

Prime Minister

Prime Minister

REVIEW OF BRITISH RAIL FINANCES

Returnably
Man I don't know
SR's confidence
that he has
found the
right person.
ms

Agree with Sir David Sargant
should lead the review on the
lines envisaged by N Howell?

JRH
1.11.82

My announcement yesterday of the commission to Mr Butler of Peat Marwick Mitchell to make a report on British Rail's trading position has I think been well received generally - apart from what I have to say below about the Board. It will certainly give us a lot of what we need to know. But it will not by any means cover all the ground that we have envisaged for the wider review of railway finances and policies. It was unfortunately clear from the discussion with Sir David Orr that he was most unlikely to feel able to take on this wider review, as we had hoped, and I was therefore in no position to give Sir Peter Parker and his Board any assurance about when that review could get under way. They attach great importance to that, as we do, as a means of getting to the sort of clearer objectives which the CPRS has proposed.

The consequence with which we now have to deal is that the full-time members of the Railways Board in particular feel that their standing at the head of the industry has been seriously prejudiced by the announcement of the commission to Mr Butler; and Sir Peter Parker himself feels his position much weakened. We therefore now face the prospect that the Board will be in serious disarray as they enter the next and very crucial stage of their industrial relations problems. I therefore need to move very promptly now to restore the Board's position and resolve. The way to do this is by launching the wider review which we have now for some time envisaged.


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I had very much hoped to secure a leading businessman. But the search has so far proved very time consuming and fruitless, and I think we must now turn to other possibilities.

The proposal I now make is designed to secure a review fully of the quality that we should want, while at the same time re-establishing the position of Sir Peter Parker and his Board. It is that I should ask Sir David Serpell to take charge of the review. As a former Permanent Secretary with a particular reputation for toughness he understands the Government position, both generally and in relation to the railways, from many years here. As a part-time member for some years of the Railways Board - from which he would need to withdraw - he commands their confidence, but no-one who knew him could imagine that he would give them an easy ride. And I think it helps that, while still in full vigour, he could not at 70 be a candidate to succeed Sir Peter Parker. I have good confidence that he will respond to the challenge. I envisage that he would need specialist help from Mr Butler, and also on the engineering side from someone such as Mr Goldstein, on the business plan and forecast side from someone such as Mr Christopher Foster; there might also need to be special work on Board and management structures, and on industrial relations. I envisage as previously that he would be assisted by a group of senior officials, from the Treasury, the CPRS and my Department, and some full-time members of the Board. This should provide complete insurance against risk of bias in the inquiry.

This work would go as far as establishing what are the roots of the difficulties with this industry and what actions are practicable for management in overcoming them. The choice of the prescription to which we shall tie the railway in future will

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be for us. But if we judge that we would be helped towards our decision by the advice of an eminent businessman (or more than one), we could arrange that the results of Sir David's operations are submitted for such a further process. I would intend that this whole procedure would be completed in five months, starting now.

I hope I may have your agreement to proceed accordingly. I am sure that if we are to steady the ~~position~~ position, we must act very quickly, so that I can make an announcement before Easter. I see no workable alternative. We would run grave risks if we were not able to do this before the Board start to deal with Lord McCarthy's report.

I am sending copies of this to the Chancellor of the Exchequer, to Sir Robert Armstrong and to Mr Sparrow at the CPRS.

JH
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DAVID HOWELL

1 April 1982

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APR 1982



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cc SV

wait for Policy Unit
advice

Prime Minister

RAIL FINANCES REVIEW

After putting in Peat Marwick, led by James Butler, to investigate the current year's financial position of British Rail, it was plainly necessary to move quickly to the full independent review. I am very grateful for your agreement and the Chancellor's that I should invite Sir David Serpell to take the chair of the review, and I am glad to say that - subject to settlement of all the detailed arrangements - he has agreed to do so.

There are detailed investigations to be made not only of the management of the industry's finances (which James Butler can do) but also of the whole engineering side of the business, which is important for its financial implications. I have invited Alfred Goldstein of Travers Morgan to take this on, and he, too, has accepted, I am glad to say.

Sir David himself is very anxious to have another member of this team, in the form of a businessman to whom he can turn for a view of the Board's market and their pricing policies.

Sir David has specifically asked that this team of three should be associated fully with him, as a corporate reviewing body, in the production of a report setting out the options from which, with my colleagues, I can in due course decide upon our prescription for the future of the railway.

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I hope to get Leslie Bond of Ranks to fill the businessman's slot; I will let you know the outcome as soon as possible.

We agreed terms of reference at an earlier stage, and you may want to look back at the rather detailed text on which we settled. A copy is enclosed.

You made a comment at the time that you wanted specific reference to objectives and policies to be included. I have had to consider how the terms of reference will look when we publish them against the background of the separate investigation on which I launched James Butler. I enclose the terms of reference of his operation, the results of which will be available to Sir David and his colleagues. In effect, it looks after the efficiency audit aspects, and the terms of reference for the review now need to turn the thinking to the future to show the way to improved financial results in an efficient system.

