ministers considered appropriate between 1975-80. If the railway achieves cost reductions on the scale outlined, the external finance requirement in 1985/86 might be about £800m.

36. While there are further opportunities for efficiency improvements and cost reduction by 1992, there are also likely to be increased investment requirements. Nevertheless the Committee consider that the PSO grant requirement in 1992 is likely to be no greater in real terms than the present level.

#### KEY POINTS OF PART II

37. Part II of the Report considers options for alternatives to the



current policies for the railway. Its Preface considers the purposes of travel, and the possible grounds for subsidising it. The Committee say that the Government should clearly state the grounds for future rail subsidy, so that everyone should know what benefit the subsidy is intended to achieve.

38. Chapter 13 - Development of the Options: The Committee's consultants, R Travers Morgan & Partners, developed the network options by producing a set of mathematical models, which could be used to estimate the consequences in 1992 of particular sets of critical assumptions. 1992 was selected because it was halfway through the period of twenty years to which the Committee's Terms of Reference referred. This application to the railway of transport modelling techniques represented a development in rail system planning in this country.

39. Two "Reference Cases" (R1 and R2) were evaluated. These provided:

i) a "snapshot" of what the railway would be like in 1992 assuming no material change from the present in network and services

ii) a base case against which Options involving changes in network and services could be evaluated.

The second Reference Case assumed a higher level of efficiency than the first, but still within the framework of the existing railway.

40. Six different options were evaluated:

A - a commercially viable railway, which might be sustained in the long run with no financial support from public funds.

B - the same railway as A, to which were added those loss-making services where the resource cost of withdrawing the service would be greater than that of retaining it.

C1 - a network omitting services with the most adverse operating ratios, while leaving the network largely unchanged.

C2 - a network omitting further services with adverse operating ratios, limiting the annual deficit to about £700m.



- C3 - a network omitting yet further services with adverse operating ratios, limiting the annual deficit to about £500m.
- D - a network that maintained existing connections with all communities of more than 25,000 inhabitants.

In addition the Committee tested a High Investment Option (H).

41. The Committee stress that these options are no more than illustrations of the kinds of alternative networks which could be provided.

42. Chapter 14 - Results of the Network Options: The results of the options evaluated are summarised in Chapter 14. Key points include:

Option A - this commercially viable railway included only about 16% of the present rail network, but would carry about 44% of the passenger miles produced by the second Reference Case (R2).

Option B - the majority of commuter services were included in this Option, in addition to those services in Option A. This produced a passenger deficit of £72m, for about 55% of the passenger miles carried in R2.

Option C1- If the worst performing services were deleted, the passenger deficit could be reduced by £180m from R1, while retaining 99% of the network.

Option C2 - Further deletion of poorly performing passenger services resulted in a passenger deficit of £690m, while 17% of the network would be closed.

Option C3 - Reducing the passenger deficit to £564m would result in 39% of the network being closed.

Option D - All communities with a population of 25,000 or more could be retained on the network at a passenger deficit of £707m. 17% of the network would be closed, but 92% of the passenger miles carried in the first Reference Case (R1) would be retained.



Option H - Under the Committee's assumptions £4000m would be spent on investment over the next decade as compared to £2,400m under R2. This would improve annual operating results over R2 by £6m (passenger deficit) and £19m (total deficit).

43. Chapter 15 - Passenger Railway Closure Procedures: the Committee consider that the present closure procedures should be retained, but recommend the introduction of time limits for the main stages.

44. Chapter 16: Bus Substitution: the Committee say that whether or not the Secretary of State decides to move towards one of the network options described, there is a case for substituting bus for train services on lightly used rail lines. The case for such bus services would have to be examined line by line, and arrangements made to ensure that substitute services were much more acceptable than those introduced during the "Beeching" closures in the 1960s. For example, there should be explicit guarantees about the future of replacement services, and specific provision made for their financing.

45. The Board should in the Committee's view be made responsible for the provision of replacement services, but should not operate the services themselves. Contracts should be put out for tender, with the operator requiring the least annual subsidy receiving the contract. Services should be financed by grant from central Government, channelled through the Board.

#### Conclusion

46. This is summarised in para 1 above. The Committee finish by expressing the hope that their work will provide the Secretary of State with the foundation on which he can decide future policy for the railway, and the Board with the material on which they can take early action to improve their finances.



