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P.01355

PRIME MINISTER

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Electrification of the East Coast  
Main Line:

E(NI)(84)9

BACKGROUND

British Rail has long wished to electrify a number of main lines, most importantly the East Coast Main Line (ECML) between London and Edinburgh. Since 1981 the Government has linked decisions on main line electrification with progress on the strategy for the Inter-City sector of BR: in particular, Ministers have refused to take decisions on the electrification of the ECML until BR produce a strategy showing a satisfactory path toward the achievement of Inter-City's commercial targets.

FLAG A (Item 1)

2. In his memorandum on BR's Inter-City strategy (E(NI)(84)8), the Secretary of State for Transport argues that BR has now produced a satisfactory strategy for Inter-City. If the Sub-Committee accept this view the way is clear for consideration of BR's proposals on ECML electrification.

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These are set out in Mr Ridley's memorandum E(NI)(84)9: Mr Ridley recommends that they should be accepted.

3. BR and officials of the Department of Transport have carried out a full appraisal of the project. It would have a gross capital cost of £306 million, at late 1983 prices, spread over the period 1984 to 1991. But the ECML would any way require substantial further investment even if it were not electrified. The net additional cost of electrification is estimated to be £140 million.

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4. On the basis of the central assumptions used in appraising the project, and with a discount rate of 5 per cent (the minimum used in assessing public sector investment projects, but arguably appropriate in this case), the project is calculated to have a net present value (NPV) of £50 million; if allowance is made for an improvement in the efficiency of maintaining the alternative diesel stock, the figure is reduced to £39 million. It is, moreover, arguable that in order to allow for appraisal optimism a higher rate of discount should be used. On the basis of a rate of 7 per cent, the NPV over the life of the project is close to zero. In other words, from a purely economic and financial standpoint it is a matter of indifference whether or not to proceed with it.

5. As usual with long term investment projects the underlying assumptions are uncertain; and quite wide variations in them are plausible. It follows that the calculation of the NPV is subject to similar uncertainties. However, departments generally agree with the judgement in paragraph 18 of E(NI)(84)9, that "the economic case for BR's proposal is finely balanced".

MAIN ISSUES

6. In previous correspondence the Chancellor of the Exchequer (minute of 31 May) argued that BR's proposals should be considered within the framework of the nationalised industries' Investment and Financing Review (IFR); it was implied that a decision was unlikely to be possible before the autumn. This line of argument was supported by the Chancellor of the Duchy of Lancaster in his minute of 12 June. However, I understand that Treasury Ministers are now likely to accept that it would be reasonable to take a decision without waiting for the IFR. The net cost of electrifying

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the ECML would amount between now and the end of 1988 to only £109 million, according to the figures in Table 3 of the Annex to E(NI)(84)9: the Chief Secretary apparently does not regard this as so large as to jeopardise the success of the Review.

7. It is also possible that the Sub-Committee might wish to defer a decision on the ECML proposal if they regarded BR's Inter-City strategy as outlined in E(NI)(84)8 as unsatisfactory. However, the details of the ECML proposal are largely unaffected by the strategy: deferral of a decision in these circumstances would in essence be a continuation of the tactical approach of deferring decisions on main line electrification proposals in order to put pressure on BR to come up with an acceptable strategy for Inter-City.

8. Subject to these points, the issue before the Sub-Committee is simply whether to accept or reject BR's proposals. Neither acceptance nor rejection need be unconditional: for example, acceptance could be subject, at least so long as large amounts of capital have not been committed, to continuing progress with efficiency; or rejection could be coupled with a willingness to reconsider in a few years' time.

9. If Ministers are satisfied with BR's Inter-City strategy, whether to approve electrification of the ECML becomes a matter of assessing the economic and financial appraisal. The main considerations are set out in the memorandum and its annex, and there is no need to repeat them.

10. In addition, Ministers may wish to consider the following points.

  
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a. The Chief Secretary is likely to argue that the project is borderline; and that in these circumstances it would be prudent not to invest substantial sums of public money. The project should therefore be rejected.

b. Assumptions about the course of fuel prices in the 1990s are very important in the appraisal (see paragraph 36 and Part C of Table 13 in the Annex to the memorandum). On the lowest energy price scenario the project would only just break even at a 5 per cent discount rate.

c. On the other hand, the Board have the basis for arguing that the project does (if only just) pass the tests of economic viability, and they regard it as a high priority in their investment programme. Mr Ridley considers that the Government does not have adequate grounds for setting aside the BR Board's judgement.

Possible conditions

11. After a certain point, so much expenditure has been committed that it is no longer realistic to attach conditions to large capital projects. However, for at least a year or two, if Ministers are willing to approve the ECML scheme in principle, it would be reasonable to keep open the possibility of cancellation if progress with productivity is inadequate. Ministers may also wish to warn BR that they will insist on any other electrification schemes being appraised as rigorously as the ECML.

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Announcements

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12. Although the memorandum makes no proposals about announcements, Mr Ridley's minute of 24 May said that the Government should aim at announcing its conclusions before the Summer Recess if possible. The Sub-Committee will wish to consider whether the Government, rather than BR, should make an announcement and, if so, what should be its form and timing. You will probably wish to invite the Secretary of State for Transport to circulate a draft to the Sub-Committee.

HANDLING

13. You will wish to invite the Secretary of State for Transport to open the discussion. The Chief Secretary, Treasury might be asked to reply. The Secretary of State for Scotland and the Secretary of State for the Environment may have comments on the implications for Scotland and the English regions respectively.

CONCLUSIONS

14. You will wish the Sub-Committee to reach conclusions on the following.

(i) Should the proposals of British Rail for the electrification of the East Coast Main Line be accepted or rejected?

(ii) Should any conditions or qualifications be attached to the decision?

(iii) Announcements.

*PLG*  
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Cabinet Office  
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