My Permanent Secretary has consulted his Treasury colleagues both about the terms of reference and about the form of a statement which I had planned to make as early as possible, and I enclose the draft which has resulted from these consultations. I understand that it would be acceptable to Sir David Serpell. He has paid particular attention to emphasis on his independence. He also wanted words used which would make it clear that he was not some kind of rebel from the Board.

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I have also concerned myself with ensuring that the Board, particularly its full-time executive members, are left with no motivation to do anything other than co-operate fully. I think the draft achieves this.

I very much hope that you, and the Chancellor to whom I am sending a copy of this minute, can agree that the way is now clear for me to make this announcement as soon as possible.

I am sending a copy of this minute to Mr Sparrow and to Sir Robert Armstrong, as well as to the Chancellor.

DH.

DAVID HOWELL
27 April 1982

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TERMS OF REFERENCE FOR THE REVIEW OF RAILWAY FINANCES AGREED BETWEEN
MINISTERS AFTER CONSULTING BRB

To review the finances of the railway and associated operations in the light of the Board's statutory duties; the rising losses of the Board on its rail operations; the short and long term effects on the Board's financial position of the recent industrial dispute; the Board's concern about the adequacy of expenditure on renewal of the assets of the railway; and the Board's existing plans for improving business results; to identify other opportunities for improving business results and the measures necessary to secure them; and also to identify possible changes in objectives and policies that would help to secure improved financial results.

TERMS OF REFERENCE FOR MR P J BUTLER OF PEAT MARWICK MITCHELL AND CO

Following the Board's rising losses on their railway operations and the claim for grant in 1982, to examine the Board's rail budget for 1982 in the light of their performance in earlier years, their plans for improvement and the extent to which they were achieved; and to report what steps are open to the Board to make early improvements in the trading results by increased efficiency, cost reduction and improvements in financial control, whilst complying with the Public Service Obligation.

DRAFT STATEMENT ON REVIEW OF RAIL FINANCES

I am glad to announce that Sir David Serpell has accepted my invitation to chair an independent review of British Rail's finances. Sir David brings a unique combination of experience and insights to this task, after a life of public service in the Treasury and other Departments, including service as Permanent Secretary of the Ministry of Transport and the Department of the Environment from which he retired in 1972. Since 1974 he has served as part-time member of the British Railways Board. The Board have agreed that Sir David should be released to undertake the task from the necessary position of total independence. Accordingly Sir David has today resigned from his appointment as a member of the Board, which in the normal course would have extended to next September.

2. The other members of the Review Committee will be Mr P J Butler, a senior partner of Messrs Peat Marwick Mitchell & Co, who has already received a commission from me with regard to the 1982 Rail Budget which I announced on 31 March; Mr A Goldstein, senior partner of R Travers Morgan and Partners, Consulting Engineers; [and by --- see paragraph 5 of cover letter]

3. The terms of reference of the inquiry are -

"To examine the finances of the railway and associated operations, in the light of all relevant considerations, and to report on options for alternative policies, and their related objectives, designed to secure improved financial results in an efficiently run railway in Great Britain over the next twenty years."

4. I expect the conclusions which the Committee reach will illuminate the options which are open and so provide a firm foundation on which my colleagues and I can establish clear objectives and make justifiable financial provision for the future of the railway. I hope Sir David Serpell will be able to give me his Committee's report in five to six months' time.

5. My action in setting up this inquiry follows from a proposal which was first made by Sir Peter Parker and the British Railways Board last year. The Government's intention to establish such a review was confirmed in the White Paper (Cmnd 8494) on "The Government's Expenditure Plans, 1982-83 to 1984-85". As I intend to consult the Board upon the conclusions before seeking to arrive with my colleagues at decisions concerning the future of the railway, I shall regard the Committee's conclusions as available for publication and addressed not only to me but also to the Chairman of the Board, as being those of an independent inquiry on a matter of substantial public interest.

27 APR 1982

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c.c. Mr. Verèker



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transport

10 DOWNING STREET

From the Private Secretary

4 May, 1982.

Rail Finances Review

The Prime Minister was grateful for your Secretary of State's minute of 27 April about the forthcoming review of railway finances.

The Prime Minister is content with the revised terms of reference appended to your Secretary of State's minute. She is also in general content with the draft statement attached to your Secretary of State's minute. She has, however, commented that the statement would be improved if it began with a reference to the establishment of a Review Committee, and put Sir David Serpell's appointment in second place.

I am sending copies of this letter to John Kerr (HM Treasury), Gerry Spence (CPRS), and David Wright (Cabinet Office).

M. G. SCHOLAR

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Anthony Mayer, Esq.,
Department of Transport.

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Prime Minister

(2)

~~cc JV~~

MUS 4/5

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

30 April 1982

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

Dear David

MB

RAIL FINANCES REVIEW

Thank you for sending me a copy of your 27 April minute to the Prime Minister about the arrangements for the review and its revised terms of reference. TAM

I am quite content with the arrangements you have devised to help Sir David Serpell to carry out the review. The fact that outsiders of some consequence are also involved should reassure the public about the independence of the Review from either the Government or the Board.

