

PRIME MINISTER

Serpell Report

I attach copies of the internal Department of Transport's summary (which I think a fair, if pedestrian effort), and of the two reports, together with Ferdie's note which you have already seen.

Having now ploughed through the report myself, I think there is much useful material in it:

- (i) it demonstrates - without quite putting it this way - that the railways' finances are now out of control: you can see from table 1.2 how the total grant has been steadily rising in real terms since 1977, so that it now is almost exactly equal to the passenger revenue of £927m. estimated for 1982. Costs per passenger mile have also gone up sharply from 9.4p in 1979 to 11.3p in 1982.
- (ii) the report is quite realistic about the unlikelihood of any rescue coming from revenue growth, and accordingly puts its effort into identifying cost reductions. The engineering chapter (Chapter 6) gives a detailed list of savings which could be achieved through greater efficiency and better management action.

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- (iii) Chapter 2 on the passenger business gives a chilling account of the sky-high costs and the very small output of what is called the "Provincial Sector". This is the part of the railway which is neither inter-city nor commuter, and it is responsible for over half the route mileage of the passenger system. Its revenue, however, contributes less than a sixth of the total income of the passenger business. Its average load factor is only 20%. Leamington Spa/Stratford-on-Avon is given as a case in point: its revenue in 1981 was £76,000; its direct costs alone were £525,000.
- (iv) the marketing section (Chapter 5) reveals that BR is the fourteenth largest UK British advertiser. This section very properly identifies the danger of marketing the railway in order to retain or increase their market share regardless of the long term costs of doing so. It also raises the question as to how one justifies expenditure of £11m. on advertising in 1981 by an organisation in such a spectacular loss making position.
- (v) The report is littered with material highly damaging to the railways' management's self-regard - the documented decline in vehicle maintenance, the unrealism of the estimates for increases in the private sector work which BREL expect to secure, the defects in BRs' investment appraisal, and so on.

BR have reacted to this highly critical report by commencing a programme of selective leaks, designed to stir up the commuters and the other pro-rail lobbies. I am sure that their intention is to create the kind of furore which surrounded the CPRS report, in particular on the National Health Services, in the autumn. To counter this we went on the offensive yesterday, with Bernard telling the lobby that they were being used by the rail enthusiasts, and that they would see when the report was published (Monday the 17th is the date suggested) that this was so. I have no doubt that this campaign will hot up over the weeks to come, and that when Parliament gets back you will be asked to repudiate a list of horrors - that captive commuter fares must not be increased, that the network must be retained without any contraction at all, that there must be no changes to the discounts for pensioners etc, and so on. I also expect an attempt by the Department of Transport to defuse this by seeking your agreement to an early statement that no contraction in the basic shape of the railways is contemplated.

As I see it, we must somehow find a way of riding out the storm without losing room for manoeuvre. The Railways Board, I believe, are furious about the report, which they had been hoping would justify their claims that the railway system had been starved of funds in recent years, and that even safety was beginning to be prejudiced. They will keep up, for a long period, a fierce effort to discredit the report and block off the decisions which we will need if we are ever to stem this growing, and open-ended, drain on public funds.

Agree, if there is time at the end of next week, to a short talk with Alan Walters, Ferdie Mount, and Bernard Ingham about how to handle this?

7 January 1983

Yes
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P E LAZARUS CB
PERMANENT UNDER SECRETARY OF STATE

Michael Scholar Esq
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5 January 1983

Dear Michael,

MS

THE SERPELL REPORT

As agreed when we spoke on the 'phone a few minutes ago, I now attach our summary of the main report, and of the minority report by Alfred Goldstein.

As I explained to you on the 'phone, this summary was prepared for the Secretary of State by one of the staff in the Railways Directorate who had been closely involved in the work of the Committee. I have not attempted to check it in detail. But it seems to me a very adequate document, which is a bit long for a genuine summary, but which does enable one to see, within a fairly short time, what the reports are about, and it seems to me that it also gives the right flavour.

As I told you on the 'phone, I would be wholly content for you to use this in any way you wish.

Your regards
Peter Lazarus

P E LAZARUS

MAIN POINTS OF THE SERPELL REPORT.

