



Chancellor of the Duchy of Lancaster

Prime Minister

PRIME MINISTER

ms 12/9

RAILWAY POLICY

1. You may wish to have my main reaction to the papers in advance of tomorrow's E(NI) discussion.
2. One is bound to ask why the situation has deteriorated so much since 1978. Until then the situation was improving with the loss declining both in money and even more so in real terms. The increase in the loss in 1978 was probably due to accounting changes (adoption of replacement cost accounting). But between 1978 and 1982 the loss more than doubled in money terms and by not far short of 50% in real terms. Even if one discounts 1982 on the ground of industrial disruption one is left with an increase in the loss of 30% in real terms in the three years 1978 to 1981. During this period, most of the major items remained stable in real terms - passenger revenue hardly changed, wages and salaries showed a minor increase only, other operating costs were static and financing charges actually fell. The sole significant change was in revenue from freight and parcels which showed a fall in real terms of £132 m, accounting for two thirds of the total deterioration over the period. Nowhere in the papers is there an explanation or analysis of this. A lot is said in the Report by Officials about the future of the freight business but there is no analysis of the present position beyond the statement that the coal business is very profitable and the rest makes a loss.
3. There may be nothing in this point. It could be that the costs of the freight business have fallen in line with the decline in its revenue: and that the apparent stability of all the figures hides the fact that savings on freight have been outweighed by unjustified increases elsewhere. But we are not told and on the papers in front of us we have no means of finding out.
4. What this demonstrates is that, on the information at present before us, we have no proper analysis or explanation of why the railways are in the financial mess they are, where the specific problems lie and why. Above all it is essential to have disaggregated figures for the various operations of the railways. I am familiar with the argument that the railways do not keep proper accounts. But any competent management accountant could produce estimated figures of the kind needed. Without this information, it simply is not possible to take decisions which are underpinned by a proper knowledge of what is going on.

A.C.

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12 September 1983