## COMMITTEE ON THE REVIEW OF RAILWAY FINANCES

Minority Report - Summary

1. In the Minority Report, Mr Goldstein sets out the main areas where he takes a different view from his colleagues. He states that there is much in his colleagues' report which he supports. His dissent relates to his colleagues' approach to the discharge of their task; the thrust and balance of their report; their views on 1966; the importance they attach to the 1975 level of PSO; and some aspects of forward planning for the railway.
2. Chapter 1 - Introduction: Mr Goldstein summarises the main reasons for his dissent, and states his regret that he has felt compelled to part from his colleagues. He urges the importance of formulating views on the direction for the railway in the longer term.
3. Chapter 2 - Method Of Approach: Mr Goldstein sets out a number of areas where he dissents from his colleagues' approach:
  - a. Colleagues considered that examination of and reflection upon the present position should precede the formulation of long-term options. This allowed little time for the assessment of options, which should have been developed in parallel with the examination of finances;
  - b. The Committee decided to seek a base position against which to evaluate possible changes of policy or practice in the out-turn projected by BRB for the immediate future. BRB projections however were not satisfactory. A more useful approach would have been to forecast results for a date sufficiently in the future to be consistent with the terms of the study. Emphasis on the next few years is not consistent with the Committee's remit. The 1992 Reference Cases should therefore be given more weight than the appraisal of the 1982 Rail Plan;
  - c. BRB's projections of revenue have been subject to less scrutiny than desirable;



d. BRB's Rail Plan projections were not soundly based. Nevertheless the Committee used them to underpin their conclusions about 1986;

e. Colleagues concluded that the level of financial support by 1986 need not exceed the 1975 level in real terms. Mr Goldstein considers there is little or no likelihood of so favourable a result.

4. Chapter 3 - Financial Support For The Railway: Mr Goldstein indicates his general agreement with his colleagues' views on 'Travel and Subsidy' in the Preface to Part II of their Report. But in addition to the criteria for subsidy listed in Chapter 11, he considers that subsidy should not be regressive. Schemes which provide grant aid direct to the traveller, or which relate grant to the amount of travel undertaken, should be studied more fully.

5. The Committee's Report implied that it was important whether or not the grant level in any particular year fell within the 1975 value in real terms. Mr Goldstein considers there is no intrinsic merit in the 1975 value, and that the real issue is the size and quality of railway the nation should support.

6. Mr Goldstein does not consider that his colleagues' conclusion that BRB should be able to keep the grant level within the 1975 value in 1986 is soundly based. The conclusion depends on advice from the Board about further efficiency initiatives, but the effects of these on the Plan 'in the round' have not been considered. Nor is the revenue estimate adopted the most likely to be achieved.

7. In reaching his own conclusions about future results, Mr Goldstein has related the past pattern of performance to future projections. He concludes that in the light of past results, achievement of the 1975 level of support by 1986 cannot be regarded as a practical proposition. He considers that it will be many years before the annual value of PSO and SRA can be expected to be stabilised, though by 1992 this should be achieved at between £800-900m. However, all possibilities for improving the financial position should be pursued.



8. Mr Goldstein estimates that net improvements of as much as £100m a year might be realisable in the longer term as a result of real fare increases in London and the South-East. But before making radical pricing changes a fundamental examination of the longer term effects should be carried out.

9. Mr Goldstein considers that his colleagues' comment on the network options was inadequate and makes some further observations:

a. Both Reference Cases include a number of efficiency measures;

b. Substantial savings could be made by quite small reductions of services and network, as illustrated by Option C1. This improvement would be achievable earlier than more substantial changes, and this Option could be made the first step to more radical change. Option C1 shows similar savings to the second Reference Case;

c. In Option C2 less than 10 per cent of all passenger miles are lost compared with the Reference Cases. Routes closed would be mainly in the North of Scotland, Wales, East Anglia and the South West;

d. In Option D, reconnecting communities of greater than 25,000 population need not require maintenance of the existing service pattern. If only a minimal service were provided, the additional annual costs against Option C2 would be only some £3.5m against £17m;

e. If reductions beyond Option C3 were required, it becomes difficult to define a network which maintains services to the major population centres and a recognisable route structure other than a few principal corridors;

f. Further work would be required to establish whether Option A could in fact be a commercial proposition. Just over half the surviving passenger miles are from the L&SE sector, the balance being Inter City.



g. With a more complete L&SE network under Option B, the passenger deficit rises by only £40m a year for a gain of nearly 2 billion passenger miles;

h. As the size of the network reduces, the profitability of freight traffic was found to increase.

i. The identification of the optimum investment level for any particular option would require detailed study.

10. Mr Goldstein refers to the value of the kind of analysis of options attempted, and considers that the model should be developed further. The Government must first choose the direction for the future railway, so that decisions for the shorter term can be made consistently.

