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Prime Minister

OBJECTIVES FOR THE CHAIRMAN OF BRITISH RAIL

Tom King sent you and colleagues the revised draft objectives for the new Chairman on 5 October. I have considered it in the light of your comments, which were set out in your Private Secretary's letter of 10 October, and of those that Nigel Lawson sent you on 7 October.

I am sure that the objectives need to include a reference to our Manifesto statement about closures. Our supporters welcomed what was said in the Manifesto and the Opposition and the unions will be on the lookout for anything they can portray as a retreat from what we said during the Election campaign. The words in the Manifesto leave ample scope to press ahead with the closure of grossly uneconomic minor services, and would even allow the closure of one or more major routes.

The redraft suggested in your Private Secretary's letter would appear to water down what we said in the Manifesto. The word "although" suggests we are trying to disown it. And bus substitution would then be made to look like a back-door way of implementing the extreme Serpell options. This would be a sure way to kill off bus substitution. I hope, therefore, that you and our colleagues will agree that we should retain the opening words of paragraph 4 unchanged.

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Mr Reid's Corporate Plan does already include some transitional finance. But we are asking him to achieve the grant target two years earlier than he had been planning. Our demand that he should go faster may entail some additional transitional costs. Understandably, Mr Reid does not yet know quite how he is to achieve the target, so he cannot say what additional transitional costs it may be necessary to incur and in what year. He has made it plain to Tom King and me that he would not be able to accept the target himself, or carry his Board with him, if he were precluded from putting to us well-justified proposals for assistance with the transitional costs of meeting our objective. My predecessors have throughout made it clear to the Board that we would sympathetically consider proposals for transitional assistance, and have repeated that in the House. It seems clear, therefore, that Mr Reid would not be willing to accept our objective if these words were omitted. It is also relevant that the Serpell Report - which has been so important in establishing the scale of potential savings - said that the savings it identified did not include any transitional costs.

As to redundancy payments, I understand that the scheme operated by the Railways Board is less generous than that operated in some other nationalised industries. Again, I hope that in the light of this explanation, you and colleagues will agree that we should retain the last sentence of paragraph 3.

Having talked to Mr Reid, I am satisfied that he could not complete a thorough and radical review of BREL by the end of this year. I have, therefore, agreed with him that the review should be completed by the middle of next year and that this date should be included in the brief. It would be mistaken,

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however, to associate rationalisation of BREL's surplus capacity with that review. The Board are already committed to the closure of three workshops and we must avoid giving the unions any chance to say that that decision should be made subject to review. Equally, we must avoid getting into the position where the decision on the closure of these workshops appears to be the Government's, rather than the Board's. But I agree that the brief should point the way to privatisation while not implying that it is the only option for all BREL's activities. I propose, therefore, the following redraft of paragraph 10, which would, I know, be accepted by Mr Reid as his objective:

"Rationalisation of British Rail Engineering Limited's excess capacity should be completed as soon as possible. You should complete your review, by the middle of 1984, of the options for the future of BREL, including the options for privatisation ~~of parts of its activities~~. Railway rolling stock should be procured wherever possible by competitive tendering; and the railway equipment industry should be allowed the opportunity to offer design solutions to meet BR's requirements."



I think that dealing with privatisation in this way would accord with the treatment that Nigel Lawson had in mind in paragraph 4 of his minute to you of 7 October.

Paragraphs 7 and 9 of the draft will be amended as you suggest.

I welcome Nigel Lawson's support for the proposal that the brief should be published and I can give him an immediate assurance that Mr Reid will be coming to me by the end of the

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year with proposals to strengthen and restructure his Board. The new Chairman has also been told that he should come forward as quickly as possible with his proposals for the closure of some of the worst loss-making lines. Finally, I can assure Nigel Lawson that the reference in paragraph 3 to transitional costs is in no way an attempt to reopen the EFL for 1986/87 that has already been agreed with the Chief Secretary.

I am copying this minute to other members of E(NI), to John Biffen and to Sir Robert Armstrong.

NICHOLAS RIDLEY  
18 October 1983

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10 DOWNING STREET

*From the Private Secretary*

20 October 1983

Objectives for the Chairman of British Rail

The Prime Minister has seen your Secretary of State's minute of 18 October. In the light of his further explanation she accepts his original wording on closures at the opening of paragraph 4.

On transitional costs the Prime Minister thinks that it is unwise to advertise this problem in the brief. She accepts that the Government should assure Mr. Reid that it will look sympathetically on any proposals he puts forward but it would be unwise to create an open invitation to BR employees to press for generous redundancy payments.

On BREL your restructuring of the paragraph is helpful though the Prime Minister feels that the phrase "options for privatisation of parts of its activities" tends to dilute the effect. She would prefer to say simply "options for privatisation".

Finally the Prime Minister has asked your Secretary of State to consider how he would react if asked whether these objectives supersede the passenger service Direction given to BR on 19 December 1974, under Section 3(i) of the Railway Act, 1974 to "provide a public service which is generally comparable with that provided by the Board at present". If it is his intention to issue a revised Direction later, after the new arrangements for transport in London have come into force, there might be merit in making this announcement now. This might be better than having his intention dragged out of him by an Opposition spokesman who might claim that this was part of the "Hidden Manifesto". Could the relative merits of this be looked at?

The Prime Minister looks forward to seeing a copy of your Secretary of State's statement.

I am copying this letter to the Private Secretaries to members of E(NI), David Heyhoe (Lord Privy Seal's Office) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols, **CONFIDENTIAL**  
Department of Transport

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