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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

RAILWAY POLICY AND BRITISH RAIL FINANCES

Memorandum by the Secretary of State for Transport

1. The British Railways Board (BRB) submitted their Corporate Plan to me on 20 November last - and published it in December. I have circulated separately an appraisal by my officials. In brief, the Plan proposes to achieve large productivity gains so that the total of railway jobs might be reduced by 38,000 to 153,000 in 1985. The net paybill would be reduced by about £100m (in 1980 survey prices) and there would be no significant closures of passenger services. With these savings, and the gains from the forecast traffic increases, the Board would do several things. First, they would finance some very necessary increases in renewal of equipment; they need to increase their spend on track renewal and resignalling by up to £50m a year. Second, they would start on a long-run programme of main line electrification. Third, they would reduce their need for external finance, though not by as much as the figures that we inherited from our predecessors and that are still built into our plans for the later years.
2. The note by my Department (E(81)(43) points to lines of policy substantially different from those envisaged by the Board. This is because in our view the Plan is over-optimistic in its traffic forecasts - possibly by up to £80m net. It asks for too much

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investment by £50m. And it understates the economies that might be secured through adjusting the level of passenger train services more closely to the demand, and so offering fewer empty seats. These economies will be hard for the Board to achieve. Even so, the lines of policy I propose could not be contained within the present expenditure provisions, which assume that the BRB's needs for external finance will fall sharply from now on.

3. I have also received, and published, the final report of the studies on the case for a programme of main line electrification. My separate note (E (81) 44) sets out the facts of the case. We shall have to make our position clear on this issue and I should stress that this is now seen as central to the long-term future of the railways.

4. The BRB have now published a new document which they describe as their policy paper. It sets out claims for vastly more investment in the railway, and makes assumptions which I regard as neither necessary to achieve a good railway nor practicable for any Government to satisfy even on the most rosy view of the economic prospects for the country. I therefore made it clear to the Board that I am concerned with decisions needed for the immediate future, and that is what this paper is about.

5. The claims of BRB should not obscure what is in comparative terms a considerable achievement. Manpower numbers have fallen by 34,000 over the last decade. Under Sir Peter Parker, the Board have shown persistent resolution in achieving the over-riding financial objectives set them. The railway inherited from the past has changed much more than any major national railway in Europe; it gets less support from the State and is less protected from competition. Our overall aim should be to pursue policies to achieve the most cost-effective railway possible. I see three major policy objectives.

FIRST - MANPOWER AND PRODUCTIVITY

6. The central aim of our policy must be to put the maximum emphasis on the need to improve productivity. We should remember

that the BR workforce has been more than halved since 1960. Last year BRB launched a new drive on manpower reduction and secured some commitment in the pay agreement, and reduced manpower numbers by 4000 in 1980. Following through, they are closing the loss making C&D parcels operation in three months' time with net savings of over 4,000 jobs, closing surplus marshalling yards saving up to 2000 jobs and slimming down administration, saving up to 5000 jobs. There is now more change taking place than for a decade.

7. But the bigger prize would be a new agreement on working practices to reduce manning of trains and stations, get more flexible working, and reduce the total of overtime and rest-day working. When I met the Board and the leaders of the rail unions in the Rail Council earlier this year, NUR and TSSA appeared ready to move towards agreements on productivity if they could see parallel movements with us, with commitments to the long-term future of the railway. ASLEF are more opposed to any change. It would be idle to deny that since then our dealings with the coal industry, and the course pay negotiations have taken in water, gas and electricity, have hardened attitudes. This only makes it the more important that the central thrust of our policy should be to reinforce toughly the efforts of BRB to gain the advances in productivity which must be the way forward.

SECOND - COSTS AND RENEWALS

8. Major work by my Department has demonstrated to BRB where their costs have been going up, particularly in track and maintenance of rolling stock. BRB are now in consequence building in new ways to monitor these costs, and will involve my Department in setting targets for them. This underlines the need for persistent drive to restrict growth of railway costs, which otherwise tends to consume the resources available for renewal of the equipment. There is certainly an urgent need for the Board to increase the volume of work on track renewal, which they have cut back year after year to the point where anxieties about safety start to

be raised; and to increase the volume of work in installing modern signalling on commuter and main line services in order to replace equipment some of which is more than 70 years old. This must have a high priority. So we also need new disciplines to secure the programmes of necessary renewals and prevent deferment of renewals continuing to be used as an easy way to relieve the pressure of current costs. I am aiming to achieve this through changes in the grant machinery.

