



MS 21/10

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
 Secretary of State
 Department of Transport
 2 Marsham Street
 London SW1P 3EB

21 October 1981

BRITISH RAIL: INCREASE IN GRANT

will request if required,

You wrote to me on 13 October seeking my agreement to an increase of £109.4 million in British Rail's 1981 Public Service Obligation grant to offset revenue losses and to your announcing it on 21 October.

As you will know from my letter of 3 August to Norman Fowler I was (and remain) most reluctant to see an increase in this grant. From the figures in your letter and the more detailed figures which you have given my officials, it would seem that the Board's performance in not taking vigorous management action to offset these revenue losses has been lamentable. Nor is the position for the future, about which I was particularly concerned in August, as yet much brighter.

In agreeing that we would ultimately have to accept the Board's revised claim, I suggested that we should impose clear conditions on the Board. Your letter suggests that some progress is being made to this end. But in my opinion we are not yet in a position to judge whether this has gone far enough. The PSO grant forms by far the major part of the Board's external financing limit. For 1982-83 the Board have not so far made the reductions which were agreed on by E Committee in July and, as you know, I have asked in my paper C(81)51 for further reductions, implying an EFL of £925 million. I assume that to achieve this the Board will have to make more progress in some of the areas identified in my August letter. Nor, as I understand the position, have you yet seen the Board's 1982 grant claim incorporating the reductions in unit costs which you are seeking. I am not prepared to agree to it finally until we are clear that the Board have accepted our earlier conditions; in present circumstances this must mean the Board accepting a 1982-83 EFL of £925 million. I cannot agree to the claimed grant increase unless this is accepted. It would also be helpful to be clearer about the new

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grant regime which you are considering, in which Alan Walters has shown an interest, but I recognise that this is a question for our Departments rather than for negotiation with the Board.

This would, of course, rule out announcement of a new grant ceiling later this week. To defer announcement could however bring advantages by allowing us to consider whether we will need to increase the Board's 1981-82 EFL. Both you and Kenneth Clarke have implied that you think this inevitable, given the forecast overshoot of £70 million towards which the grant increase contributes. If it indeed proves necessary to increase the EFL, there would seem advantage in announcing the EFL increase and the grant increase together, perhaps with 1982 grant ceiling, rather than having a number of bites at the cherry.

I am copying this to the recipients of our earlier correspondence.

Leon
1/10

LEON BRITTAN

