

Prime Minister⁽¹⁾

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The Chancellor may make some of these points for you. Agree to await his response, and then consider your own reply?

29 May 1984

PRIME MINISTER

EAST COAST MAIN LINE ELECTRIFICATION

Yes
Dubs
29/5

(attached)

We have been anticipating for some time a note from Nicholas Ridley, which reflects the BR Board's strong wish to uncouple the ECML electrification proposal from the Inter-City strategy. The reason for BR's anxiety is simple. They are convinced that ECML electrification is a sound investment but are having difficulty in showing how Inter-City can make a profit by 1988. The sector lost £160 million in 1983. BR only hope to halve this loss by 1988, on present accounting methods. Hence their desire to view the project "on its merits" and to "move the goal posts" by changing the accounting conventions to unload some of the heavy infrastructure costs which presently fall on Inter-City on to other sectors.

There is a good logical argument for uncoupling, and for changing the accounting. In his terms of reference, Bob Reid has been instructed not to embark on major route closures. We are not going to close the ECML. Moreover, it is the second least unprofitable line of the Inter-City sector. (West Coast is the best.) The heavy loss-makers in the sector are in the South West. BR argue that an investment which makes the ECML less unprofitable, and possibly even profitable ought to be undertaken. It will need new investment in locomotives and rolling stock anyway in the late 1980s.

BR puts a logical case for the changes in the accounting system. The changes would force BR managements to identify which parts of the infrastructure they wanted, and were prepared to pay for, and which they were not. Excess capacity would then be closed down faster than under the present system, which simply dumps the infrastructure which no other sector wants on Inter-City. It should therefore lead to more sensible decisions. It would make it easier to argue the case for closures of the more outrageously uneconomic provincial lines, as their costs would rise.

Despite these points, you should resist, at least for the time being, Nicholas Ridley's proposal to uncouple ECML electrification from the viability of Inter-City, for two reasons. First, this tactic has served you well in forcing BR to adopt commercial attitudes, as is evident from the progress that Bob Reid has made on a number of fronts. Conspicuously absent, from the list, however, is the progress of Inter-City. You would want, I am sure, to be reassured on this point before acceding to Nicholas Ridley's suggestion. Second, there are good analytical reasons for linking ECML electrification to the strategy. The link

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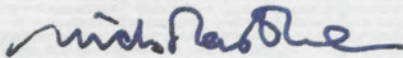
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forces BR to make realistic assumptions about its rolling stock requirement, with and without electrification.

We recommend that you allow the Treasury Ministers to respond. At this point you might reply along the lines that:

- (i) you are encouraged by the way Bob Reid is tackling a number of the problems confronting him;
- (ii) Before agreeing to uncoupling ECML electrification from the strategy you would like to see evidence that there are genuine prospects of improvement in Inter-City performance.
- (iii) the accounting changes should only be accepted if they clearly bring operational improvements. Costs have to be cut, not shuffled around the system. How will excess assets be shed and why are they not at the moment?

Such a reply would not rule out subsequent agreement to these proposals.


NICHOLAS OWEN