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PRIME MINISTER

OBJECTIVES FOR THE NEXT CHAIRMAN OF THE BRITISH RAILWAYS BOARD

1. When we appoint the new Chairman, we must give him clear objectives. I am writing to seek your agreement to them. I attach the draft.

2. I believe that we should publish the letter when it is sent to avoid any risk of leaks. So I have prepared the draft with a view to publication.

3. We must state clearly and unambiguously that the commercial railway businesses are to be operated to a commercial objective and not muddled up in their accounting with the other parts of the railway. But the main financial objective we must set is a reduction in grant to secure the short-term savings identified by Serpell. The target in paragraph 4 would reduce the Exchequer grant in 1986 to £635m (in 1983 prices). That would be a cut of £200m in constant prices compared with the grant figure for 1983.

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4. I am sure we must reiterate what we said in our manifesto about the network - that we are not embarking on a programme of major route closures. But as you will see, I propose also to call specifically for views on allowing guaranteed bus services to be substituted for some rail services. This will be attacked by the rail lobbies, but we shall command a lot of sensible support, and I am sure we must get this idea under-way.

5. I should warn my colleagues that this week the Railways Board are explaining to their unions the Board's specific plans for achieving a reduction of 1,900 miles (nearly 10%) in the total length of track. This is the target they have set for themselves and they have been planning it for some time. Most of this rationalisation will come from slimming down, say, four parallel tracks to two, or two tracks to one. Removal of the duplicate tracks is intended to bring capacity closer into line with the requirements of the rail business. The plans do, however, also include a few closures (e.g. Marylebone Station and some freight only routes), which will be contentious. We are not committed to these proposals and, of course, any opposed closure of passenger stations and services will have to come to me individually for confirmation. I am sure it is right for the Board to get their plans on to the public record before the new Chairman takes office. In this way, he will not be the target for the instant blame that would be laid at his door if the announcement of the plans were delayed until after his arrival.

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6. We must make clear that we expect the financial improvements to be won through increased efficiency and lower costs, not from higher fares, particularly for commuters. I propose, therefore, to restate the policy we laid down in November 1981, when David Howell published draft objectives for the London and South East services: changes in the level of commuter fares should not exceed the rate of growth in the RPI except where specifically justified because a service has been improved. This will give the lie to the post-Serpell scare stories that we intend to raise BR commuter fares by 40%. Peter Rees and I are already in touch about the separate question of London Transport fares when the LRT is set up.

7. Sealink must be privatised as soon as posible. I do not propose to allow its privatisation to be put back to next year unless there are good market reasons for that. I shall keep in close touch with the Chancellor on this aspect in particular.

8. As to BREL, there is frankly a conflict between forging ahead now towards privatisation, at a time when the future order book is very uncertain, or pressing the Board to get ahead with the necessary contraction, of which the closures at Horwich and Shildon may be only the first stage. I do not think we should aim to resolve that conflict now. My proposal, therefore, is that we should ask the new Chairman for an urgent review of the options.

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9. On industrial relations, I shall make clear to the new Chairman that he must improve the present negotiating machinery, which is far too protracted, and that in particular he should get out of the present situation that any party can make a unilateral reference to a McCarthy Tribunal.

10. The draft necessarily covers a number of other matters, and gives a clear basis on which the new Chairman and I can work together. I have included in the draft a reference to the longer term possibilities, on which the Official Group is about to submit to us its report.

11. I am sending copies of this to the Chancellor of the Exchequer, the Chief Secretary, the Secretaries of State for Scotland, Wales and Employment and to Sir Robert Armstrong.

TOM KING

2 August 1983

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DRAFT OF 2.8.83

OBJECTIVES FOR THE NEW CHAIRMAN OF BR

1. This letter sets out the objectives the Government wishes you to pursue as Chairman of the British Railways Board. It supplements the present statutory and financial duties of the Board.

Service and Financial Objectives

2. Your main objective should be to run an efficient railway, providing good value for money. This means:

- for your customers, services that are reliable, attractive and punctual at acceptable levels of fares and charges, with improved efficiency making a full contribution to restraint on fare levels;

- for taxpayers, a reduced requirement for financial support;

- for management, commitment to achieve the improvements already begun and to going further and faster in the adoption of the most modern business techniques;

- for your employees, the prospect of working for a successful business and of feeling pride and satisfaction in helping to provide a good and efficient service.