1. The Committee's overall assessment is given in the five-paragraph Conclusion. They see many opportunities to improve efficiency and reduce costs while keeping the railway at broadly its present size. If these opportunities are taken, the Committee believe that the level of Government grant in 1986 could be lower in real terms than the level Ministers considered appropriate between 1975 and 1980 (i.e. about £700m in 1982 prices), before taking account of transitional costs. In the longer term, they see further possibilities for improved efficiency and cost reduction. But increased levels of investment are likely to be needed in the late 1980s and early 1990s. Even so, the Committee doubt whether the amount of PSO grant required in 1992 need be higher in real terms than the present level (i.e. £837m). But if more substantial reductions in grant are to be achieved, cuts in the size of the network will be required.

2. The report is in two Parts. The first examines the finances of the railway, concentrating mainly on the scope for improved efficiency and cost reduction in the period up to 1986. Part II is mainly concerned with options for reducing the level of grant by cutting the size of the network.

3. While the Committee do not make recommendations as such, they either offer advice or set out options.

PART I - EXAMINATION OF THE FINANCES OF THE RAILWAY

4. Chapter 2 - The Passenger Business: for marketing and management purposes the passenger business is divided into three sectors - Inter-City, London and the South East, and Provincial Services. Although the Committee discuss each of these sectors in turn, they warn that all three are inter-dependent and that the definitions of which services belong to which sector contain anomalies.

5. Inter-City: the Committee see no prospect of this sector achieving the financial target set for it by the Secretary of State in 1981 (i.e. full commercial viability by 1985). They doubt if Inter-City's revenues can be increased above the levels forecast

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in the Board's 1982 Rail Plan but they consider that the sector's costs could be reduced in 1986 by up to £39m as a result of the improvements in efficiency and the cost-reductions they consider attainable.

6. The Committee set out two options for Inter-City:

(a) "Progressive Closure" - the services with the worst operating results would be withdrawn on a progressive basis until what remained was capable of achieving long-term commercial viability; or

(b) Grant-aid the sector - the sector would be set the financial objective of covering a specified and increasing proportion of its costs, meeting the residue from grant.

The Committee comment on these possibilities in paragraph 2.13.

7. London and the South East (L&SE): the Committee did not investigate this sector in detail because their inquiry followed so closely after the MMC's 1980 inquiry.

8. The Committee doubt the justification for the size of the present season ticket discount, and say that it warrants thorough examination. They also say that this is the only sector of the passenger business where a substantial real increase in fares would be likely to improve financial results significantly. If the cost savings and efficiency improvements the Committee believe attainable were achieved, they could reduce the sector's costs by up to £55m in 1986. The Committee endorse the setting of objectives for this sector along the lines of those published in draft by the Secretary of State in 1981.

9. The Provincial Sector: the Committee draw attention to the fact that few services cover even their direct train and terminal costs from revenue, and several services involve costs many times as large as the revenue they generate. About half the total deficit of the passenger business in 1982 will arise from the losses of this sector. The Committee can see little scope for increasing the revenue of the provincial services (outside the areas of the Passenger Transport Executives). But if the improvements in efficiency and cost

reductions the Committee believe to be feasible were achieved, the sector's costs could be reduced by £75m in 1986. Even so, the Committee believe that the sector will continue to require financial support of about £450m a year for the foreseeable future. They take the view that many of the provincial services represent very poor value for public money. Local transport requirements could, in most cases, be met at far lower cost to the taxpayer by other means (e.g. subsidised bus services). The Committee say that the Secretary of State should set objectives for the Provincial Sector similar to those that they favour for L&SE.

10. Local Government Support for Rail Passenger Services: pressure on local government expenditure could induce the PTEs to switch support away from rail passenger services towards bus services. In that event, closure of the rail services might need to be considered. The Committee favour neither the payment of special grants to PTEs for replacement of Diesel Multiple Units nor charging PTEs only the avoidable costs of all the services they support.

11. The Committee considered the case for transferring to local authorities outside the metropolitan areas the responsibility for supporting local rail services. They concluded that the balance of advantage lies in the Government retaining primary responsibility for setting the objectives, and providing the financial support, for the passenger rail services outside the PTE areas.