11. Chapter 4 - BR Planning And Management: Mr Goldstein refers to the criticisms his colleagues have made of the 1982 Rail Plan, and concludes that the planning process within BRB is in a state of severe disarray. Different emphasis was placed by individual senior Board members on the further initiatives being developed, and no precise meaning could be ascribed to the 'support' of management for the Plan.

12. Although Mr Goldstein agrees with some of his colleagues' conclusions he does not agree with their proposal that in future a single Plan should be prepared. Rather, he considers that four forecasts should be made, on different assumptions about high and low management achievement and adverse and favourable external factors. The Board should then use what they judge to be the most likely forecast as the basis of the Rail Plan for financial purposes. Management targets should be set using the highest level of efficiency attainable, and contingency plans should also be prepared, particularly for dealing with revenue shortfalls.

13. Formal management support should be obtained only for the first two years of the Plan, and should relate principally to high achievement targets for matters controlled or largely influenced by management.



14. Mr Goldstein considers that thorough, rather than gradual, change to the Board's approach is required. He believes some 'fire brigade' action is necessary.

15. On investment, Mr Goldstein agrees with most of what his colleagues say in Chapter 8. But he considers that a task force should be set up with some staff from outside BR to seek out investment projects of the type commended.

16. Mr Goldstein places greater weight than his colleagues on the need for a clearer command structure within BRB. The present position is risk prone, and should be seen as the shortest possible interim arrangement. If clear command responsibility by sector directors is not achieved, the Board should revert to a geographic structure.

17. Mr Goldstein emphasises the urgent need for better information systems within BRB.

18. Chapter 5 - The Department Of Transport's Overview: Mr Goldstein agrees with most of his colleagues' comments on relations between Board and Department. But he does not believe objectives set by the Government should have three defined components - quality of service, level of fares and level of support. Only two of these three components should be specified, since the three together can be achieved only at one particular level of efficiency. The Department has adopted the position that grant should not be increased because there is scope for cost savings, but have not shown that enough savings are available, or that they can be achieved in time.

19. Rather than relying mainly on the grant mechanism to ensure increased efficiency, the Department should concentrate on its role in appointing Board members. BRB management's present 'custodial' approach is not the most conducive to greater efficiency. The Department should choose key officers on the Board and concentrate on selecting the right management team. If it is not satisfied with the commercial judgment of railway management, the remedy is to appoint a different Board. To do otherwise denies the Board's responsibilities.



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20. Mr Goldstein expresses surprise that no detailed work on alternative treatments of the Inter-City sector has been carried out. There is confusion between Inter-City as a marketing concept and Inter-City as a no-subsidy entity. If there is to be a part of the railway defined as profitable, the characteristics of that part should be formally defined. A policy of closing unprofitable Inter-City services <sup>while retaining less busy services</sup> would be unsustainable: if no appropriate definition can be found then it should be recognised that the sector requires grant.

21. Mr Goldstein suggests that the Department should promote greater public debate on railway matters on an informed basis.

22. Chapter 6 - Conclusions: Mr Goldstein concludes that Government should

- a. set out more clearly the task required of the railway.
- b. exercise more fully its discretion to appoint the Board.
- c. expose railway decisions to more informed debate.

Keen pursuit of efficiency could result in an annual passenger deficit of less than £800-900m in the long-term. In the short-term there is little or no likelihood of containing the PSO requirement within the 1975 level in real terms.

23. Real price increases in London and the South-East would improve results but need further study. If real impact on public support is desired, the Government should alter the level of services and the size of the railway network. With a clear brief from Government and a sharper command structure the dedication of railway staff can be put to better service of the community.

24. Appendix: Mr Goldstein appends to his Report diagrams illustrating some of the spatial characteristics of the present railway, adding a brief commentary.



5 JAN 1988











DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

M Scholar Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1

31 December, 1982

Dear Michael,

As you will see from the attached letter, copies of the majority and minority reports of the Serpell Committee have been sent to all members of the Cabinet on a secret and personal basis. As agreed with Tim Flesher, I am enclosing 2 extra copies of these reports for you to pass on to Professor Alan Walters and Mr Ferdinand Mount.

Yours sincerely,

Richard Bird

R BIRD  
Private Secretary

ENCS.





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

DTP 1207 Copy No 18 of 25

SECRET AND PERSONAL

J F Halliday Esq  
Private Secretary to the Secretary  
of State for the Home Department  
Home Office  
50 Queen Anne's Gate  
LONDON  
SW149AT

31 December 1982

*Dear John,*

I enclose for the personal information of your Secretary of State a copy of the majority and minority reports of the Committee on the Review of Rail Finances, chaired by Sir David Serpell, and of my Secretary of State's Parliamentary Written Answer on 22 December, announcing that he had received the reports. The reports will be published very early in the New Year. Meanwhile it is very important that nothing is said about their contents.

