

Prime Minister |

30 March 1983  
Policy Unit

PRIME MINISTER

Please see Mr Howell's

office letter (Flag A) ; and the Chief Secretary's (Flag B).

HASTINGS AND TONBRIDGE RAIL SERVICE

Agree (write as at X ?)

MUS 31/3

We cannot recommend that you accept the Department of Transport's request for immediate approval for electrification. David Howell himself points to "the weaknesses in the Board's investment procedures which were identified by the Serpell Committee and are exemplified by this particular case". This is a wholly inadequate instance of the line-by-line evaluation of electrification.

BR claims that its preferred electrification options would cost some £24m against £18m for "life extension" - patching up the existing vehicles. But on a fuller definition of the lifetime costs of electrification, the Department of Transport speaks of a sum of £67m. The rolling stock for the electrified line which BR reckons as being free (because they over-ordered) is itself some 20 years old and would itself soon need patching up. Incidental costs of the electrification scheme, we believe, would include the physical handing of a token from one driver to another because of single tracking in the tunnels. This picturesque practice is highly expensive in time and manpower, and is a notorious contributor to losses on rural lines.

We suspect that all the figures are being nudged to give the required answer. We do not even need to point out the alternative possibility of a high-speed bus service along an improved A21 road. For the moment, the first priority must be to get comprehensive and reliable costings.

Above all, we are unimpressed by the supposed urgency. We are told that the rolling stock is "coming to the end of its useful life", but so are we all, and we can usually be patched up for quite a few years longer.

We suggest that, as an earnest of their post-Serpell good intentions, BR and the Department of Transport should be invited to make a full costed presentation of the options to you by mid-May.

FERDINAND MOUNT

I think Ian Gow should  
just have a word with John Stanley  
and Kenneth Wauer. The former mentioned  
something about it to me the other day - but I cannot remember  
the precise point now

CONFIDENTIAL

MR MOUNT

30 March 1983

cc Mr Scholar ✓  
Mr Walters O/R

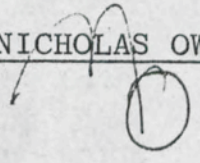
HASTINGS-TONBRIDGE RAIL SERVICE

I enclose a note on this proposal.

I recommend stalling on this project because:

- 1) its costs are higher than BR claim;
- 2) the benefits of closure have not been assessed.

NICHOLAS OWEN



CONFIDENTIAL

THE HASTINGS-TONBRIDGE RAIL SERVICE

In the context of the Serpell Report this line is not by any means a prime candidate - or even a candidate at all - for closure yet, to judge from the figures available to us, the investment which would be necessary to sustain this line in the longer term appears to be highly unprofitable. This paradoxical situation is perhaps a manifestation of the poor overall economics of the railway system.

According to Serpell, the Hastings-Tonbridge line, and the Eastbourne-Canterbury section to which it links, would be eliminated under the severest option discussed - a so-called Option A, "the viable option". This implies that the direct costs of these sections exceed 85% of their revenues. However, the HT line would survive under the less severe Option B, which include those London commuter services which would cover their direct costs and their allocated infrastructure costs (this suggests then, that although the HT's direct costs exceed 85% of the revenues, there is sufficient margin to cover the infrastructure costs). More generally, the London and South-East network is, according to Alfred Goldstein's Minority Report, among the most profitable parts of the entire railway system. This explains why, in preparing the present investment proposal, BR proceeded on the basis that closure was out of the question. The issue to be resolved was how to sustain the HT line in the most cost-effective way.

Benefits of Closure

No analysis of the costs and benefits of closure has been undertaken, for the reason just mentioned. However, it is possible to infer from BR's analysis of profit contributions (Appendix B, attached) that closure would make sense. Although the line is currently making a positive contribution to BR's cash flow of over £2 million a year, leaving aside the line's share of system costs, the contribution to cash flow would be significantly greater - £4.9 million a year from 1988 onwards - if the line was closed at end-1987 and that such

business as could be retained were switched to other lines, at no apparent extra cost or additional investment. In contrast, BR propose to spend £24 million (in fact, considerably more - see below) to sustain a line with the prospect of net contribution of around £4 million a year in the 1990s - less than would be achieved by investing nothing at all.

#### BR's Option

All these figures are probably optimistic. In the first place, BR's traffic forecasts assume constant revenue in real terms without any serious attempt to assess the impact of competition from alternative modes of transport. Secondly, as the Department of Transport's analysis reveals, BR have grossly underestimated the costs of the project, mainly by costing to the project as a free resource, 80 or so vehicles on the grounds that they would otherwise be scrapped. This is unlikely, and even if it were so, the maintenance cost of this ageing rolling stock would be considerable; indeed it is precisely this argument which is driving this project forwards to Ministers' consideration. The Department of Transport have reworked the costing of the proposals to take this and other factors into account. Their costings (£6<sup>7</sup> million ~~and upwards~~) are significantly higher.

If new investment is to be undertaken, BR's proposal should be adopted, for although it is marginally more expensive than some alternatives, the additional cost (£4 million) of minimising the single line sections would probably justify itself in reliability and commercial appeal.