12. Chapter 3 - The Freight Business: the Committee see a reasonable prospect of the freight business breaking even in the mid-1980s. They warn that the business will remain heavily dependent on the movement of traditional bulk commodities (coal and coke, iron and steel, petroleum, aggregates and building materials). There is some potential for growth in other traffics and for the development of Speedlink, but the Committee advise that the Board should plan such expansion very cautiously. The Committee consider that freight revenue may be significantly less in 1986 than that forecast in the Board's 1982 Rail Plan, but if economies are achieved, forecast costs could be reduced by up to £45m.

13. Chapter 4 - The Parcels Business: the Committee consider that the Board's forecasts of revenue in their 1982 Rail Plan may err on the side of optimism. If cost savings and efficiency improvements are achieved, savings in costs of about £6m in 1986 may be attainable.

14. Chapter 5 - Selling the Railway's Services: the Committee see no necessary conflict between a railway that is customer-oriented and one that is highly cost-conscious. They stress that the Board should not seek traffic unless it can be expected to maintain or enhance the net revenue of the railway in the long term. They suggest a detailed examination of all the Board's reduced fares schemes to establish their resource implications and their continued validity. A simplified fares structure, which the Board are planning, is urgently required. The Committee consider that a brand management marketing system should be developed for the passenger business. The effectiveness of advertising should be analysed, and there should be greater central control over advertising expenditure by the Regions. Investment in automatic ticket machines and automatic revenue collection should be given priority.

15. Chapter 6 - Engineering: The Committee based this chapter of their report on the advice of their consultants, R Travers Morgan and Partners. A separate report, summarising the results of the Engineering Study, has also been sent to the Secretary of State.

16. The Committee have concentrated in Chapter 6 on the opportunities for savings and efficiency improvements identified by their consultants. A summary of these opportunities is given in paragraph 6.59. In all cases, the savings have been judged against 1981 results on the assumption that the measures necessary for their achievement had been taken before that date. This assumption was necessary because the study had to use the latest available factual records, which were for 1981, but the Committee point out that savings actually achievable in later years would not necessarily be the same.

17. Overall, the Committee judge that the Board should be able to achieve net savings in engineering expenditure, relatively small in the next few years but growing throughout the next decade. Efficiency savings would result for example, from a leaner organisation, from better work programming and from eliminating surplus maintenance capacity. In addition, the Committee comment that:-

- their consultants had found little evidence that a significant backlog of track renewal was accumulating. The main lines were generally in good condition, and safety was not being prejudiced;
- in many areas, engineering costs could not be analysed because of inadequate data. Until better information is made available, BRB management will not have a full understanding of the way in which engineering costs are caused;
- the Board have tended too readily to incorporate increased sophistication and expensive optional features in designing vehicles. Over-specification of design has meant that outside suppliers have not been able to offer cheaper designs to meet a performance specification;
- in designing and specifying vehicles the Board need to adopt a more clearly articulated and comprehensive approach, paying more attention to lifetime fleet operation and maintenance costs.

18. Chapter 7 - BREL's Role in the Railway: BRB are the only major world railway, other than India, which manufactures its own stock. While the Committee found that BREL's coach and EMU prices were competitive with those of US and Japanese manufacturers, locomotives produced by BREL were more expensive.

19. Paragraph 7.27 summarises six problems identified by the Committee:

- a. the relationship between BREL and BRB is unsatisfactory causing difficulties in industrial relations and unclear division of responsibility;

b) BREL cannot adjust its capacity rapidly in the light of changed demand;

c) BREL is over-optimistic in its plans to increase work for private parties;

d) BRB's demand for locomotives is insufficient to allow economic production by BREL;

e) policy on overseas purchase is unclear. BREL purchase only 1% of their materials overseas, which seems inconsistent with BRB's policy to purchase abroad where this is commercially advantageous;

f) because BREL has a monopoly in supplying new rolling stock to BRB, its relative efficiency cannot be judged.

20. The Committee identify three options for structural change:-

i. severing the relationship between BREL and BRB, possibly by making BREL a separate nationalised industry;

ii. privatising BREL;

iii. reabsorbing BREL's facilities into BRB and giving up private party work.

21. Chapter 8 - Investment: The Committee consider that the Board are over-estimating the need to increase rail investment over the next decade. They could achieve their aims more efficiently, at less cost, and in some respects the planned increase in the volume of investment is unnecessarily large. In particular planned investment expenditure on track and signalling could be reduced.