I am copying this to the Private Secretaries to the Prime Minister, and other Members of the Cabinet and Sir Robert Armstrong, and to Mr John Sparrow.

*Yours sincerely,*

*Richard Bird*

R BIRD  
Private Secretary



HOUSE OF COMMONS

Mr John Townend (Con - Bridlington):

|7| To ask the Secretary of State for Transport, if he has now received the Report of Sir David Serpell's Committee on the Review of Rail Finances; and if he will make a statement.

MR DAVID HOWELL

I have now received the Committee's advice. There is a majority report, and in addition a minority report by Mr Goldstein. In accordance with the terms of reference, the Committee investigated fully the improvements in efficiency which would secure better financial results, and have illustrated a wide range of options for alternative longer-term policies, but have not made recommendations. The Chairman of the Railways Board and I will now be studying the reports urgently.





CEJ J.V.  
 Mr. Schuler (or.)  
 Wm 31/12

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Howell MP  
 Secretary of State  
 Department of Transport  
 2 Marsham Street  
 London SW1P 3EB

30 December 1982

2 Davis,

SERPELL REVIEW OF BRITISH RAIL FINANCES

I very much agree with the Prime Minister's views on the publication of the Serpell Report on British Rail. To publish the conclusions in advance of the full Report would run the very risks we wish to avoid. Taken out of context they would stimulate premature speculation about the future size and shape of the railways that would be unhelpful at this stage. The best course would be to speed up publication of the full Report.

In the meantime we must get on urgently with our consideration of the central policy issues. Our officials will need to work closely together on the preparation of the necessary background papers. They need spend little time on preparing a detailed critique of the Report's main conclusions but should concentrate on the wider issues they raise for example on network size and commuter fares. They will also need to cover some of the more radical options that have been floated elsewhere including for example regionalisation and privatisation. I think we should aim at a Ministerial discussion as soon as possible in January to consider our response to the Report on its publication. I am sending a copy of this letter to the Prime Minister and to Sir Robert Armstrong.

LEON BRITTAN



Transp: BR Pol A 6

BRITISH  
POST

31 DEC 1982



PRIME MINISTER

2  
PN

SERPELL Report

This is just to let you know that Mr. Howell has abandoned his plans to issue a summary of the conclusions of the SERPELL Report, and will instead speed up publication of the Report as a whole. The Report has now been circulated to the British Railways Board (at the insistence of Sir Peter Parker) and Mr. Howell would now like to circulate the Report on a strictly confidential basis to Cabinet.

Agreed

*[Handwritten signature]*

*[Handwritten initials]*

29 December, 1982.



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Prime Minister (2)

WBI  
TRANSPORT.

!  
MS 24/12

24 December 1982

POLICY UNIT

PRIME MINISTER

SERPELL REVIEW

The report has not turned out quite as badly for us as it might.

The majority are critical of BR on almost every area. Alfred Goldstein's minority report in effect rebukes his colleagues for their failure to follow through the logic of their criticisms.

Contrary to what David Howell says, it is helpful to have a minority report which says the performance of BR is even worse than the majority says it is.

It is vital that we publish the whole report at the same time. We must dispel the impression given in today's newspapers that the majority report is "mild" and "wishy-washy".

Its conclusions are mild and wishy-washy. Its criticisms are not. I have listed some of the most striking criticisms in the attached note to give you some idea of the overall picture.

BRB and the BRB Lobby in the Department of Transport are clinging on to the conclusions like drowning men. One is tempted to say that honourable men who had been criticised so comprehensively - and by a former colleague and sympathiser, like David Serpell - might, in a better world, feel like resigning en bloc.

The essential point which Alfred Goldstein makes in his minority report is that the terms of reference required the team to report on 'options for alternative policies ... over the next 20 years'. The majority were extremely reluctant to address this task. They spent most of the time examining the railways on the basis of the BR plan - although they quickly realised that this plan was totally unsound. Therefore, their conclusion that BR might, just conceivably, be able to carry on with the existing level of subsidy if certain improvements were made is equally unsound.

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The subsidy is now about £1 billion a year and it will go on rising unless BR takes a radical new direction under new leadership.

The Next Steps

David Howell will be bringing forward a paper in the New Year with his views. But I think it is worth thinking ahead now as to how we might proceed.

