



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

CONFIDENTIAL



Transport - Bntil Paul A 6

57 JAN 1965





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

B

cc J.V.



Prime Minister (2)

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

MUS 7/2

mf

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.

←

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.

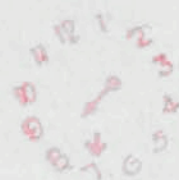
In hand
MUS

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



10 DOWNING STREET

From the Private Secretary

MR HATFIELD
CABINET OFFICE

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

CONFIDENTIAL

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

CONFIDENTIAL

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).

CONFIDENTIAL

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 1983

1
2
3
4
5
6
7
8
9
10

COMPTROLLER

CONFIDENTIAL

PRIME MINISTER

C
Prime Minister
cc J.V.
①

Agree to take a Transport

S (ii) followed paper at E?
by b. mt

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

MUS 4/2

Serpell Report: Future Handling

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.

CONFIDENTIAL

- (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


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