22. The Committee say however that the Board should increase their investment on some items which would reduce costs and increase efficiency. Examples include level crossing

modernisation, automatic ticket-issuing machines, radio signalling and equipment needed to reduce the costs of infrastructure renewal and maintenance. The Committee also endorse the Board's view that investment in traction and rolling stock will need to be increased substantially in the late 1980s.

23. The Committee did not look in detail at the arguments for main line electrification, but say that the case will need review in the light of their findings.

24. Other key points in Chapter 8 include:-

- substantially increasing the level of investment would not be justified by improvements in operating results;
- the Board should give more thought to the timing of benefits expected from investment schemes, and should give highest priority to schemes where either the facilities or equipment can no longer be used in their present state or where substantial efficiency improvements are obtained and rapid pay back of invested capital is achieved;
- thorough review of the Board's internal procedures for project appraisal is required, and a substantial programme of backchecks should be carried out. The Department should gradually withdraw from project appraisal;
- there is little scope for introducing private capital into rail investment because of the Treasury's rules.

25. Chapter 9 - Management, Manpower and Information: the Committee commend the Board's introduction of sector management, but consider that sector directors should be give further authority.

26. On productivity the Committee stress that the Board should do their utmost to achieve the initiatives they are developing

although this will place strains on industrial relations. There is ample scope for further savings, and the financial benefits will be substantial. Some of these benefits should be passed to the customer and the taxpayer as well as to the staff. The Secretary of State should help the Board by meeting the transitional costs of redundancies.

27. The Committee found serious deficiencies in the Board's information systems, especially as regards engineering and manpower. These require rapid improvement. In particular the Board's use of computers should be developed urgently.

28. The Committee endorse the conventions under which the Board allocate costs to businesses, but consider that the rules for applying them in practice should be reviewed. They point out that the track costs presently allocated to the passenger businesses are significantly over-estimated.

29. Chapter 10 - Relations between the Department and the Board: the Committee consider that the relationship between the Department and the Board requires change and improvement. The relationship has been impaired because:-

- the Board's Plans have been over-optimistic; their performance unsatisfactory and their data collection inadequate;
- there have been some inconsistencies in Transport Ministers' policies and lack of clarity in their specification.

30. Paragraphs 10.12 - 10.16 suggest action by the Board and the Department to improve their relationship. The Committee do not consider the changes they suggest will require legislation, but suggest that the Board should produce their accounts and plans on the basis of the financial rather than the calendar year.

31. Chapter 11 - Grant Mechanisms: the Committee say that support to the railway should be paid in respect of the part of the railway which is to be supported as a whole rather than separately to different business sectors or services. The Board should be allowed to "vire" grant between business sectors. A number of revisions to the grant procedures are suggested (paragraph 11.8), including regular reviews of the Public Service Obligation and more published information about the Government's strategy for the railway and the assumptions on which annual grant settlements are based.

32. The Committee consider that weighted passenger miles maximisation is insufficient as a possible objective for the railways because it does not

provide the right guidance for Ministers. They refer to an alternative of grant-aiding the traveller direct, rather than paying support to the railway.

33. Chapter 12 - Planning and the Railway's Financial Prospects: the Committee are critical of the methodology used to produce the 1982 Rail Plan. They suggest that in future the Board should produce one Plan, based on the most likely course of events, built up from material produced by sector, regional and functional management. Resource provision should be planned on conservative assumptions about demand, and contingency plans, with appropriate triggers, should be prepared.

34. The Committee make their own assessment of the railway's financial prospects in 1986. They suggest that it is more likely that revenue in 1986 will be lower than the Board's forecasts than that it will be more. But scope is identified for reductions in the Board's planned costs of some £220m. Such savings would be offset, to some extent, by transitional costs, and any implications for revenue or for additional investment. Achieving the savings would require resolute commitment by the Board, clarity of Ministerial policy and Government assistance to meet transitional costs.

35. About £170m of the cost reductions and savings identified would benefit the passenger business. The Committee conclude therefore that the PSO grant requirement for 1986 could be kept below the levels of grant in real terms that Ministers considered appropriate between 1975-80. If the railway achieves cost reductions on the scale outlined, the external finance requirement in 1985/86 might be about £800m.

