

Ref: A04647

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Transport-  
Main line  
Electrification  
Nov 80*

PRIME MINISTER

*Transport*

Railway Policy

E(81) 41 - 45

## BACKGROUND

The Secretary of State for Transport's main proposals are in E(81) 41 which is supported by two background papers - E(81) 43 covering his Department's appraisal of British Rail's (BR) Corporate Plan, and E(81) 44 summarising the main issues on electrification. In E(81) 42 he makes some subsidiary proposals for placing orders for BR rolling stock with Metro Cammell. The CPRS in E(81) 45, raise some fundamental questions on the proposed approach and in particular on the size of the network assumed.

2. BR published their Corporate Plan in December 1980. They propose a major programme of renewals and of electrification, with Government financing topped up by a combination of productivity improvements - manpower down from 191,000 now to 153,000 by 1985 - and revenue from increased traffic. The Department of Transport have appraised BR's proposals and substantially modified them. The Secretary of State recommends, nevertheless, that the present network, the rural and commuter services, and the Inter-city and freight services should be kept going, and he endorses a substantial programme of renewals and electrification. He emphasises the need for maximising productivity improvements and tightening the system of financial controls on BR. He would make the start of a major programme of electrification schemes contingent on the signing of the new productivity agreements envisaged in the Corporate Plan. His proposals are summarised in paragraph 19 of E(81) 41.

3. If accepted, the Secretary of State's proposals would bring substantial increases over the provision for BR in the Public Expenditure White Paper, Cmnd. 8175, and a very substantial on-going commitment. The main figures, taken from his tables, are -

	<u>£m 1980 Survey Prices</u>				
	1981-82	82-83	83-84	84-85	85-86
Cmd 8175	701	579	570		
*Proposed	701	695	628	603	579
Difference:		+116	+ 58		
* Of Which electrification	5	10	25	30	40

4. These figures allow for the electrification 'Option III fast' described in E(81) 44; that is, for net investment of £572 million completed by 1995 after which there would be a positive cash flow. This is held to show an 11 per cent real rate of return compared with maintaining a diesel railway. The geographical coverage of Option III is set out in paragraph 4 of E(81) 44.

5. The figures do not provide for the additional £25 million which would be needed in each of 1983-84 and 1984-85 if, as proposed in E(81) 42, Metro Cammell were to be invited to supply BR's requirement for a new generation of diesel engined multiple units. The purpose of giving them this order would be to make good a prospective gap in their order book, as London Transport's orders fall off, and to inject competition for the longer term with BR's own manufacturing subsidiary, British Rail Engineering Limited (BREL). Metro Cammell employ around 1,500 men on this work in Birmingham.

6. The Secretary of State points out, in paragraph 15 of E(81) 41, that not all of the costs need count as public expenditure if arrangements could be made for private sector finance. This Department are looking at this with Morgan Grenfell but for the moment there is nothing more than a general aspiration on offer.

7. These papers present very major issues, not only for the present public expenditure period but for the future of the railways to the end of the century. BR have mounted an effective public relations campaign to win support for their modernisation and electrification plans, and they will no doubt continue to lobby for an early and favourable response from the Government. The unions will also be looking for long term commitments, but I suspect that their current pay

claim is more likely to be dominated by the need to reconcile their hopes for a settlement in line with workers in the energy industries with the constraints of BR's 1981-82 External Financing Limit. Despite the impending pay negotiations, therefore, I can see no reason why the Committee should not, if it so wishes, take time to probe the details and call for an examination of alternatives.

8. As the CPRS, in E(81) 45, and Alan Walters have pointed out, the papers take a great deal for granted in that they start from the assumption that the present network and services are largely inviolate, and they offer no insight into the impact of competition from road transport, particularly following the de-regulation of bus services, and from air services. The CPRS appears to be right in holding that the prior question is what size and form the railway system should have in the future because the answer to that question conditions the rest, including the place of electrification in the future system. On this approach the Committee might want more information on the prospects and options for BR's main services: the non-commercial rural and commuter networks; and the commercial inter-city and freight services.