1. We have to take a view on the reports once they are published. We cannot just ignore the slashing criticisms of BRB. We cannot fudge or delay until after the election.
2. We have no time for primary legislation, and so large-scale reform of the BRB structure is ruled out before the election. We must work with the structure as it is.
3. This points to changing the Board: its Chairman and enough of its members to give the new Chairman a critical mass of support. Alfred Goldstein makes the point that if we really wish to change the direction of British Rail, we must nominate fresh executive as well as non-executive directors.
4. We should then have to give the new Board fresh objectives to replace the 1974 Direction which instructed the Board to "provide a public service" which is generally comparable with that provided at present" - and which is costing such huge sums of public money. The more modest ambition which the new Direction could encompass would be something like: "to run an efficient railway service which would provide full value for money to the public and to endeavour to halve the level of Government support over the next five years".
5. In answering the question "which lines are you going to close?" the Minister could make the following points:
  - (i) it would be for British Rail to decide what services to provide. The more efficiently they run existing services, the less need to close lines. We would certainly not endorse any particular network option - not least since these are based on assumptions of only minimal increases in efficiency.



We should also point out that not even Sir Peter Parker envisages the existing network as continuing indefinitely without alteration;

(ii) the existing closure procedures would continue in force but with the addition of

(iii) a Government guarantee that alternative bus services would be provided of comparable standard, subsidised if need be, as outlined in Chapter 16. Every effort would be made to ensure that, unlike in the Beeching era, an alternative use was found for any line which British Rail no longer wished to operate. - either by selling it to a private operator or by converting it to road or by preserving it as a bridle way.

6. I do not under-estimate the political difficulties of adopting even this approach. It would of course have been much easier if we had not had this report facing us at this stage in the Parliament. But if we wish to face reality and to maintain our reputation - both with the voters and with the markets - as a Government which does face reality, then we cannot shirk this challenge.

FERDINAND MOUNT

fm



THE MAJORITY REPORT'S CRITICISMS OF BR

Inter-City - Excessive optimism of BR's forecasts (2.11).

London and South-East Services - Uneconomic pricing of season tickets (2.18).

Provincial Services - Likelihood of continuing subsidy of £450 million a year on existing size of level and service. Lack of specific objectives devised by Board. Very poor value for public money (2.31-2).

Saver Fares - Unrealistically high discounts and lack of co-ordination between Sector Directors and Regional Managers - a recurring theme, makes nonsense of the majority's praise for the sector system (5.4-5).

Track Renewal - Scope for vast savings of up to 40% a year (6.15).

Track Maintenance - Scope for savings of up to 20% a year (6.17).

Mechanical and Electrical Engineering - Strong criticisms of the "engineer-led" attitude of BR - too many designs for locomotives and rolling stock, obsession with Advanced Passenger Train, muddled efforts to replace the DMU fleet (6.39-41).

BREL's Role - Inertia and inefficiency of a monopoly supplier. "The last occasion on which tenders were in fact sought for the supply of the Board's rolling stock needs was in 1974 ... BRB is the only major railway in the world, other than India, which manufactures its own stock." (7.4-6) BREL now earns less than 10% of its revenue from customers outside British Rail. (7.15). Options for change are listed at 7.30.

Investment - Serpell concludes that the Board has over-estimated the need to increase rail investment (8.9-10).

Electrification - BRB won't be able to meet the Government's criterion for main line electrification (8.14).



High Investment Railway - In 8.15-21, BRB's case is destroyed. Over-optimism, lack of clear objectives and obsession with fancy projects like the APT are the main criticisms.

Engineering Data - Records of work done, time spent and unit costs appear to be pitifully thin (9.17).

Ministerial Interference and Consistency - The conflict between political pressure and economic aims is summarised in 10.9.

BRB Planning - This is torn to shreds in 12.2-6. "Railspeak" can scarcely be described as planning at all.

Longer-term Options - These occupy only a fraction of the report, although it was on options alone that the team was asked to report. The options were in fact reluctantly included only after strong representation by Alfred Goldstein. They make it absolutely clear that "if substantial reductions in the cost of the railway to the tax-payer are required, major changes in the size of the railway will be necessary". The most useful diagram is 14.1 on page 156 which shows how the reduction of route mileage sharply reduces the Government subsidy needed.

Bus Substitution - Well described in Chapter 16 which points out the mistakes made during the Beeching closures (16.4).

The Minority Report - This closely argued piece of work draws the conclusions that an unbiased reader would naturally draw from the criticisms made in the majority report. I would commend it as a general guide for the new management team at British Rail.





cc HMT  
CO

cc F. Mount

HL

10 DOWNING STREET

*From the Private Secretary*

24 December 1982

Serpell Report

The Prime Minister has been thinking further about the publication of the Serpell Report on British Rail.