36. While there are further opportunities for efficiency improvements and cost reduction by 1992, there are also likely to be increased investment requirements. Nevertheless the Committee consider that the PSO grant requirement in 1992 is likely to be no greater in real terms than the present level.

KEY POINTS OF PART II

37. Part II of the Report considers options for alternatives to the

current policies for the railway. Its Preface considers the purposes of travel, and the possible grounds for subsidising it. The Committee say that the Government should clearly state the grounds for future rail subsidy, so that everyone should know what benefit the subsidy is intended to achieve.

38. Chapter 13 - Development of the Options: The Committee's consultants, R Travers Morgan & Partners, developed the network options by producing a set of mathematical models, which could be used to estimate the consequences in 1992 of particular sets of critical assumptions. 1992 was selected because it was halfway through the period of twenty years to which the Committee's Terms of Reference referred. This application to the railway of transport modelling techniques represented a development in rail system planning in this country.

39. Two "Reference Cases" (R1 and R2) were evaluated. These provided:

i) a "snapshot" of what the railway would be like in 1992 assuming no material change from the present in network and services

ii) a base case against which Options involving changes in network and services could be evaluated.

The second Reference Case assumed a higher level of efficiency than the first, but still within the framework of the existing railway.

40. Six different options were evaluated:

A - a commercially viable railway, which might be sustained in the long run with no financial support from public funds.

B - the same railway as A, to which were added those loss-making services where the resource cost of withdrawing the service would be greater than that of retaining it.

C1 - a network omitting services with the most adverse operating ratios, while leaving the network largely unchanged.

C2 - a network omitting further services with adverse operating ratios, limiting the annual deficit to about £700m.

- C3 - a network omitting yet further services with adverse operating ratios, limiting the annual deficit to about £500m.
- D - a network that maintained existing connections with all communities of more than 25,000 inhabitants.

In addition the Committee tested a High Investment Option (H).

41. The Committee stress that these options are no more than illustrations of the kinds of alternative networks which could be provided.

42. Chapter 14 - Results of the Network Options: The results of the options evaluated are summarised in Chapter 14. Key points include:

Option A - this commercially viable railway included only about 16% of the present rail network, but would carry about 44% of the passenger miles produced by the second Reference Case (R2).

Option B - the majority of commuter services were included in this Option, in addition to those services in Option A. This produced a passenger deficit of £72m, for about 55% of the passenger miles carried in R2.

Option C1- If the worst performing services were deleted, the passenger deficit could be reduced by £180m from R1, while retaining 99% of the network.

Option C2 - Further deletion of poorly performing passenger services resulted in a passenger deficit of £690m, while 17% of the network would be closed.

Option C3 - Reducing the passenger deficit to £564m would result in 39% of the network being closed.

Option D - All communities with a population of 25,000 or more could be retained on the network at a passenger deficit of £707m. 17% of the network would be closed, but 92% of the passenger miles carried in the first Reference Case (R1) would be retained.

Option H - Under the Committee's assumptions £4000m would be spent on investment over the next decade as compared to £2,400m under R2. This would improve annual operating results over R2 by £6m (passenger deficit) and £19m (total deficit).

43. Chapter 15 - Passenger Railway Closure Procedures: the Committee consider that the present closure procedures should be retained, but recommend the introduction of time limits for the main stages.

44. Chapter 16: Bus Substitution: the Committee say that whether or not the Secretary of State decides to move towards one of the network options described, there is a case for substituting bus for train services on lightly used rail lines. The case for such bus services would have to be examined line by line, and arrangements made to ensure that substitute services were much more acceptable than those introduced during the "Beeching" closures in the 1960s. For example, there should be explicit guarantees about the future of replacement services, and specific provision made for their financing.

45. The Board should in the Committee's view be made responsible for the provision of replacement services, but should not operate the services themselves. Contracts should be put out for tender, with the operator requiring the least annual subsidy receiving the contract. Services should be financed by grant from central Government, channelled through the Board.

Conclusion

46. This is summarised in para 1 above. The Committee finish by expressing the hope that their work will provide the Secretary of State with the foundation on which he can decide future policy for the railway, and the Board with the material on which they can take early action to improve their finances.