THIRD - COMMITMENT FOR THE FUTURE

9. At the same time we have to make clear a measured commitment to the future of the railway, both the important non-commercial passenger services for commuters and for the rural areas, and the central core carrying the major commercial operations of freight and Inter-City. Too little commitment from us, and we shall lose any co-operation from the unions, forego the whole-hearted support of the management and come under severe public criticism. On the other hand we must avoid the other extreme of committing premature new investments which will impose new demands for fares increases or external finance if the improved business results are not in the event secured. We thus have to deal with our policy towards rural services, towards commuters, and towards the commercial core including electrification.

a) RURAL SERVICES

10. These have suffered from more than a decade of neglect. I am clear that we must keep our commitment (made both before the Election and after it) to avoid any major programme of closures and continue substantially the whole of the passenger network. The Board has developed a set of proposals for doing this in the most cost-effective way. This means an increased spend as set out in the appraisal paper (E (81) (43), annex paragraphs 26 to 29)

on renewing the track and structures, modernising and so de-manning the very costly level crossings, using simple radio-signalling whenever possible and providing new rolling stock of the simplest kind. This is certainly the line that must be developed, through demonstration projects to apply the concept.

b) COMMUTERS

11. Here BRB are proposing an increasing spend on resignalling, refurbishment of rolling stock, and some further suburban electrifications, for example Tonbridge to Hastings. This will slowly but steadily bring some improvement in quality of service. Even with the improving productivity I am aiming for, I see no prospect of cutting the level of subsidy. Indeed the extra work needed means some further real fare increases for commuters if subsidy is not to rise. I intend that the increases should not be as much as BRB's forecast of 2½% per annum up to 1985, but for this, services must continue to be adjusted more closely to demand as the Monopolies Commission recommend. Here my policy is to construct new pressures of public accountability on the Board to limit them to what is needed to meet necessary cost increases on those services. I intend to set them clearer objectives of service quality based on a costed plan. Commuters will then be able to see that they are not being asked to finance losses on the rest of the railway. That is why I am encouraging Sir Peter Parker to establish a subordinate Board for the London commuter services, to account for identified amounts of grant and investment.

c) ELECTRIFICATION

12. It is the commercial businesses that use the main lines. We now need a clear discipline, within the grant, to secure an improving performance in the Inter-City business. This improvement has so far eluded the Board in spite of heavy investment; but under my pressure they are now pursuing vigorously new measures to adjust the levels of service so as to increase the loadings. A major improvement in the freight business must also be secured and this is primarily a matter of productivity improvements, some of which

are under way. Getting the businesses to full viability will be a long haul running into the latter part of the decade, made more difficult by the recession, but BRB are now moving in the right direction. It is on the improvement of these businesses, and the improvement in productivity, that we have to exert the major pressures.

13. For these businesses, the right future is an electrified one on all the well used parts of the network. This is financial sense for the railway because it reduces the future costs of operation. It is sense for the country, because the work (which is almost all to the private sector) will give the industry a home base to develop its technology and so give it the opportunity to perform better in what is certainly a large overseas market, in which its present share is 4%.

14. While we should seek to decide now on the future form of traction, electrification would be a relatively small part of the BRB investment programme, and would extend over many years. Yet it has become a symbol of the future of the railway. We must use this to the maximum advantage. I propose that we should accept that the right future for the main line railway is an electrified one. We should show our good faith by agreeing to the start of design and planning. I would maintain the existing level of work by approving the project before me for electrification to Ipswich and Norwich which shows a good return (the case for electrifying to Cambridge is more doubtful and needs further investigation). But we should make it absolutely clear that we will not start a major programme of schemes on the main line until new productivity agreements have been signed securing the progress proposed in the Corporate Plan. I would need to discuss with Sir Peter Parker which changes should have priority, but the urgent ones are certainly reduced manning of freight trains, greater flexibility in working rules, more flexibility in allocating work between depots, and reductions in overtime and rest-day working. The programme would proceed in stages, so

that further commitment could at regular intervals be considered in the light of progress of improved productivity and business performance.

15. Electrification is particularly a case where we should not assume that the cost necessarily has to fall within the public sector. We should certainly first explore very fully whether the private sector will come in on acceptable terms - difficult though this is bound to be with an inherently loss-making business such as the railway as a whole must be - and I would want to insist that the Board should pursue these possibilities urgently on the basis of the full analysis that the electrification report can offer to potential investors.

