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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

MF

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.

Dear Michael,

BR FARES

MCS 8/10

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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