

CONFIDENTIAL

Qa 05126

To: MR LANKESTER

From: J R IBBS

BR Finances: E(80)105

1. The British Railways Board currently forecast an over-spend of £68 million on their EFL for 1980/81. A £40 million increase has been agreed between the Minister of Transport and the Chief Secretary. The over-spend is in part due to the steel strike and to the recent loss of business. However, the pay settlement (at 18 per cent) cost £44 million more than the budgeted amount.

2. BRB's forecast of financing requirements for 1981/82 is for an increase of £59 million above existing provision. This does not include the £50 million sought for the parcels closure (£30 million of which would fall in 1981/82) nor the sums for the Victoria-Gatwick service. The Minister proposes savings (paragraphs 6 and 7 of the Annex) to offset the £59 million which if realised to the full could yield some £70 million.

3. It is important to ensure that price rises for 1981 should be kept to a minimum both because of the general effect on inflation, and the further possible loss of traffic. It is claimed that the investment programme has now been reduced to an extent such that any further cuts in it may endanger the long term viability of the system.

4. The CPRS believes that, in addition to the Minister's proposals, three further avenues need to be explored:

(i) Pay. BRB's forecast implies a pay settlement of $\frac{1}{2}$ per cent above the April 1981 rate of inflation ($2\frac{1}{2}$ per cent below the RPI plus 3 per cent for productivity). The Minister proposes a saving compared with this of £40 million by aiming at a settlement in single figures. It is not clear what assumption is being made about the April 1981 rate of inflation. If, as we suspect, the assumptions imply a settlement of just below 10 per cent, does this go far enough? If necessary are Ministers prepared to face a national rail strike?

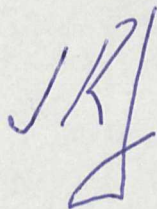
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(ii) Productivity. In 1976 a potential of 40,000 manpower savings in six years was identified with about half to come from productivity agreements; so far little has been achieved. In a Report on passenger services in the South East of England about to be published the Monopolies Commission has identified a number of national and local conditions which restrict efficiency. The 1980 pay settlement included a timetable for consultation (as distinct from implementation) on proposals for major productivity improvements which BRB hope will be operational by 1983. It should be possible to produce rapid improvements in productivity. For example, in 1975, under the impulse of severe financial pressure, major savings were achieved in under three months (equivalent to £2 million per annum in Southern Region alone). To what extent can the savings envisaged in the 1980 agreement (put at £150 million) be speeded up to ensure that more of them occur in 1981/82?

(iii) Future investment. Consideration of this must await the new Corporate Review which is due in the Autumn. It will be important to ensure that options to be considered then will include the possibility of cutting back the loss making rural services.

5. The CPRS also believes that if significant additional savings can be found as identified above, priority should be given to the parcels closure scheme as there should be longer term savings of about £30 million a year.

6. I am sending a copy of this letter to Sir Robert Armstrong.



16 September 1980