COMMITTEE ON THE REVIEW OF RAILWAY FINANCES

Minority Report - Summary

1. In the Minority Report, Mr Goldstein sets out the main areas where he takes a different view from his colleagues. He states that there is much in his colleagues' report which he supports. His dissent relates to his colleagues' approach to the discharge of their task; the thrust and balance of their report; their views on 1966; the importance they attach to the 1975 level of PSO; and some aspects of forward planning for the railway.
2. Chapter 1 - Introduction: Mr Goldstein summarises the main reasons for his dissent, and states his regret that he has felt compelled to part from his colleagues. He urges the importance of formulating views on the direction for the railway in the longer term.
3. Chapter 2 - Method Of Approach: Mr Goldstein sets out a number of areas where he dissents from his colleagues' approach:
 - a. Colleagues considered that examination of and reflection upon the present position should precede the formulation of long-term options. This allowed little time for the assessment of options, which should have been developed in parallel with the examination of finances;
 - b. The Committee decided to seek a base position against which to evaluate possible changes of policy or practice in the out-turn projected by BRB for the immediate future. BRB projections however were not satisfactory. A more useful approach would have been to forecast results for a date sufficiently in the future to be consistent with the terms of the study. Emphasis on the next few years is not consistent with the Committee's remit. The 1992 Reference Cases should therefore be given more weight than the appraisal of the 1982 Rail Plan;
 - c. BRB's projections of revenue have been subject to less scrutiny than desirable;

d. BRB's Rail Plan projections were not soundly based. Nevertheless the Committee used them to underpin their conclusions about 1986;

e. Colleagues concluded that the level of financial support by 1986 need not exceed the 1975 level in real terms. Mr Goldstein considers there is little or no likelihood of so favourable a result.

4. Chapter 3 - Financial Support For The Railway: Mr Goldstein indicates his general agreement with his colleagues' views on 'Travel and Subsidy' in the Preface to Part II of their Report. But in addition to the criteria for subsidy listed in Chapter 11, he considers that subsidy should not be regressive. Schemes which provide grant aid direct to the traveller, or which relate grant to the amount of travel undertaken, should be studied more fully.

5. The Committee's Report implied that it was important whether or not the grant level in any particular year fell within the 1975 value in real terms. Mr Goldstein considers there is no intrinsic merit in the 1975 value, and that the real issue is the size and quality of railway the nation should support.

6. Mr Goldstein does not consider that his colleagues' conclusion that BRB should be able to keep the grant level within the 1975 value in 1986 is soundly based. The conclusion depends on advice from the Board about further efficiency initiatives, but the effects of these on the Plan 'in the round' have not been considered. Nor is the revenue estimate adopted the most likely to be achieved.

7. In reaching his own conclusions about future results, Mr Goldstein has related the past pattern of performance to future projections. He concludes that in the light of past results, achievement of the 1975 level of support by 1986 cannot be regarded as a practical proposition. He considers that it will be many years before the annual value of PSO and SRA can be expected to be stabilised, though by 1992 this should be achieved at between £800-900m. However, all possibilities for improving the financial position should be pursued.

8. Mr Goldstein estimates that net improvements of as much as £100m a year might be realisable in the longer term as a result of real fare increases in London and the South-East. But before making radical pricing changes a fundamental examination of the longer term effects should be carried out.

9. Mr Goldstein considers that his colleagues' comment on the network options was inadequate and makes some further observations:

a. Both Reference Cases include a number of efficiency measures;

b. Substantial savings could be made by quite small reductions of services and network, as illustrated by Option C1. This improvement would be achievable earlier than more substantial changes, and this Option could be made the first step to more radical change. Option C1 shows similar savings to the second Reference Case;

c. In Option C2 less than 10 per cent of all passenger miles are lost compared with the Reference Cases. Routes closed would be mainly in the North of Scotland, Wales, East Anglia and the South West;

d. In Option D, reconnecting communities of greater than 25,000 population need not require maintenance of the existing service pattern. If only a minimal service were provided, the additional annual costs against Option C2 would be only some £3.5m against £17m;

e. If reductions beyond Option C3 were required, it becomes difficult to define a network which maintains services to the major population centres and a recognisable route structure other than a few principal corridors;

f. Further work would be required to establish whether Option A could in fact be a commercial proposition. Just over half the surviving passenger miles are from the L&SE sector, the balance being Inter City.

g. With a more complete L&SE network under Option B, the passenger deficit rises by only £40m a year for a gain of nearly 2 billion passenger miles;

h. As the size of the network reduces, the profitability of freight traffic was found to increase.

i. The identification of the optimum investment level for any particular option would require detailed study.

