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Prime Minister

This minute seems to me to be an inadequate basis for a decision.

David Howell has offered to let you have more information on the investment appraisal on this project, what exactly it involves, who it benefits, why the form of modernisation needs to be settled

Prime Minister

HASTINGS-TONBRIDGE RAIL SERVICES quickly (see below), and so on. I

Suggest you take up this offer. Agree?

1. The Railways Board have put to me proposals for renewing the service (predominantly commuter) between Hastings and Tonbridge. I thought you should know the decision I shall be announcing shortly.

WM
4/3

2. As you may know, this is a line with peculiarly narrow bridges and tunnels, and the special rolling stock for it is wearing out. The Railways Board's appraisal of the alternatives for maintaining the service (whose financial performance is about the average for the London commuter services) shows the inadequacies which have been strongly criticised in the reports of Sir David Serpell's Committee, and points sharply to the need for improvement. However, my Department's investigation of the case has convinced me that the scheme put forward by the Board for electrification on the third rail system is a sound and reasonable way to continue the service. The plan is to use ordinary S.R. rolling stock but running on a single line through the narrow tunnels. I have considered whether this might make a good test case for the innovations and experiments I would like to see being introduced. But this is ruled out by the need for the form of modernisation to be settled quickly and the early stage in the Government's post-Serpell thinking on these wider possibilities.

3. Approval for the electrification scheme will be very warmly welcomed locally, and by our colleagues who represent the constituencies affected, who have pressed very strongly for an early decision in favour of electrification.



4. On a broader front, it is right to recognise that the Railways Board have continued to make very useful progress. They cut back their manpower numbers by over 12,000 during 1982; they have, as pledged, sold off practically all their hotels; and it is now clear that they can keep within their EFL for 1982/83, having offset all the costs of the strikes. They are still bogged down with Lord McCarthy's tribunal on single manning of the Bedford/St Pancras service, and they are certainly not out of the wood there. The Board so far have been resolute. Sir Peter Parker has secured the unions' agreement to start a review of their negotiation machinery, and that is a useful step.

5. Approval of this scheme, which fills in a small gap in the Southern Region's third rail system, gives no commitment whatever to the Board's plans for main line electrification. It is a limited scheme, costing £23.9 million at 1982 prices over 4 years and will of course be paid for entirely within BR's EFL. I have concluded that the right course is to make a quick announcement of approval, while pursuing with the Board the clear need to improve their investment appraisal procedures.

6. I am copying this to Geoffrey Howe.

DH.

DAVID HOWELL
10 March 1983



10 DOWNING STREET

From the Private Secretary

14 March 1983

Dear Richard,

HASTINGS-TONBRIDGE RAIL SERVICES

The Prime Minister has seen your Secretary of State's minute of 10 March about renewing the service between Hastings and Tonbridge.

The Prime Minister would be grateful for a sight of the information which formed the basis for your Secretary of State's conclusions on this matter: the investment appraisal, the costs, the passenger numbers and so on. Mrs. Thatcher is not convinced by the argument that this service would make a poor test case for the innovation and experiment which the Government wishes to see in the management of the railways. She does not understand the need for a speedy decision on the form of modernisation of this service.

I am sending a copy of this letter to Margaret O'Mara (HM Treasury).

Yours sincerely,

Michael Schöler

Richard Bird, Esq.,
Department of Transport.

P

Transport

FOR THE INFORMATION OF THE PRESS

Please Note Embargo: Not for publication, broadcast or use on club tapes before 11.00 a.m. BST on Wednesday 12 May 1982

HOUSE OF COMMONS TRANSPORT COMMITTEE

RAILWAY ELECTRIFICATION

1. The Second Report from the Transport Committee in Session 1981-82, on Main Line Railway Electrification will be published at 11.00 a.m. on Wednesday 12 May 1982 as House of Commons Paper No.317-I. Mr Tom Bradley, MP, the Chairman of the Committee, will take the chair at a press conference to be held at 12 noon on Wednesday 12 May in Committee Room No.17 (on the Upper Committee Corridor at the House of Commons).

2. The Report follows an inquiry conducted during the winter of 1981-82, during which the Committee took evidence, in private, from the Railways Board, officials of the Department of Transport, the Railway Industry Association, the main railway unions, and the Secretary of State for Transport. All the evidence given by these witnesses, together with other papers submitted in connection with the inquiry, is published in Volume II of the Report (House of Commons Paper 317-II).