#### Conclusions

In a limited, railway context a case for proceeding is understandably appealing; if one were to begin a programme of closures one would not start with this line. However, in national terms, an investment as doubtful as this does not justify itself. The poor quality of investment in this country, both in the public and private sectors, is an important cause of our low rate of growth. Public expenditure on investment projects eventually crowds out other projects, via its effects on interest rates and taxation. It follows that bad projects tend in the long-term to depress national income. Supporters of the proposal will

point to the social and political costs of closure, but poor economic performance has its social and political costs, too - social tensions, inability to finance social services, most of which have greater relevance than rail travel.

These considerations argue for not proceeding with the projects, at least until the closure option has been properly costed. This would delay the project slightly, if indeed that were the outcome, but this does not appear to be a critical factor. No safety grounds are mentioned in the analysis, nor is there evidence that service levels have been affected by the relative age of the rolling stock.

I recommend that BR and the Department of Transport be asked to provide a costed closure option before any decision is taken.

NICHOLAS OWEN

PROFIT CENTRE COMPARISON

|                                    | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|------------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
|                                    | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| <u>NON INVESTMENT (See Note 1)</u> |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Earnings                           | 8304 | 8304 | 8304 | 8304 | 8304 | 8304 | -    | -    | -    | -    | -    | -    | -    | -    |
| Train Working Expenses             | 5058 | 5058 | 5058 | 5058 | 5058 | 5058 | -    | -    | -    | -    | -    | -    | -    | -    |
| Terminal Expenses                  | 984  | 984  | 984  | 984  | 984  | 984  | -    | -    | -    | -    | -    | -    | -    | -    |
| Margin Before Interest             | 6042 | 6042 | 6042 | 6042 | 6042 | 6042 | -    | -    | -    | -    | -    | -    | -    | -    |
| <u>NON INVESTMENT (See Note 2)</u> |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Earnings                           | -    | -    | -    | -    | -    | -    | 4911 | 4911 | 4911 | 4911 | 4911 | 4911 | 4911 | 4911 |
| Train Working Expenses             | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Terminal Expenses                  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Margin Before Interest             | -    | -    | -    | -    | -    | -    | 4911 | 4911 | 4911 | 4911 | 4911 | 4911 | 4911 | 4911 |
| <u>PROPOSAL</u>                    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Earnings                           | 8304 | 8304 | 8304 | 8304 | 8150 | 8527 | 8507 | 8730 | 8881 | 8838 | 8898 | 8854 | 8817 | 8876 |
| Train Working Expenses             | 5058 | 5265 | 5265 | 5161 | 4813 | 3972 | 3972 | 3972 | 3972 | 3972 | 3972 | 3972 | 3972 | 3972 |
| Terminal Expenses                  | 984  | 984  | 984  | 984  | 1002 | 1003 | 1003 | 1003 | 1003 | 1003 | 1003 | 1003 | 1003 | 1003 |
| Margin Before Interest             | 2262 | 2055 | 2055 | 2149 | 3135 | 3552 | 3612 | 3755 | 3806 | 3863 | 3920 | 3979 | 4042 | 4101 |
| <u>PRINCIPAL ALTERNATIVE</u>       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Earnings                           | 8304 | 8304 | 8304 | 8304 | 8304 | 8304 | 8304 | 8304 | 8304 | 8120 | 8136 | 8153 | 8171 | 8197 |
| Train Working Expenses             | 5058 | 6622 | 6529 | 6837 | 6300 | 6331 | 4752 | 4766 | 4880 | 4808 | 7503 | 7503 | 7503 | 7523 |
| Terminal Expenses                  | 984  | 984  | 984  | 984  | 984  | 984  | 984  | 984  | 984  | 984  | 838  | 838  | 838  | 838  |
| Margin Before Interest             | 2262 | 690  | 791  | 883  | 1020 | 989  | 2568 | 2500 | 2626 | 3226 | 75   | 92   | 113  | 136  |

DEPARTMENTS (B) BETTER OR (W) WORSE

|                                  |            |          |          |          |          |          |          |          |          |          |          |          |          |
|----------------------------------|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| PROPOSAL V NON INVESTMENT        | - (W) 207  | (W) 207  | (W) 113  | (B) 1173 | (B) 1290 | (W) 1299 | (W) 1156 | (W) 1105 | (W) 1018 | (W) 991  | (W) 912  | (W) 869  | (W) 810  |
| PROPOSAL V PRINCIPAL ALTERNATIVE | - (B) 1357 | (B) 1264 | (B) 1266 | (B) 2415 | (B) 2563 | (B) 1044 | (B) 1255 | (B) 1180 | (B) 567  | (B) 3915 | (B) 3687 | (B) 3929 | (B) 3965 |

NOTE 1. Based upon 1982 PPAOCA dated January 1982 - Passenger Service - London-Hastings (via Tonbridge) and Freight Services-Mountfield-Northfleet;(Freightliner, Speedlink, Parcels and Residual Freight have been excluded.)

NOTE 2. Consequent upon cessation of services on the Tonbridge-Hastings line this Profit Centre will be closed but it is anticipated that the earnings shown in the business retained and which will be transferred to other Profit Centres.

For Chief Executive  
*[Signature]*  
 PROJECT APPROVAL ASSISTANT  
 8/10/88