10. Mr Goldstein refers to the value of the kind of analysis of options attempted, and considers that the model should be developed further. The Government must first choose the direction for the future railway, so that decisions for the shorter term can be made consistently.

11. Chapter 4 - BR Planning And Management: Mr Goldstein refers to the criticisms his colleagues have made of the 1982 Rail Plan, and concludes that the planning process within BRB is in a state of severe disarray. Different emphasis was placed by individual senior Board members on the further initiatives being developed, and no precise meaning could be ascribed to the 'support' of management for the Plan.

12. Although Mr Goldstein agrees with some of his colleagues' conclusions he does not agree with their proposal that in future a single Plan should be prepared. Rather, he considers that four forecasts should be made, on different assumptions about high and low management achievement and adverse and favourable external factors. The Board should then use what they judge to be the most likely forecast as the basis of the Rail Plan for financial purposes. Management targets should be set using the highest level of efficiency attainable, and contingency plans should also be prepared, particularly for dealing with revenue shortfalls.

13. Formal management support should be obtained only for the first two years of the Plan, and should relate principally to high achievement targets for matters controlled or largely influenced by management.

14. Mr Goldstein considers that thorough, rather than gradual, change to the Board's approach is required. He believes some 'fire brigade' action is necessary.

15. On investment, Mr Goldstein agrees with most of what his colleagues say in Chapter 8. But he considers that a task force should be set up with some staff from outside BR to seek out investment projects of the type commended.

16. Mr Goldstein places greater weight than his colleagues on the need for a clearer command structure within BRB. The present position is risk prone, and should be seen as the shortest possible interim arrangement. If clear command responsibility by sector directors is not achieved, the Board should revert to a geographic structure.

17. Mr Goldstein emphasises the urgent need for better information systems within BRB.

18. Chapter 5 - The Department Of Transport's Overview: Mr Goldstein agrees with most of his colleagues' comments on relations between Board and Department. But he does not believe objectives set by the Government should have three defined components - quality of service, level of fares and level of support. Only two of these three components should be specified, since the three together can be achieved only at one particular level of efficiency. The Department has adopted the position that grant should not be increased because there is scope for cost savings, but have not shown that enough savings are available, or that they can be achieved in time.

19. Rather than relying mainly on the grant mechanism to ensure increased efficiency, the Department should concentrate on its role in appointing Board members. BRB management's present 'custodial' approach is not the most conducive to greater efficiency. The Department should choose key officers on the Board and concentrate on selecting the right management team. If it is not satisfied with the commercial judgment of railway management, the remedy is to appoint a different Board. To do otherwise denies the Board's responsibilities.

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20. Mr Goldstein expresses surprise that no detailed work on alternative treatments of the Inter-City sector has been carried out. There is confusion between Inter-City as a marketing concept and Inter-City as a no-subsidy entity. If there is to be a part of the railway defined as profitable, the characteristics of that part should be formally defined. A policy of closing unprofitable Inter-City services ^{while retaining less busy services} would be unsustainable: if no appropriate definition can be found then it should be recognised that the sector requires grant.

21. Mr Goldstein suggests that the Department should promote greater public debate on railway matters on an informed basis.

22. Chapter 6 - Conclusions: Mr Goldstein concludes that Government should

- a. set out more clearly the task required of the railway.
- b. exercise more fully its discretion to appoint the Board.
- c. expose railway decisions to more informed debate.

Keen pursuit of efficiency could result in an annual passenger deficit of less than £800-900m in the long-term. In the short-term there is little or no likelihood of containing the PSO requirement within the 1975 level in real terms.

23. Real price increases in London and the South-East would improve results but need further study. If real impact on public support is desired, the Government should alter the level of services and the size of the railway network. With a clear brief from Government and a sharper command structure the dedication of railway staff can be put to better service of the community.

24. Appendix: Mr Goldstein appends to his Report diagrams illustrating some of the spatial characteristics of the present railway, adding a brief commentary.