She thinks that it would be a mistake to publish only the conclusions of the Report in advance of publication of the full Report. Mrs. Thatcher considers that publication of the conclusions on their own might well give a misleading impression of the Report as a whole, and she would much prefer that your Secretary of State speeds up the publication of the full Report, and meanwhile that nothing further is said by Departments about the content of the Report.

I am sending a copy of this letter to Margaret O'Mara (H.M. Treasury) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

Richard Bird, Esq.,  
Department of Transport.

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VITAL

FM



PA

10 DOWNING STREET

Michael

Ferdie & I have now finished reading Soppell, & will let you have a note for the PR to read with the report over Christmas. But we are now totally convinced we must stop David Howell from putting out his press statement with the conclusions next week. The conclusions are not a summary, just concluding remarks, & would give the impression that the report is nothing like as critical of BR as it really is — and would make it easy for BR to argue that all is well.

Furthermore we think this procedure has been sold to David Howell by the BR/Soppell/Palmer railway lobby, & is consistent with all the leaks implying that only Goldstein's minority report is critical.

J. 24/12



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ce. J.V.

Prime Minister (2)

MUS 22/12

PRIME MINISTER

SERPELL REVIEW OF BRITISH RAIL FINANCES

I have now received the advice of the Committee under Sir David Serpell. There is a majority report, and in addition a minority report by Mr Goldstein. I enclose a copy of each. — in attached folder

The majority report will be very unwelcome to Sir Peter Parker and the Railways Board. It finds no evidence of a backlog of maintenance, no case at present for an increase in investment — though more will be needed in the second half of the decade — no case for a high investment strategy, substantial room for economies over the next 5 years, significant deficiencies in the engineering functions and in the Board's planning system so far. It strongly commends the direction of the management changes which Sir Peter Parker, and the Chief Executive Bob Reid have introduced this year, and does not discuss how to overcome the institutional and industrial obstructions to change. For the longer term, the Committee set out a wide range of options on extent and level of rail services.

Mr Goldstein's minority report supports the findings on engineering but dissents from the majority on a number of specific points leading him to conclude that the early savings are unlikely. He argues that the fundamental issue is to decide long-term policy on network size and he would have preferred a deeper examination of alternatives.

Although it is not helpful to have a dissenting report, the Committee's advice does give us a substantial base on which to establish robust and effective policies towards the railway, but

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there will obviously be very large problems in carrying them through. As soon as I have studied these reports further I will set out for you my views on the central policy issues, and how we need to deal with them.

But, immediately, there will be intense speculation and risk of leaks. So far the temperature has been kept low, and the reports which were circulating over the minority view have not surfaced. We must now act promptly to limit as far as possible the risk of strong speculation of "Beeching cuts" and particularly of any leak out of context of some of the options discussed.

I propose to proceed as follows.

First, I will at once inform Parliament by a written answer that I have received the Committee's advice, that there is a majority and a minority report, that in accordance with their terms of reference the Committee have set out a wide range of options but make no recommendations, and that we are now studying the reports.

Second I propose to limit very tightly over the next few days the number of copies in circulation. I cannot defer giving Sir Peter Parker the opportunity to read the reports but I am giving him copies only on the strict understanding that at this stage he will consult only one or two colleagues. I am sending a copy of this minute and a copy of the majority report to the Chancellor of the Exchequer (I shall send him a copy of Mr Goldstein's report as soon as further copies are available), but I am not sending copies to other colleagues, nor will copies go to officials in other Departments. In my own Department the circulation is very tightly limited.

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Next week I propose to put out a press statement saying that the reports will be published as soon as possible in January, subject only to any deletions for commercial confidentiality, and that the Government will make a full statement when they have considered the report and consulted the Railways Board. With this statement next week I would publish the text of the conclusions section of the majority report on pages 164 and 165, and Mr Goldstein's conclusions on pages 46-48 of his report. That is I think as much as we can do to limit the damage from selective leaks, although there will continue to be speculation. I will then aim at publication as soon as possible.

D4.  
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DAVID HOWELL

22 December 1982

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NBPM

Ms 17/12

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP  
Secretary of State  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

15 December 1982

*David*  
BRITISH RAIL: 1983 GRANT CEILING

You wrote to me on 10 December seeking comments on the terms of the announcement of British Rail's Grant Ceiling for 1983.

I am generally content with the proposed draft statement. I should like to suggest a new first sentence making it clearer that grant to British Rail forms part of the already agreed EFL for 1983-84, as follows.

"Grant to British Rail forms part of their EFL which was announced on 8 November. Within that I have informed..."

As your statement makes clear, the amount of grant actually payable will depend on a detailed consideration of the Board's claim. I hope this will allow us to improve the final position further.