EXTERNAL FINANCE

16. But these policies cannot possibly be achieved within the external financing and investment figures for BRB in future years which we have in effect inherited from the last administration, and that we have not considered ourselves. Last autumn we deferred consideration of 1982/3 and beyond, until I could present this review after considering the Corporate Plan. The present figures derive in the main from forecasts prepared in 1978 which were optimistic at the time, which made no provision for necessary increase in renewal of equipment, and which have been wholly undermined by the recession. It is not in my view practicable to envisage, as the present figures do, a reduction in external financing for the railway of ~~£130~~^{£130} between this year and next; nor a reduction of £30m in grant. As I see matters now, my best estimate is as set out in the Annex; let me stress that achievement of these figures depends on substantial improvements in productivity and economies in train services.

PRIVATE INVESTMENT

17. My forecasts contain no provision related to the Channel Tunnel - I have from the start made clear that any Tunnel must be privately financed - or for major schemes that may have to be added, like a

rail link to Stansted Airport. We must, of course, seek as much relief as we can by private sector financing wherever proper and practicable. Our Transport Bill before Parliament will provide the necessary powers for privatising the major subsidiaries of Sealink, Hotels, and non-operational property; to advance our agreed policy, Sir Peter Parker has set up below the Board a new holding company to take charge of moving these businesses to the private sector, and they will be letting me have their assessment of how quickly and how best to proceed. The new powers in the Transport Bill could in due course be used to bring private capital into the railway workshops (BREL); but first we must exert pressure to rationalise that business by getting competitive tendering for the supply of rolling stock. I believe that we must find other ways to engage private capital.

CONCLUSIONS

18. We shall need to consider the financing figures in detail later in the year in our public expenditure discussions and in the circumstances obtaining at that time. At this juncture we need to support the BRB in their pressure for productivity by offering an assurance on necessary renewals of the railway and the prospect of electrification. I shall shortly need to give the Board a realistic basis on which to start the preparation of their budget for next year. And we must now start to counter-attack the exaggerated public relations efforts of the Board by presenting a sober, realistic, and feasible set of policies for the railway.

19. The policies I propose are:-

Non-Commercial Railway

- i. to maintain the rural branch services, by starting on the necessary track renewal, and launching demonstration projects as the start of a programme of re-equipping the services for a more simplified and cost-effective operation

- ii. to provide for a slow improvement of commuter services, with a clearer public accountability which will restrain fare increases to no more than is needed for that;

Commercial Railway

- iii. to require improving performance on Inter-City and Freight, and recognise that the right future for the main-line railway is an electrified one, with commitments to that staged according to productivity improvements and better business results;

Financing

- iv. to provide for investment and renewal expenditure to rise to achieve these objectives, within a level provision for Exchequer grant for current passenger operations, and a provision for external finance no less in 1982/3 than in 1981/2, but declining thereafter as productivity gains and service adjustments are secured; and to take as many opportunities as can be found for securing private financing of identifiable projects.

EXTERNAL FINANCE REQUIREMENT - CMND 8175 COMPARED WITH CORPORATE PLAN AND DTP ESTIMATES

£m 1980 Survey Prices

| | Forecast Out-turn 1980/1 | 1981/2 | 1982/3 | 1983/4 | 1984/5 | 1985/6 |
|---|--------------------------------|--------|--------|--------|--------|--------|
| A. Cmnd 8175 | 679 | 701 | 579 | 570 | | |
| B. Corporate Plan | 679 | 701 | 629 | 607 | 591 | 538 |
| DTP Adjustments | | | | | | |
| <u>1. Railway</u> | | | | | | |
| Discount forecasting optimism | | | | | | +78 |
| Greater service level economies | | | | | | -44 |
| Eliminate overbid on investment | | | | | | -49 |
| <u>2. Subsidiaries</u> | | | | | | |
| Correct for misclassifications etc | | | | | | +13 |
| <u>3. Adjustment</u> | | | | | | |
| Effect of falling inflation on pay assumptions in Plan base | | | | | | +43 |
| C. DTP Estimate | | | 695 | 628 | 603 | 579 |
| <u>Options</u> | | | | | | |
| i. No increase allowed in loss on rural services | | | | | | -18 |
| ii. Reduced fares increase for London commuters | | | | | | +18 |
| iii. No main line electrification | | | | | | -40 |

NOTE

- (1) The figures for 1980/1 and 1981/2 are subsequent to the Plan.
- (2) The figures are adjusted for an error in the Plan's estimates of expenditure.
- (3) The additional provision for Victoria-Gatwick improvements is excluded.