3. Volume I (House of Commons Paper 317-I) contains the Committee's Report, an Appendix prepared by the Committee's Specialist Adviser (Dr Stephen Glaister, Cassell Reader in Economics at the London School of Economics), and the Minutes of Proceedings of the Committee relating to the Report.

4. A Summary of the contents of the Report, and of its main conclusions and recommendations, is attached.

All enquiries to the Committee Office on 01-219 6101 or 01-219 6264

Please Note Embargo: Not for publication, broadcast or use on club tapes before 11.00 a.m. BST on Wednesday 12 May 1982

Transport Committee Report on Main Line Railway
Electrification

(Second Report from the Transport Committee, Session 1981-82,
HC 317-I)

SUMMARY OF CONTENTS, CONCLUSIONS AND RECOMMENDATIONS

Part I (paras.1-18) (Introduction) explains the background to and purpose of the inquiry, and comments on the challenge facing British Railways in the light of its present financial position and of recent industrial disputes.

(1) The Committee acknowledge that the Government were acting in accordance with established practice in rejecting their request to see, on a strictly confidential basis, the report on main line railway electrification prepared by the Central Policy Review Staff, but regret that they therefore felt unable to inform the Committee of the advice received from their officials on this matter, which has prevented the Committee from obtaining a direct explanation of the factors which influenced the Government's response to the Electrification Review (paragraph 8).

(2) The Railways Board and the unions must accept that neither Parliament nor the public can be expected to look favourably on major new investment so long as present revenue is being lost, capital assets wasted, and customers inconvenienced, by disputes of the kind experienced in recent months. Although the first authorisations for further electrification should not be delayed because of these disputes, it will be right for the Government to require positive evidence that agreement can be reached on significant productivity improvements before subsequent authorisations are given for later electrification schemes (paragraph 18).

Part II (paras.19-51) explains the background to and findings of the joint BR/Department of Transport Review of Main Line Railway Electrification, outlines the Government's response to the Review, and comments on the consequences of delays in decisions on further railway electrification.

(3) Although the Committee accept that it is essential for the Government to be confident that expenditure on electrification would be an appropriate use of resources before firmly committing itself, they believe

it is unfortunate that some of the further considerations now under study by BR and the Department of Transport were not raised by the Department at an earlier stage (paragraph 42).

(4) The possible loss of proven skills and experience in the design and erection of overhead catenary systems would be detrimental both to any future programme of electrification approved by the Government and to the export competitiveness of the UK's railway equipment industry (paragraph 50).

(5) In fairness to both the railway equipment industry and to the Railways Board, the Government has an obligation to react speedily to the electrification submissions brought forward by the Board. If the case for electrification is made to the satisfaction of the Government and the criteria it has established, the Government should be prepared to approve at least one major scheme with all urgency in order to avoid the additional costs which further delay would inevitably impose on a programme of electrification (paragraph 51).

Part III (paras.52-95) contains the Committee's own observations on the joint Review of Main Line Railway Electrification, including comments on appraisal methodology, the financial position of the inter-city and freight businesses, traffic volumes, productivity, and energy prices.

(6) It is unfortunate that so little progress seems to have been made with the studies recommended by the Leitch Committee on comparability between road and rail appraisal methods (paragraph 58). In the case of main line railway electrification, however, the indications are that the use of a cost-benefit framework would not in fact have demonstrated a substantially higher rate of return than the financial return actually calculated (paragraph 59).

(7) The revised railway traffic forecasts and the changes in service levels which the Railway Board now intend to implement do not appear to invalidate the general case for electrification put forward in the Electrification Review, although the benefits from all the electrification options are likely to be reduced (paragraph 74).

(8) Regardless of the dispute over flexible rostering, it is essential for significant progress to be made in the current productivity negotiations between the Railways Board and the unions, including those involving changes in the working practices of train crews (paragraph 81).

(9) The Committee conclude that the Electrification Review has established a prima facie case for some electrification, although it has not established what

size of commitment would be justified nor exactly which schemes should be started in the near future (paragraph 93).

(10) The Committee's endorsement of the general findings of the Electrification Review does not lead them to favour in particular any one of the options set out in Review. But, given the general case in favour of electrification, there are clearly advantages in making an early start with further electrification work, thus providing continuity following the completion of the Bedford-St.Pancras scheme (paragraph 94).

Part IV (paras.96-114) comments on the export advantages to the UK railway equipment industry of a major programme of railway electrification and on the possible consequences of a decision not to continue with further electrification in the UK.