I am copying this letter to the Prime Minister, the Leader of the House and the Chief Whip.

*Leon*  
LEON BRITTAN



DEC 1982

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RECEIVED





Prime Minister (2)  
ms 10/12 Transport

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Leon Brittan QC, MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
SW1P 3AG

10 December 1982

Dear Leon

I understand that you have agreed that the cash limit for our payments of grant to British Rail for 1983 shall be £860m, and that you would like an opportunity to comment on the terms of the announcement of this decision.

I attach a draft statement to be given in a written answer within a couple of days. Perhaps you would let me know if you are content.

I am copying this letter and the draft statement to the Prime Minister, the Leader of the House and the Chief Whip for information.

Yours  
David

DAVID HOWELL



DRAFT PQ ANNOUNCING 1983 PSO GRANT LIMIT

Q. To ask the Secretary of State for Transport, if he has decided what limit he will be placing on Central Government PSO grant payments to the British Rail Board in 1983, and if he will make a statement.

A. I have informed the British Railways Board that the PSO grant ceiling for 1983 will be set at £860m. After taking into account expected movements in prices, this is broadly equivalent to the grant ceiling of £804 million which I originally set for 1982. On 8 November I announced that the 1982 ceiling would be increased to £837m to provide for additional redundancy costs. The ceiling I have set for 1983 will therefore require improvement in the Board's financial performance.

The amount of grant payable will depend on detailed consideration of the claim. I intend, however, to continue the arrangement I introduced in 1982 of ring fencing the budgeted expenditure on renewal and replacement of infrastructure, to discourage cut-backs in this work if the Board run into difficulties on other parts of their budget. I similarly intend to ring fence the budgeted provision for redundancy payments in 1983.



10 DEC 1982

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RM  
Bic J. Verkerke  
Bingham

Transport

10 DOWNING STREET

*From the Private Secretary*

9 December, 1982

THE SERPELL REVIEW OF RAILWAY FINANCES

The Prime Minister was grateful for your Secretary of State's minute of 7 December about the Serpell Committee's Review.

The Prime Minister agrees with your Secretary of State's proposals for handling the report. She thinks that it would be useful if a few days breathing space could be secured after your Secretary of State has received the report and before this fact is publicised. Thereafter she hopes that publication could take place as quickly as possible. Finally, the Prime Minister hopes that Sir David Serpell and his Committee will submit the report in the very near future, since the longer it is delayed, the more press speculation there will be.

I am copying this letter to John Kerr (HM Treasury), David Heyhoe (Lord President's Office) and Richard Hatfield (Cabinet Office).

W.D. SCHOLAR

R. Bird, Esq.,  
Department of Transport

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**CONFIDENTIAL**

Prime Minister (2)  
C/SJ

I have asked Mr Howell's

Prime Minister

**THE SERPELL REVIEW OF RAILWAY FINANCES**

I understand from Sir David Serpell that his Committee will do their utmost to submit their report to me by the end of this week or very early next week. Some press speculation has already started, and we shall need to move fast so as to keep the initiative in our hands.

Sir David has been very careful not to tell me what will be in his Committee's report. But I am in no doubt that, in accordance with their terms of reference, they will present us with radical choices for the future size and shape of the railway, and its finances.

In my statement on 5 May, I said that the setting up of this inquiry followed a proposal by Sir Peter Parker and the Railways Board last year, and that I intended to consult the Board upon the conclusions before reaching decisions concerning the future of the railway. I also made it clear that the Committee's conclusions would be available for publication.

Since the report must go to the Board it is only realistic to assume a strong probability of leaks. There is anyway bound to be a good deal of speculation, and the lobbies will use this to try to press us for assurances which would reduce our room for manoeuvre.

As soon as I have the report I will let you have a summary. My present view is that it would probably be best to announce very quickly that the whole report will be published - subject only to safeguarding commercial confidentiality. I would also want to make it clear that publication was bound to take some weeks and that the Government would not be taking any decisions until after the report had been published. This should both

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reduce the risk of pressure for immediate decisions, and should lessen, though it cannot eliminate, the risk that leaks or speculation will give the public, and the railway industry itself, a distorted idea of the nature of the report.

I will follow this up with a paper to colleagues on the policy decisions we need to take, with the aim of reaching conclusions as soon as possible in the New Year.

I am sending copies of this minute to the Chancellor of the Exchequer, the Leader of the House and to Sir Robert Armstrong.

*DH*

DAVID HOWELL  
7 December 1982

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10 DOWNING STREET

2

Prime Minister

The Serpell Report is not  
now expected until Dec 14<sup>th</sup> -  
Tuesday. I have asked Mr.  
Howell's office to let you have  
early warning of how he proposes  
to handle it - and of what it  
says.

