



DEPARTMENT OF TRANSPORT
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Prime Minister

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Private Secretary to the
Prime Minister
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I hope his letter, with its ominous
last ~~paragraph~~ ^{sentence}, doesn't mean that DTP
aren't putting maximum pressure on
25 November 1981

MS

BR to reduce costs.

Dear Michael,

MS 27/11

The Prime Minister recently reported her concern to my Secretary of State about the apparent imbalance in public expenditure in the transport sector between road and rail.

In the next few weeks my Secretary of State feels that there will continue to be a great deal of pressure on colleagues both in Parliament and outside on the balance of public expenditure in transport. In view of the pressures from the various lobbies and their political supporters, my Secretary of State feels it would be useful for the Prime Minister to have the following basic figures and points to hand.

The latest road and rail public expenditure figures are as follows:-

Public Expenditure on Roads and Rail
1981/82 estimate (cash)£m

	England	GB
Motorway and Trunk	680	905
Local Roads	1075	1425
Total Roads	1755	2330
BR	not applicable	920*

*BR's EFL, which includes grants and borrowing.

In addition, there is public expenditure on road transport which does not appear in the table. The largest element is public expenditure on bus services, whose total amount in 1981/82 is of the order of £700 million. And of course public expenditure is only a fraction of the overall resources committed nationally to road transport. Motorists and road hauliers spent some £33 billion last year on buying and running vehicles: of this, £4.5 billion went on fuel and vehicle excise duties.

At first sight, the amount of public expenditure on road and rail may appear to be out of balance, since so much more transport is by road than by rail (93% of passenger miles are by road and 7% by rail; 77% of freight ton-miles are by road and 14% by rail). But the two systems are not comparable. Road expenditure is to maintain and increase the capacity of the system. Most public expenditure on rail (other than borrowing for commercial investment) is to maintain a railway system of a larger size and higher level of activity than could be justified on purely financial grounds, particularly commuter services for London and other conurbations.

In passenger miles the London and South East commuter lines account for about 40% of passenger miles travelled for which they get about 25% of the subsidy to BR. The subsidy is the cost of avoiding the unacceptable political and economic consequences of very high real fares increases for commuters and very large cuts in services.

It would in principle be possible to close large parts of the network. Apart from the commuter services and some heavy freight flows the roads could carry all traffic which now goes by rail, though there would be environmental and safety costs. No other comparable country has gone down this route. Restrictions and controls on road transport, to protect the railways, are still widespread in Europe. Yet France, Germany, Japan and Italy all pay much larger subsidies to their railways. We have chosen to promote efficient road transport by encouraging competition, and to allow this to bear on the railways while maintaining a national railway network. Proposals for large scale line closures would bring us straight up against very great political difficulties.

In my Secretary of State's view we have to concentrate our efforts on pressing BR to adjust the level of services more closely and more quickly to demand - their finances are currently suffering very badly from heavy loss of traffic due to the recession - and to become more efficient by a better use of the resources they have and substantial improvements in manpower productivity. By these means we should keep the cost of the railway to the minimum practicable while maintaining substantially the present passenger network. Hard and realistic financial targets will be a vital part of maintaining this pressure on the Board and the management. My Secretary of State will be proposing to the Prime Minister very shortly the establishment of a review of BR's finances, under an independent Chairman, to throw light on the key questions about the size and quality of railway the country wants, and how the cost can be minimised and met. We are currently consulting Treasury on this.

If by these means we can reduce the flow of public funds to BR, we will do so, irrespective of the level of expenditure on roads. My Secretary of State believes that there is in fact a very strong case for more investment in the roads to cut industrial costs, meet the needs of traffic, which continues to increase, and take traffic out of towns and villages. He is also conscious of the fact that road users pay in taxation two and a half times the total costs they impose on the public purse. But in view of the inescapable cost of maintaining a railway of anything like the present size, the resources required cannot realistically be expected to come from reducing public expenditure on the railways.

Yours,

Anthony Mayer

R A J MAYER
Private Secretary