9. If you are to call for appraisal of some more radical alternatives, you will need first to consider the assumption made by the Secretary of State, in paragraph 10 of E(81) 41, that 'We must keep our commitment (made both before the Election and after it) to avoid any major programme of closures and continue substantially the whole of the passenger network.' The Manifesto called for increased productivity by BR but said nothing on the size of the network. The main commitment on the latter was given by the Secretary of State following a report in the Guardian in November 1979 that 41 passenger services and 900 miles of line might be axed. I attach a copy of the press statement which the Secretary of State then issued. You will wish to decide whether this rules out any substantial re-appraisal of the passenger network or whether some such appraisal is necessary in the light of the very heavy demands for financing now put forward by BR.

10. For the commuter services, both in London and for the other major conurbations, it is no doubt realistic to assume that they should continue over broadly the present networks. If so, the questioning will centre on how services can be improved by productivity changes and what are the options for

the Secretary of State intends that fare increases should be less than BR's assumption of  $2\frac{1}{2}$  per cent annually in real terms up to 1985.

11. For the so called commercial services - inter-city and freight - the question is how far they can indeed be operated commercially against competition from road and air. This leads on to the question of the role for electrification and the options for it. You will note the conclusion, in paragraph 7 of E(81) 44, that the economic appraisal of electrification shows that even with a very large fall in passenger traffic the programme should pass the test of a real rate of return of at least 7 per cent.

12. Before reaching final decisions I suggest that the Committee might want a fuller assessment of how realistic are the possibilities for meeting some of the financing requirements for BR's main rail activities - as distinct from hotels, shipping etc. - from private sector finance. They will also probably want more information on Metro Cammell and BREL before reaching any conclusions on the proposed order for Metro Cammell and the consequent additional financing involved.

#### HANDLING

13. After the Secretary of State for Transport has introduced his papers you might invite the Chancellor of the Exchequer and then Mr Ibbs to give their reactions. The Secretaries of State for Industry and for Trade will want to comment on the implications for manufacturing industry, including export prospects, and for the consumer. The Secretaries for Scotland and Wales will also want to comment, and particularly so if there is any thought of another look at the possibility of closing lines.

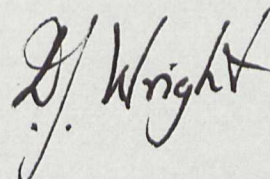
14. The first question before the Committee is whether they agree with the Secretary of State for Transport that the problem should be seen in terms of how best to improve and finance BR's present network and services or whether they first want to look more carefully at the prospects for each of those services, including the possibility of reductions in the network. You will need to consider in particular the extent to which the Government is committed to the present network - see paragraph 9 above. If further work is to be commissioned you might like to draw on questions raised in paragraphs 8 to 12 above and in the CPRS' paper, E(81) 45.

15. You will wish to ask the Secretary of State for Transport for his views on when the Committee ought to reach decisions and how this fits in with the 1981 Public Expenditure Review. You might also ask him to bring out in any further papers the extent to which the Government would be committed by decisions reached this year - you will no doubt want to ensure that, though there might be a broad strategic framework, firm commitments to investment would not be given prematurely but would be taken in the light of progress on productivity agreements and constant updating of traffic and profit forecasts.

## CONCLUSIONS

16. The Secretary of State for Transport has invited the Committee to approve the policies summarised in paragraphs 18 and 19 of his main paper, E(81) 41 and to consider the possible order for Metro Cammell outlined in E(81) 42.

17. In the light of the discussion you will wish either to endorse these proposals or to commission further work. If there is to be further work in the light of the Committee's discussion, and perhaps looking at some more radical alternatives, you will wish to instruct which other Departments should be involved - to as a minimum it would be sensible to include the Treasury and the CPRS with other Departments being consulted as necessary. The Committee could consider any further papers after Easter as soon as the Secretary of State for Transport is ready.



Robert Armstrong

(approved by Sir R. Armstrong and signed on his behalf.)

6 April 1981