3. The Government expects you to bring the commercial railway businesses (Inter-City, Freight and Parcels) urgently to the point where they are earning a commercial return on the assets employed. Keeping to this target, we want you to carry the most you can by rail. To this end, we shall encourage firms to come forward with applications for freight facilities grants under section 8 of the Railways Act 1974.

4. The Government also looks to you to contain and reduce the subsidy for the rail passenger services provided under the present Public Service Obligation. We consider that the target to which

you should work is to reduce the requirement for PSO grant from central government in 1986 to £635m (in 1983 prices). The Board's current plans show progress towards this aim. I shall want to discuss the plans with you, to settle firm milestones to the achievement of the target, and to determine if additional financial assistance may be needed to help meet certain transitional costs.

5. I shall want you to work closely with London Regional Transport, when it is set up, and with other public transport operators, to provide a better deal for travellers in and around London and to cut out wasteful duplication between operators. I shall be establishing liaison arrangements to this end and will be looking to you to make a major contribution to achieving the improvements that are needed.

6. I shall want to consult you about clearer objectives for the passenger services provided by the Provincial Sector. I should welcome your early views on the proposals, which have been widely advocated, to allow bus services to be provided - with the aid of subsidy, where necessary, and with proper guarantees for continuity of operation - in certain circumstances in substitution for particular rail services. It is not our intention, however, that you should embark on a programme of major route closures.

7. I shall also want to consult you about the content of a new and up-to-date PSO Direction, in which I would seek to reflect the Board's reorganisation of the business by sectors and the need to give clear objectives to the sector directors.

8. It is the Board's responsibility to determine fares. But I shall look to you to ensure that the railway does not use its monopoly power to raise fares disproportionately on the subsidised services. For commuter services, in particular, changes in the level of fares should not exceed the rate of growth in the retail price index except where justified to reflect service improvements.

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Objectives for Privatisation and Innovation

9. As I made clear to your predecessor, plans to privatise Sealink must be carried to completion as soon as possible.

10. Rationalisation of British Rail Engineering Ltd's excess capacity should be completed as soon as possible; and railway rolling stock should be procured by competitive tendering. In addition, you should complete an urgent review of the options for the future of BREL. I shall wish to discuss with you the report of this review and the implications of your preferred options.

11. The Government will also look to you to contract out to competitive tendering in the private sector more supply and support services for the railway and the Board's other activities, including rail and station catering. I shall welcome proposals from you for involving the private sector in the development of stations and the provision of railway services.

12. As my predecessor indicated in the Parliametary debates on railway policy earlier this year, there may be scope in the longer term for a better structure for the railways that would contribute to better services for transport users and encourage innovation. I shall wish to discuss these possibilities with you and to hear your ideas.

13. You should review and make such proposals as you think fit for clarifying and strengthening the role, structure and composition of the Board itself. Urgent action will be required to carry forward the good work that has already begun to improve the management of the railway and the subsidiary businesses. I expect the Board to ensure that clear and effective systems of management accounting and control are operated, which produce the information needed for efficient management at all levels and enable the Board to monitor performance against objectives and take prompt remedial action where the two diverge.

14. The Government wish you to put forward investment programmes directly related to the achievement of our financial and business objectives for your industry. Projects which save costs and have a quick payback should receive priority in your programmes.

15. The achievement of the changes that are needed will require the cooperation and help of your employees. That will demand clear leadership and effective communication between management and the workforce, recognising railwaymen's pride in their work and their desire to provide a good service. We believe that the railway's present industrial relations machinery has hampered good communications and has slowed down the necessary pace of change. We want you to secure improvements in these arrangements in the interests of your customers, your employees and the taxpayer.

Role of Government and Relations with the Board

16. In recent years, the Department has been drawn too deeply into matters which are the proper responsibility of the Board and its managers. Close adherence by the Board to the objectives set out in this letter will enable me to confine my own and my Department's involvement only to what is necessary for the proper discharge of my statutory duties and my accountability to Parliament and my colleagues, particularly for the value for money obtained for the grant and loans. I shall, of course, expect you to consult me on major decisions with wider implications for the economy. And I shall want to discuss with you how the Department's prior scrutiny of investment projects can be reduced by improved project appraisal by the Board.