I am also content with your draft statement and the revised terms of reference. However, on the latter, I assume that Sir David Serpell will see it as within his terms of reference to put forward a "base case" option in terms of the maximum improvement of business results within present policies and objectives, as was clearly envisaged by the earlier terms of reference. The Peat Marwick study should provide much of the material for this but it will no doubt need to be married with the work being done on the engineering side as well as any "business" comments from Leslie Bond. I do think it important to have this, if only as a means of improving the position in the short-term while any more radical changes are considered and implemented.

I am sending a copy of this to the Prime Minister and to Mr Sparrow and Sir Robert Armstrong.

[Handwritten signature]

GEOFFREY HOWE

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4 MAY 1982



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Prime Minister (1)
This reflects discussions JVol
have had with Alan Walters
cc Mr Walters and others.

MR SCHOLAR

Rail Finances Review

Yes Mr
Agree these conclusions?
MCS 29/4

Please see
(attached)

MCS

You asked for my comments on Mr. Howell's minute of 27 April to the Prime Minister. I have discussed it with the CPRS and with Alan Walters.

At first sight, it does seem a bit of a muddle to have two independent financial reviews being carried out on an organisation which ought to be able to do it itself, at the request of a Department which should have seen that it did. But I think it is right to separate short-term operating and efficiency issues from the long-term issues of railway policy, and that separation is now clearly reflected in the different terms of reference for the Butler study and the proposed Serpell enquiry.

As to the terms of reference for the latter, the latest version does seem an improvement, and retains what we regard as the essential point, which is that present railway policies and objectives should not be a constraint in trying to straighten out railway finances. The phrase "alternative policies, and their related objectives" is a bit odd, and might be improved by making it clear that we meant operating objectives.

As for the proposed enquiry team, you know of our original objections to the appointment of Sir David Serpell, not because any of us know him personally, but because as a former Permanent Secretary responsible for BR and as a member of BR board for the last eight years we thought it most unlikely he would be sufficiently objective. He might, in fact, be as much part of the problem as part of the solution. But given that the appointment has already been made, we think it important that the enquiry team should have a collegiate nature, acting as a committee rather than as a one-man tribunal with accompanying assessors. The references in the proposed draft statement to a Review Committee are therefore reassuring, but the Prime Minister may feel that the emphasis could be further improved by

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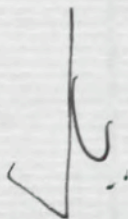
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making the opening of the announcement a reference to the establishment of a Review Committee, and putting Sir David Serpell's appointment, and those of his colleagues, in second place.

Finally, I think you should draw the Prime Minister's attention to Mr. Howell's proposal to announce that the Committee's conclusions will be available for publication, and will be followed by what will presumably be an open season of consultation with the BR board. It is rather likely that this review, if the team do their job properly, will come up with some very unpalatable conclusions indeed, in the form of a choice between substantial continuing financial losses, and extensive network closures. The Government can of course take some credit for facing up to these realities by having the report in the public domain, but publication of the report is bound to fuel speculation of some major change in policy towards BR, before Ministers have had a chance to decide collectively whether that is what they want.



29 April 1982

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Transport

✓ PA

MR. SCHOLAR

cc Mr. Hoskyns
Mr. Walters

Review of British Rail Finance

Thank you for sending me a copy of your letter of 8 April to the Department of Transport indicating that the Prime Minister is content with Mr. Howell's recommendation that Sir David Serpell should be put in charge of the review of British Rail finances.

I found this decision a little surprising, and I should be glad to know of the circumstances that led up to it. As I recorded in my note of 2 April, Alan Walters, John Hoskyns and I were far from convinced that Sir David Serpell was a good choice. In particular, as a long-standing member of the BR Board, he would be insufficiently independent. I am virtually certain that this view was shared by the Treasury officials advising the Chancellor, and that their advice was sympathetically received by him. Has someone advised the Prime Minister to the contrary, and if so on what grounds?

I am sorry to burst into print about this: that has no more significance than that you and I are not overlapping in the office.

J.

14 April 1982

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Mr. Vereker

10 DOWNING STREET

From the Private Secretary

8 April, 1982.

The Prime Minister was grateful for your Secretary of State's minute of 1 April about the Chairmanship of the wider review of railway finances and policies.

As I told you on the telephone, the Prime Minister is ready to go along with your Secretary of State's suggestion that Sir David Serpell should take charge of this review. You have subsequently told me that your Secretary of State has approached Sir David, who is considering whether he will take it on.

I am sending copies of this letter to John Kerr (HM Treasury), David Wright (Cabinet Office), and Gerry Spence (CPRS).

M. C. SCHOLAR

Anthony Mayer, Esq.,
Department of Transport.

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Prime Minister

ms

British Rail Review Chairman

Mr Howell has persuaded the
Chancellor not to veto Sir David
Serpell.

He is, accordingly, offering Sir D
Serpell the job tomorrow.

MS 6/4



10 DOWNING STREET

(2)

Prime Minister

The Chancellor has very
great doubts about Sir D Serpell,
and is also being advised by officials
in this sense.

Given your own reluctance, I told
Mr Howell's office that your agreement
was subject to colleagues' agreement.

For the time being, therefore, the matter
is stalled.

ms

MCS 2/4