MCS 3/12



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Mr 18/11 → to see them

① Mr Vercher

② Cf pl by 23/11/82

Serpell  
Proposed  
10/12/82 at  
Lambert.

MR SCHOLAR

cc Mr Mount  
Mr Ingham

I have already spoken to Mr Bird,  
this afternoon. I asked him to let me know  
what D T's considered proposals for handling  
were and indicated that (I believe) the PM  
would not want leisurely consideration of Serpell  
given the risk of leaks - but would want  
consideration expeditions taken at the

THE SERPELL INQUIRY

I understand that the Report of the Serpell Inquiry into a *trout*.  
the finances of British Rail is now expected towards the  
end of this year, having slipped by a week or two. The inquiry *MUS 17/11*  
team seem to be keeping their conclusions quite close to their  
chests, and although rumours abound, there is no hard information  
about what they will come up with.

But it was always in the nature of their task that the  
recommendations would have to be controversial. Anyone looking  
at British Rail is bound to conclude that some lines must be  
closed; that some further decline in the freight business  
must take place; that prices of some commuter services must rise;  
and that substantial extra investment is required if the existing  
capital stock is not to deteriorate further.

I am worried about how all this is going to come out. As  
soon as it is delivered to the Government and to the BR Board,  
we must expect it to leak to the Press within a matter of days,  
if not hours. There has been no official or Ministerial  
preparation for that event, and we shall find ourselves in a  
CPRS/NHS situation, ie of having to deny intentions which we  
might actually rather like to pursue quietly.

Would you think it worthwhile your having a word with  
Mr Howell's office to see how he intends to handle the report  
in the first few days? If you prefer, I could of course do  
this at official level, but the initial public reaction is bound  
to be very much a matter for Ministers. There will of course  
have to be extensive official analysis of the report, and that  
will require appropriate machinery (in which I would hope to

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be involved) but we can worry about that later.

JN.

17 November 1982



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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

*MS*  
Prime Minister (2)

Michael Scholar Esq  
10 Downing Street  
LONDON SW1

BR have done

7 October 1982

as you wished, although

their commercial people still

believe that they would have

maximised their revenue at 10.8%.

notwithstanding their competitors.

MCS 8/10

Dear Michael,

BR FARES

You wrote on 30 September recording the Prime Minister's comments on British Rail's proposal for a 10.8% fare increase. In the light of this my Secretary of State has discussed with Sir Peter Parker the case for a lower fares increase.

The Board had decided on a 10.8% increase from 28 November as part of their drive to recover the deterioration in their finances over recent years. They are making strenuous efforts to cut manpower and other costs, improve productivity and maximise sales of assets. Their commercial judgment supported a fare increase some way ahead of inflation, particularly as last year's increase proved in the event to be 2% below the level of inflation, and they need to avoid stimulating uneconomic demand on inter-city services which would stand in the way of the service cuts needed to enable this sector to meet its financial target.

Though my Secretary of State has, of course, no locus to intervene in the Board's commercial pricing decisions, he pressed Sir Peter Parker strongly to reconsider the increase in the light of the clear evidence of a continuing fall in the inflation rate. He has now discussed this with his Board. Although on a purely commercial judgement, they would want to keep the increase at over 10%, they see the difficulties of such a high increase in the wider context. They have therefore agreed to bring the increase down to one of 7% across the board, with higher increases on some specific fares where they are justified by new investment in higher quality, or marketing reasons. Because of the time needed to prepare for general changes in fares, the increase will be deferred to 9 January. They plan to announce it on 15 October.

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The Board estimate the loss of revenue to be some £10m-12m in 1982/83 and £15m-£20m in a full year. My Secretary of State has made it clear to Sir Peter Parker that the cost will have to be found within their EFL for the current year. (Mr Howell has recently agreed with the Chief Secretary that the present limit should be increased to £930m, solely to reflect the additional costs of a faster rate of redundancies this year which the Board put in hand during the strikes.) The extra cost of the lower fares increase in 1983/84 will have to be contained within the EFL of £973m which my Secretary of State had agreed with the Chief Secretary during the bilateral discussions last month.

I am sending a copy of this letter to Margaret O'Mara (HM Treasury), Jonathan Spencer (Department of Industry), John Rhodes (Department of Trade), David Heyhoe (Lord President's Office) and Richard Hatfield (Cabinet Office).

*Yours sincerely,*

*Richard Bird*

R. BIRD  
Private Secretary

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E-7 OCT 1982





PART 5 ends:-

MCS to Transport 30/9/82

PART 6 begins:-

Transport to MCS 7/10/82