5 JAN 1988



Prime Minister (1)

Transport

MR SCHOLAR ✓

Agree that Douglas Hague be given access to the Serpell Report, within the office? Mus 4/1

cc Mr Walters
Mr Mount

Yes no

THE SERPELL REPORT

As I mentioned to you this morning, Douglas Hague has asked if he can read a copy of the Serpell Report. We agreed that you would need to consult the Prime Minister.

Douglas has been working with Mr Howell, together with Alan and Ferdy, on the future of the railways post-Serpell, and I am sure that both Alan and Ferdy would wish him to be able to read the report without delay. Douglas would be prepared to come into the office to do so.

JOHN VEREKER

4 January 1983

CONFIDENTIAL

De TD
transport



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

10 January 1983

CF/ please make these
changes to new copies

of the
Reports.

MCS 14/1

Dear Michael,

COMMITTEE ON THE REVIEW OF RAILWAY FINANCES

All four members of the Serpell Committee have asked that two additional sentences should be added to the published version of the Majority Report to avoid misunderstanding of the network maps and the description of Option C1.

The first addition concerns paragraph 13.17. The Committee consider the following sentence should be added to the end of the paragraph:

"The second point we should emphasise is that the maps of the network options are illustrative and do not distinguish between passenger and freight services; it should not be assumed, therefore, that all routes carry both freight and passenger services or passenger services of all kinds."

As a consequential amendment, "first" should be added after "emphasise" in line 2 of the original text of paragraph 13.17.

The second addition is to paragraph 14.9, which describes Option C1. The Committee wish to add the following sentence to the end of the paragraph:

"But a substantial number of the more lightly used stations and passenger services no longer operate on lines that remain open for freight or other passenger services."

Mr Goldstein wishes, in line with that addition, to clarify the first sentence of paragraph 3.48 of his Report. He wishes the second line of the paragraph to be deleted and the following inserted:

"by some reductions in services and minor reductions in overall network. Thus in Option C1 ...".

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These changes are significant since they indicate that Option C1 is not as painless as implied in the first text and could apparently involve substantial station closures. My Secretary of State feels that colleagues' attention should be drawn to this point.

My Secretary of State will be writing to the Prime Minister shortly with his proposals for handling the publication and consideration of the Reports.

I am sending copies of this letter to the Private Secretaries of members of Cabinet and Sir Robert Armstrong and to Mr Sparrow.

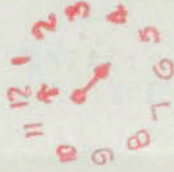
Yours sincerely,

Richard Bird

R. BIRD
Private Secretary

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11 JAN 1963



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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

31 December, 1982

Dear Michael,

As you will see from the attached letter, copies of the majority and minority reports of the Serpell Committee have been sent to all members of the Cabinet on a secret and personal basis. As agreed with Tim Flesher, I am enclosing 2 extra copies of these reports for you to pass on to Professor Alan Walters and Mr Ferdinand Mount.

Yours sincerely,

Richard Bird

R BIRD
Private Secretary

ENCS.



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

DTP 1207 Copy No 18 of 25

SECRET AND PERSONAL

J F Halliday Esq
Private Secretary to the Secretary
of State for the Home Department
Home Office
50 Queen Anne's Gate
LONDON
SW149AT

31 December 1982

Dear John,

I enclose for the personal information of your Secretary of State a copy of the majority and minority reports of the Committee on the Review of Rail Finances, chaired by Sir David Serpell, and of my Secretary of State's Parliamentary Written Answer on 22 December, announcing that he had received the reports. The reports will be published very early in the New Year. Meanwhile it is very important that nothing is said about their contents.

I am copying this to the Private Secretaries to the Prime Minister, and other Members of the Cabinet and Sir Robert Armstrong, and to Mr John Sparrow.

Yours sincerely,

Richard Bird

R BIRD
Private Secretary

HOUSE OF COMMONS

Mr John Townend (Con - Bridlington):

|7| To ask the Secretary of State for Transport, if he has now received the Report of Sir David Serpell's Committee on the Review of Rail Finances; and if he will make a statement.

MR DAVID HOWELL

I have now received the Committee's advice. There is a majority report, and in addition a minority report by Mr Goldstein. In accordance with the terms of reference, the Committee investigated fully the improvements in efficiency which would secure better financial results, and have illustrated a wide range of options for alternative longer-term policies, but have not made recommendations. The Chairman of the Railways Board and I will now be studying the reports urgently.