(11) The evidence submitted to the Committee strongly suggests that there is a large and expanding world market for railway electrification equipment, and that a domestic programme of electrification will contribute towards the competitiveness of the UK industry within that market. The Committee accept the view that the disbandment of the existing electrification team would represent a serious set-back to the industry's export prospects (paragraph 113).

(12) The Committee strongly endorse the Secretary of State's view that, in reaching decisions on individual electrification schemes where the assessment of the direct financial return is marginal, consideration should also be given to exports and the health of the industry generally. The Secretary of State should therefore keep fully in mind the potential benefit to exports when he comes to consider British Rail's electrification proposals (paragraph 114).

(Part V (paras.115-137)) discusses the method of approval for future main line electrification schemes.

(13) In its role of banker to the industry, the Government must inevitably consider developments in productivity when drawing up the Railway's Board's financial targets and spending limits. The Government's position in regard to electrification should be seen in this light (paragraph 120).

(14) In relation to both electrification, and the many other pressing aspects of railway modernisation, it is essential for all involved in the future of the railway industry to accept the challenge they now face in a spirit of cooperation rather than conflict (paragraph 121). Although recent disputes are

indicative of the great difficulties involved in changing railway working practices, the productivity improvements of the last year do indicate that significant progress has been, and can be, achieved (paragraph 122).

(15) The Government is right to look for a significant improvement in the financial position of the railways' freight and inter-city businesses. The approval of further electrification schemes must therefore be seen in the light of BR's progress towards the target of commercial viability by 1985, and the pace at which electrification is to proceed must inevitably be linked with the indications which the Board is able to give that the target is being achieved (paragraph 126).

(16) The Government's review of the railways' finances should identify a coherent strategy for renewal and modernisation which realistically reflects both the business prospects of the railways and the level of resources which the Government believes it can make available. If this level of resources is not sufficient to maintain the rail network in its present size and shape, this should be made clear and plans developed accordingly. Meanwhile, prior to the completion of the financial review, the Government must consider whether additional resources should be made available for any electrification schemes which are approved (paragraph 137).

Part VI (paras.138-149) sets out the Committee's main conclusions and recommendations on future main line railway electrification.

(17) It is now incumbent on the Government to come to a speedy decision on the proposals for electrification submitted by the Railways Board (paragraph 138), and the need for a rapid decision is underlined by the imminent loss of the existing electrification team (paragraph 139).

(18) Although the case for electrification has been somewhat weakened by economic and industrial factors over the past two years, the basic finding of the Electrification Review, that further main line electrification can be financially justified, remains valid (paragraph 140).

(19) Although the Committee accept the Review's argument in favour of a commitment to a rolling programme of electrification, they believe that the Government is right to expect that schemes should be subject to detailed appraisal as they are brought forward for implementation, even though they are initially included in the programme on the basis of outline appraisal only (paragraph 143).

(20) A programme conducted on this basis should provide an adequate planning background for BR and its contractors, but such a commitment by Government to the principle of further electrification is quite meaningless if it is not also supported by an acknowledgement of the need for adequate financial provision (paragraph 143).

(21) The Committee do not believe that the achievement of fully commercial operation of the inter-city and freight businesses by 1985 should be regarded as an overriding constraint on the approval of further electrification schemes, since electrification could be financially justifiable even if the commercial businesses remain in deficit for somewhat longer than the Government is currently hoping (paragraph 144).

(22) Although much progress has already been made, the Committee believe that it is essential that negotiations on productivity between the unions and the Railways Board should reach a successful conclusion, since improvements in efficiency are essential to the case for further investment (paragraph 145).

(23) The Committee recommend that, subject to a satisfactory submission by the Railways Board, the Government should give early authorisation to the electrification of the East Coast Main Line. The Committee also recommend that, in view of the financial constraints under which the Board is currently operating, the Government should review the Board's external financing limit and investment ceiling so that additional resources are specifically made available for this project (paragraph 147).

(24) Although the speed of implementation of the electrification programme will depend on the overall level of investment funds available to the Railways Board and on their other investment priorities, the Committee believe that the Government and the Board should seek to ensure continuity of work for the contracting industry throughout the period of the programme (paragraph 148).

(25) Finally, the Committee recommend that the Government's review of British Rail's finances should be pursued with the utmost urgency, with a view to developing a coherent financial strategy for the whole of the railway system (paragraph 149).