17. The Government will settle each year, after discussions on your current business and investment plans, the total of external finance and the ceiling of grant within which you are expected to operate for the coming year, together with an indication of the figures for the subsequent two years.

18. These are the immediate objectives to which we wish you to work. Other matters are likely to arise from time to time on which it would be appropriate for me to give you additional objectives.

Summing Up

19. Railways depend on the support of the public - both the customers who pay directly for the use of the services and the taxpayers who provide the substantial grants. To retain this support, the railways must show that they do provide good value for money, that they will adapt to the changing demands of their customers, that they can meet the challenges of their competitors, and that they will exploit the opportunities provided by new technology.

20. I look forward to working with you and your Board to achieve the good quality, efficient railway services which are, I know, our common goal.

Walth/Jehowe no comment
cc No
D/C 11/8

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1 Mr Fletcher 2 BF to MCS on 1/9.

P.01085

MR RICKETT

Discussed with PM: she agreed that Mr King could use the draft objectives as a "speaking note" only. She agreed that the objectives and the report of the official group should be considered in September. (Mr King has subsequently told the PM that he has not yet found a suitable candidate for the Chairmanship.)

OBJECTIVES FOR BRITISH RAIL

You asked for advice about the handling of the Secretary of State for Transport's minute of 2 August covering draft objectives for the next Chairman of the British Railways Board (BRB).

WSPR 10/8

2. The timing constraints are as follows:

i. Mr King is keen to settle the appointment of a new Chairman in time for him to take up his duties when Sir Peter Parker departs on 11 September. Before the appointment is finally settled, there ought to be some understanding between Mr King and the appointee about what is to be expected of him in the job.

ii. Mr King would ideally like to be able to make a public announcement about the Government's objectives for the new Chairman in the week beginning 12 September when he takes up his new duties. Such an announcement would inevitably constitute a major Government policy statement about the railways.

iii. Ministers cannot discuss the major issues of railway policy until they have the report by the Official Group (MISC 94) which was commissioned last March, and Mr King's own comments on that report. The report is likely to be submitted to Mr King tomorrow. Mr King is unlikely to be able to circulate his own views on it before the weekend, when he goes on holiday. He is however likely to be able to circulate the report and his comments on it before the end of August.

iv. Treasury Ministers are unlikely to be ready to give their agreement to the draft objectives, at any rate as a final document for publication, before the weekend; the same may be true of other Ministers who received copies of Mr King's minute.

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3. The handling turns critically on whether, when the Prime Minister sees Mr King tomorrow, she is able to approve his proposed candidate for Chairman. If there is to be no quick decision on who should be approached, more time can be left to consider the draft objectives. If however Mr King is in a position, following tomorrow's meeting, to approach a prospective new Chairman, we need to consider what should be done about the draft objectives in the light of the constraints set out above.

4. If a new Chairman is to be approached before the end of August, my advice, after discussion with officials in the Department of Transport and the Treasury, would be to handle the matter in two stages as follows:

i. Since the draft objectives attached to Mr King's minute are primarily designed to keep all options open, and have, in an earlier draft, been the subject of exchanges between the Department of Transport and Treasury officials, there would probably be no harm in Mr King's using them as a speaking note in talking to the new Chairman about the nature of the job on a purely exploratory basis. It would have to be made clear that the definitive objectives, and any public statement, would come rather later.

ii. As early as possible in September Ministers should have a discussion, under the Prime Minister's chairmanship, either in E(NI) or in an ad hoc meeting, which would cover both the draft objectives attached to Mr King's minute of 2 August and the MISC 94 Report with Mr King's comments on it. Although Ministers would be unlikely to reach final decisions about railway policy at such a meeting, they would be able to address the question of what should be said definitively to the new Chairman about objectives and what should be said publicly against the background of some preliminary exchanges about the important policy issues.

PG

P L GREGSON

3 August 1983

TRANSPORT: BR Fares
A7

Willie,

Re: BRITISH RAIL (MCS to Tr. 4/3)

1) Dinah Nichols tells me that Michael's request for a brief for incoming BR chairman was answered in a letter from S/S Transport to PM dated 2.8.83. Am I right in thinking that this is with you? Yes

2) Progress on short-term savings will be circulated as a note to MISC 94. Do you wish us to continue to follow this up? No

Susan 5.8.83