~~CCAP~~
AW
JV

CONFIDENTIAL

Prime Minister (4)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

MCS 26/11

Mr Patrick

T Matthews Esq
Private Secretary to
The Rt Hon Leon Brittan MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1

26 November 1981

Dear Terry

BRITISH RAIL'S 1981/82 EFL

In the Chief Secretary's letter of 11 November in which he agreed that British Rail's EFL for 1981/82 should be revised to £920 million for all purposes, he asked my Secretary of State to clear the terms of my announcement with himself and the Secretary of State for Trade. I attach a draft arranged PQ and Answer, which Mr Howell proposes to give on the same day as the EFLs for 1982/83 for all the nationalised industries are announced. As I understand that that announcement will be made early next week, my Secretary of State would therefore be grateful to have early agreement.

I am sending a copy of this letter and the attachment to the Private Secretaries to the Prime Minister and the Secretary of State for Trade.

Yours sincerely

Alice Baker

MRS E A BAKER
Private Secretary

CONFIDENTIAL

DRAFT ARRANGED PQ FOR WRITTEN ANSWER

QUESTION

To ask the Secretary of State for Transport, whether he will increase the British Railways' Board external finance limit for 1981/82.

ANSWER

The British Railways Board's external finance limit for 1981/82, set in November 1980, is £920m, of which £53m was earmarked for the costs of withdrawing from the Collected and Delivered parcels service.

Since that limit was set British Rail have suffered a very severe loss of revenue, particularly in their passenger business, due to the effects of the recession. In response, the Board have made a concerted effort to secure substantial reductions in their costs, but it has not been possible for them to compensate fully in this financial year. It is clear that the provision of £867m for the normal requirements of the business (which excludes the costs of withdrawal from C&D parcels) will be insufficient, and the Government have decided that this should be increased to £920m. As the net costs of the withdrawal from the C&D parcels service have proved to be less than earlier anticipated, an additional allowance for this purpose is no longer justified. I consider that the new EFL of £920m for all purposes represents a reasonable target for the Board to work to in the remaining months of the financial year.

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cc AD.
JV

Transport (1)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister

Content with this variation?
MCS 1/12

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

1 December 1981

Dear Michael,

AD + JV are content with X.

BRITISH RAIL'S 1981/82 EFL

Thank you for your letter of 30 November. Mr Howell is grateful for the Prime Minister's suggestion that the answer should incorporate a reference to the fares increases - no doubt the Prime Minister has in mind the large increases of November 1980. But he feels that the drafting will need to take account of the point that the effect of fares increases on the volume of demand is not the same as their effect on revenue.

X Mr Howell has accordingly revised the passage to read: "Since that limit was set, British Rail have suffered a very severe loss of revenue due to falling passenger demand following heavy fare increases last year and lower business and holiday passenger traffic."

Mr Howell hopes that this text will be acceptable to the Prime Minister. If you would be kind enough to ring me tomorrow morning, I can then arrange for the final version of the answer to be put down.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office) and John Rhodes (Department of Trade).

Yours Sincerely

Anthony Mayer

R A J MAYER
Private Secretary

Note/ Told Mr Mayer no objection (in PM's absence)

MCS 2/12

CONFIDENTIAL

AD
AW
JV

Transport.

NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

Anthony Mayer Esq
Private Secretary to the
Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

30 November 1981

Dear Anthony,

BRITISH RAIL'S 1981-82 EFL

You wrote to me on 26 November enclosing the terms of the announcement which your Secretary of State proposes to make on British Rail's 1981-82 EFLs.

The Chief Secretary is content with the draft.

I am sending a copy of this letter to the Private Secretaries to the Prime Minister and the Secretary of State for Trade.

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

Jup

bc. Mr. Vereker.

10 DOWNING STREET

From the Private Secretary

30 November 1981

BRITISH RAIL'S 1981/82 EFL

The Prime Minister has seen a copy of your letter of 26 November to Terry Matthews, to which was attached a draft arranged PQ and Answer in relation to British Rail's EFL for 1981/82.

