



CONFIDENTIAL

PRIME MINISTER

British Rail Finances

(E(80) 105)

Rail Services to Gatwick Airport

(E(80) 100 and 101)

BACKGROUND

These papers deal with British Rail financing and investment, and as a separate issue (because the project would not attract high priority from British Rail) the possibility of a special rail link to Gatwick Airport.

2. On British Rail financing, the Minister of Transport has agreed with the Treasury an increase of £40 million on the EFL for the current year, but proposes a very tight target for 1981-82, including any carry-over from the current year. The existing British Rail forecasts for 1981-82 assume a wage settlement only  $2\frac{1}{2}$  per cent below the RPI, and the Minister believes that with pressure a substantially lower figure should be achievable. He proposes, again with support from the Treasury, to earmark special loans outside the normal EFL of up to £50 million to ease British Rail's withdrawal from parcel services. This would improve British Rail's cash flow by over £30 million per annum in the longer term, but would result in the loss of 7,800 jobs, and risks major industrial disruption (paragraph 7).

3. The Minister proposes to threaten to withhold capital approvals in 1981-82 unless these can be financed in the normal way within the EFL, or by advancing from later years the disposals of assets, such as hotels or shipping services. Although this approach would increase the pressure on British Rail, it would also leave them with all the benefit of the disposals, whereas other public sector disposals have been used to reduce the PSBR, rather than to permit additional expenditure by the body carrying out disposals.

4. On the financing and investment programme for years beyond 1981-82, the Minister proposes to bring forward proposals in the New Year. In the meantime the assumption in the Chief Secretary's paper (E(80) 104) is that the existing provision for 1981-83 and 1983-84 will not be increased.





CONFIDENTIAL

5. British Rail have made no provision for a special rail link to Gatwick, since this would be only marginally beneficial to their finances. The Department of Trade argue that airport policy depends on providing an adequate service from Gatwick to London. The Chief Secretary accepts that it will be necessary in due course to improve the service to Gatwick, but believes that further study of the expected growth of passengers is needed, before the optimum timing for such investment can be decided. In the meantime, he recommends against making provision to finance the link, which would cost £21.3 million in the survey period.

HANDLING

6. It would be as well to handle general British Rail finance (including any special provision for parcels) and the Gatwick issue separately. On the former you might invite the Minister of Transport to introduce his general paper. You will then wish to call the Chief Secretary and the Secretary of State for Employment, particularly for his views on the industrial relations consequences of withdrawing from parcels, and of pressing hard for a low pay settlement. Subject to points raised, the Committee may be able to accept the Minister of Transport's proposals, as summarised in paragraph 9(a) - (d) of E(80) 105.

7. You might then turn to the Gatwick issue. You might ask whether any Ministers disagree with the Chief Secretary's recommendation of a further study, before the timing of the project is decided. It is possible that the Secretary of State for Trade will wish to seek agreement for the project in principle, even if a one-year delay is accepted now and the precise timing after that is left open to study, on the ground that, if the project is delayed too long, it will not be completed in time to cope with the additional load of passengers deriving from the increased use of Gatwick Airport, and that will make it more difficult to transfer flights to Gatwick and relieve congestion at Heathrow. Against that, the Chief Secretary will no doubt argue that any financial provision now will add to the difficulties of controlling the nationalised industry totals.

CONCLUSION

8. You will wish to record conclusions on:-

- (i) how far the Committee accepted the Minister of Transport's recommendations in paragraph 9 of E(80) 105; and





CONFIDENTIAL

- (ii) on the Gatwick link - whether the Committee agree in principle to the investment (subject to further review of timing), or whether they merely agree that the proposal should be looked at again when the timing has been further examined.

REA

(Robert Armstrong)

16th September 1980