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10 DOWNING STREET

Prime Minister

Alan Walters has looked
into this cost/benefit analysis
and is satisfied that it has
been done properly.

Agree that approval be given
for this electrification?

MCS 3/12

Yes
no



CCAD to
Transport
e

10 DOWNING STREET

From the Private Secretary

4 December, 1981.

Electrification of Rail Services to Norwich

Many thanks for your letter of 2 December.

As I told your office on the telephone this morning, the Prime Minister is content that approval should now be given for this electrification as proposed in your Secretary of State's minute to her of 20 November.

I am sending copies of this letter to Terry Mathews (Chief Secretary's Office), and David Wright (Cabinet Office).

M. G. SCHOLAR

R.A.J. Mayer, Esq.,
Department of Transport.

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be. A. Liquid

B/F

10 DOWNING STREET

From the Private Secretary

30 November 1981

Electrification of rail
services to Norwich

The Prime Minister was grateful for your Secretary of State's minute of 20 November.

She has asked how the real return of 19%, which is referred to in your Secretary of State's second paragraph, has been arrived at.

I am sending a copy of this letter to Terry Matthews (Chief Secretary's Office), and David Wright (Cabinet Office).

M. C. SCHOLAR

Anthony Mayer, Esq.,
Department of Transport.

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*cc. A.W.
A.W.
SV*



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

*Mr Scholar
Mr Walters thinks that
this project is satisfactory, though
I know John Vicker has reservations.
A.W. thinks we should allow D/Tp to
proceed. R.A.J.
3/12*

2 December 1981

Dear Michael,

ELECTRIFICATION OF RAIL SERVICES TO NORWICH

Thank you for your letter of 30 November.

I enclose a note by the Department, which Mr Howell has approved. I hope this gives a satisfactory answer to the Prime Minister's question how the real return of 19% for Anglia electrification has been calculated.

Mr Howell is seeing Sir Peter Parker later today to discuss with him the measures the Board will need to take to meet the very harsh EFL for 1982/83, and the handling of matters with the unions in order to secure the changes on railway productivity etc. which will be necessary. Mr Howell feels it is now very important that we should let Sir Peter Parker have a decision very soon now. He would like to be able to tell him tomorrow morning, before the British Rail Board's meeting to discuss their 1982/83 finances.

I am sending a copy of this letter to Terry Ma thews (Chief Secretary's Office) and David Wright (Cabinet Office).

Yours Sincerely,

Anthony Mayer

R A J MAYER
Private Secretary

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COLCHESTER TO NORWICH ELECTRIFICATION

£m 1980 Prices

Present values discounted
at 7%

Capital Costs

Electrification

Colchester-Ipswich	7
Harwich-Manningtree	3.8
Ipswich to Norwich	13
Associated depots	<u>4.1</u>
Total	27.9

Benefits

Revenue improvement (from 15% improvement in journey times, elasticity 0.8 [*])	40
Reductions in rolling stock procurement (electric locomotives instead of diesel locomotives in mid 1990s)	2.5
Savings in train working expenses - maintenance, fuel etc	<u>10.5</u>
	53
Net present value	25.1
Internal Real Rate of Return	19%

* i.e. a 10% reduction in journey time will give an 8% improvement in revenue.

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1. The rail services to East Anglia are already electrified as far as Colchester. Beyond that, the trains are hauled by diesel traction, and in many services are hauled by diesel traction throughout. Continuing the services in this particularly expensive way would eventually require replacement of diesel stock, but little of this in the next decade.
2. Electrification beyond Colchester will allow more productive use of electric stock, which BR already own, and the diesel stock will in the main be eliminated.
3. BR's proposal is therefore to electrify the lines but without building additional rolling stock.
4. Electric services will be quicker and more reliable and will attract more traffic. The returns from electrification are mainly in increased revenue. The effect on revenue of improving journey times is well established.
5. The Board's proposals covered also electrification to Cambridge from Bishops Stortford and from Royston. In order to isolate the financial consequences the Department has required an incremental analysis so that the electrification beyond Colchester can be separately assessed.
6. The Board's assessments have been rigorously examined in detail by the Department's economists who identified areas of appraisal optimism and have corrected for them. The Department's assessment has been scrutinised by the Treasury.
7. The costs of the proposal (1980 prices) discounted at 7% in real terms are £27.9m. The net present value of the benefits, discounted at 7%, exceed this by £25.1m, on the Department's assessment. This gives an approximate real rate of return of 19% on the investment.

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**DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB**

Prime Minister

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

I have asked Alan Walters for
his quick comments; but they will not be
quick enough to meet the
deadline set in my letter.

2 December 1981

Dear Michael,

ELECTRIFICATION OF RAIL SERVICES TO NORWICH

Agree I tell Mr Howell's office that
they must wait until you've had a chance to

look properly at the

information you asked for?

I enclose a note by the Department, which Mr Howell has
approved. I hope this gives a satisfactory answer to the
Prime Minister's question how the real return of 19% for Anglia
electrification has been calculated.

MUS 2/12

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with him the measures the Board will need to take to meet the
very harsh EFL for 1982/83, and the handling of matters with the
unions in order to secure the changes on railway productivity etc.
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Yours Sincerely,

Anthony Mayer

R A J MAYER
Private Secretary

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