The Prime Minister thinks it would be a mistake to ascribe B.R.'s severe loss of revenue purely to the effect of the recession, as in the first sentence of the second paragraph of the draft Answer. She suggests that the opening of the second paragraph of the Answer might be redrafted as follows:

> "Since that limit was set, British Rail have suffered a very severe loss of revenue, particularly in their passenger business. This fall in passenger demand is of course related to the very substantial recent fare increase."

I am sending a copy of this letter to Terry Matthews (Chief Secretary's Office) and John Rhodes (Department of Trade).

M. C. SCHOLAR

Mrs. Alice Baker,
Department of Transport.

CONFIDENTIAL

CONFIDENTIAL

Prime Minister

(1)

Agree an amendment as at X?

MCS 27/11

c. Mr. Duguid
Mr. Ingham

MR. SCHOLAR

ANNOUNCEMENT OF B.R.'s REVISED 1981/82 EFL

The draft answer attached suggested by Transport says that B.R.'s recent severe loss of revenue in their passenger business is "due to the effects of the recession".

B.R. should not be allowed to get away with this. Under any reasonable assumption of elasticity of demand, the fact that B.R. passenger fares have increased by 40% over the last two years, largely due to B.R.'s own decision to reflect pay increases in fares rather than cutting of loss making services, is the principal cause of the loss of revenue. We do want, as a general principle in our economic presentation, to bring home to people the consequences of nationalised industry losses. I suggest that the opening of the second paragraph of the answer might be redrafted as follows:

X "Since that limit was set, British Rail have suffered a very severe loss of revenue, particularly in their passenger business. This fall in passenger demand is of course related to the very substantial recent fare increases."

If you agree, you might want to try this on the Chief Secretary's office, since it is to them that Transport have addressed their proposal.

Agreed MT.

27 November 1981

CONFIDENTIAL

cc AD
JV
AW

D.

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

CONFIDENTIAL

Qa 05728

26 November 1981

Dear Secretary of State,

Review of British Rail Finances

I have now seen copies of the correspondence between you and the Chief Secretary to the Treasury. As the CPRS is invited to participate in the proposed review, I should like to offer some observations.

You will recall that one of the recommendations of the CPRS report on BR of last June was that the commercial sector should be reduced to a viable core. At the time the report was submitted I wrote to your predecessor about some of the consequences of this. In particular, I felt that enlarging the non-commercial sector would make it even more important both to clarify the objectives of the PSO grant and to monitor how the aid is used.

Since then the financial position of BR has deteriorated further by a combination of falling revenue and rising costs, some of which is apparently inexplicable. I recognise that this poses severe and urgent management problems. I believe that an investigation to identify clearly the true nature of these problems and propose solutions will be a major task in itself. At present some of the evidence seems confused and the Board is bound to be rather defensive; the Chairman of the review is likely to have a difficult task in gaining their agreement on

The Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
SW1

credible efficiency gains of a sufficient magnitude to affect the broad financial position.

Naturally I attach great importance to a review that would enable clear objectives to be formulated. However, it appears to me likely that the review would merely confirm the dilemma that either more funding is required or the network and services have to be cut. Neither alternative seems at present to be politically acceptable. A quantified analysis of this dilemma (the amounts of money needed to sustain various levels of network and services) would be helpful. But if this is to appear in a published report it would be desirable to be clear in advance how such a revelation would be handled. BR's advertising is already disseminating the Board's view.

I suggest, therefore, that it will be important to decide, before initiating a review that would be published, how the likely outcome that points up the dilemma will be handled. Alternatively, it might be better in the first instance to conduct the review of these strategic aspects (as distinct from the management problems) on a confidential basis.

I am sending a copy of this letter to the Chief Secretary and to Sir Robert Armstrong.

Yours sincerely,

J R Ibbs