



PRIME MINISTER

EAST COAST MAINLINE ELECTRIFICATION

Later this week I expect to receive BR's revised proposals for the electrification of the East Coast Main Line (ECML). And Bob Reid plans to send me his strategy for the Inter-City business within the next three or four weeks. I thought I should give you warning of this because of the political sensitivity of the issues and my intention to bring them to colleagues for discussion shortly.

There is widespread support for electrification of the ECML, in the House and outside. There has been mounting criticism - including some from our own side - of the delay in reaching a decision on the scheme BR submitted in May 1983. We have insisted that the decision must await the completion of BR's Inter-City strategy. So once we have received both the revised ECML proposal and the Inter-City strategy, further delay would be politically damaging. I believe that we should aim to take an early decision on the electrification proposal and to announce our conclusion before the summer recess if possible.

Since 1981, we have deliberately linked decisions on mainline electrification with progress on the Inter-City strategy. In particular, we have refused to take decisions on ECML electrification until BR produce a strategy showing a satisfactory path towards the achievement of Inter-City's commercial target. This linkage made sense in the very different circumstances of 1981, when every available means had to be used to improve BR's then wholly unsatisfactory performance.

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Matters have changed very much since then. The Board have now brought the railway's finances under much tighter control, and costs are beginning to come down. We have in Bob Reid a strong Chairman who is wholly committed to achieving the target we have set him for reducing the subsidy by £200m by 1986. BREL is now being tackled radically: BR have already announced the closure of three workshops, and by 1986 will have reduced the 1982 BREL workforce by a third. Orders for new rolling stock are going out to competitive tender. In 1981, in the context of a major statement on mainline electrification, Norman Fowler told the House that we were looking for BR to reduce posts by 38,000 by 1985; in fact by the end of 1983, they had already reduced staff numbers by over 31,000. The railway hotels have been sold; BR are selling property at the rate of £70m a year; and they are on course to privatise Sealink this summer. The Board have wholly abandoned the argument that the answer to the railways' problems is simply more and more investment.

So, in these very different circumstances, when we come to appraise BR's case for ECML electrification we should consider it strictly on its own merits. There are of course some connections with the Inter-City strategy (for example the strategy would have implications for the use to which any rolling stock cascaded from the ECML could be put on other parts of the Inter-City sector). Certainly, the Inter-City strategy remains important in its own right; and we must maintain the pressure on BR to achieve a fully commercial performance on these services. But in the new circumstances we now face, I believe that we should base our decision on ECML electrification on whether the project is, in its own right, a worthwhile investment.

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I should mention that I have asked BR to use the "sole user" method of costing infrastructure for the Inter-City strategy, because it seems to me more logical than the alternative method used hitherto, which is called "prime user". It makes the Inter-City target more possible to achieve but it will also provide a more defensible basis for charging private sector users of public railway track. I will explain the differences to colleagues when we come to consider the strategy. I will, of course, also describe what the outcome would have been if "prime user" had been used. The methods used to allocate the costs of railway infrastructure have a significant impact on the financial performance of the different parts of the railway, because infrastructure costs form a large part of total costs. The switch to "sole user" does not affect the economic case for ECML electrification in the slightest. But I think it is more justified.

I am copying this minute to other members of E(NI) and to Sir Robert Armstrong.

NICHOLAS RIDLEY

24 May 1984

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