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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

RAILWAY POLICY - BRITISH RAIL'S CORPORATE PLAN

Memorandum by the Secretary of State for Transport

Attached for the information of the Committee is an appraisal by my Department of the British Railways Board's Corporate Plan 1980.

NF

Department of Transport
2 Marsham Street
SW1

3 April 1981

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BRITISH RAIL CORPORATE PLAN 1980 -
APPRAISAL BY DEPARTMENT OF TRANSPORT

1. The British Railways Board (BRB) submitted their Corporate Plan 1980 to the Secretary of State for Transport in November 1980. For the railway, it proposes a major increase in investment without increasing Government financing above ^{the} 1980 level. Within this it provides for a major main-line electrification programme. The increase in investment would be financed by major improvements in labour productivity with a reduction of 38,000 posts, by forecast traffic gains and by rising fares, particularly for commuters. The Department has obtained further material from the Board on projections of costs, and on the options available for the different sectors of the business. The Plan contains no outturn information.

PREVIOUS PERFORMANCE

2. From 1975 to 1979, the Board consistently managed to achieve the overall financial targets set for them, despite persistent over-forecasting of carryings. 1980 has presented difficulties due in large part to the effect of the recession on revenue. The ceiling on the PSO Grant has for the first time operated to cut off payments, which would otherwise have been marginally more. Their EFL for 1980/81 was raised in mid-year from £750m to £790m. BRB now expect to keep within the new EFL, having eliminated a further forecast overshoot of £30m by additional short-term economies and cut-backs in investment.

3. Passenger revenue increased by 17% in real terms between 1975 and 1980 and the total of grants from central and local government to the passenger business have increased in real terms by 6%. Investment has not risen. Yet the Board have faced increased financial difficulties from a rising volume of costs. So they have felt themselves under increasing financial pressure, and have steadily cut back year by year in track renewal over the whole of the last decade. Manpower productivity measured as passenger and tonne-kilometres per staff member has increased by 1% over the last ten years, and railway staff have been reduced by 34,000. Employment costs per head relative to those in the economy as a whole were about 1% higher in 1980 than in 1970 but they have fluctuated substantially. Since 1975, earnings of the workforce have declined in real terms by 8% relative to the national average.

4. Over the last twelve months BRB have sought to quicken the pace, and follow up to the 1980 pay settlement. They are to close the loss-making "collected and delivered" parcels service on 30 June 1981. They have accelerated the closing of marshalling yards - 11 main yards were closed in 1980 - and scrapping to reduce the size of the rolling stock fleet by more than 13% during the year.

CURRENT POLICIES

5. The Government made reductions in July 1979 and an increase in December 1980 to the provision for Exchequer Grant, in September 1980 raised the external financing provision for 1980/81 and in December 1980 for 1981/82. But the provisions in Cmnd 8175 for 1982/83 onwards reflect those inherited from the last administration and, like the provision for investment, have not been separately considered by the Government, pending receipt of the Corporate Plan.

The figures for future years assume forecasts made in 1978 of improvements in business results which have not been secured and have been overtaken by the recession.

THE CONTROL FIGURES IN THE PLAN

6. This is the first time BRB have prepared a Plan for keeping within the financial constraints. But the constraint they have assumed is no increase in external finance above the limits originally set for 1980/81. They have thus not provided for the reductions in grant and borrowing envisaged in Cmnd. 7841 and now in Cmnd 8175. They have assumed no restriction on investment. They have, however, assumed that additional grant would be allowed for the net revenue effect on the passenger business of the early years of an electrification programme. The control figures assumed in the Plan have in part been overtaken by the decisions to increase the EFL for 1981/82, to increase the grant ceiling for 1981, and to provide additionally for investment to serve Gatwick Airport in 1982/83 and 1983/84. The Plan forecasts an external financing need in 1985/86 of £538m compared with an EFL in 1981/82 of £701m in 1980 survey prices. (In estimated 1981/82 out-turn prices these figures are £706m and £920m respectively.)

RAILWAY AND BOARD FINANCES

7. The forecast of improved financial position requires substantial adjustment for realism. The forecast in the Plan is

THE COMPONENTS OF IMPROVEMENT FORECAST IN THE CORPORATE PLAN
- 1985 COMPARED WITH 1980

£m 1980 Survey prices

Components of Improvement (Rail Business)	
Traffic Gains	124
Lower Manpower Cost	119
Fares increases	<u>51</u>
Total Improvement	294

Applied to

Cost increases - fuel and other	19
Increased investment and track renewal	161
of which	
Electrification infrastructure	53
Track renewal	27
Signalling	32

Additional expenditure (not included in Plan⁽¹⁾)

18

Increased Expenditure	198
Change in Working Capital and reduction in asset sales	<u>33</u>
Net improvement in rail business	65
Net improvement in rail related subsidiaries	23
Net improvement in Holding Company subsidiaries ⁽²⁾	<u>31</u>
Corporate net improvement	117

NOTES: (1) Discussion with the Board has revealed an error of £18m in the assessment of expenditure in the Plan
(2) Subsidiaries for privatisation

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TRAFFIC GAINS

8. The traffic gains forecast is optimistic and in the light of experience should be written down by as much as £124m, although the net effect would be only rather more than half of this if resources were reduced in line with carryings. The Department estimate this net effect at £53m.

COSTS

9. The forecasts of productivity improvements and wage costs are plainly ambitious, and are discussed separately later. Throughout this section the Plan's forecasts are left unchanged.

10. Departmental studies have shown unplanned rises, some unexplained, in the volume of rail costs over the last four years. The Plan assumes that management action will be taken to contain increases in costs. Under persistent pressure from the Department the Board are now instituting new arrangements to monitor and control unit costs. Relevant cost data and indicators will be derived for those areas that have been identified as giving special concern and targets will be introduced in the Board's budgets and plans.

INVESTMENT

11. BRB certainly need to do more work on track renewal particularly on the fringes of the network; this is substantiated in the Board's papers on the physical condition of the railway. Their estimate of the requirement for signalling expenditure is based on a comprehensive assessment; the Department accepts the basis for that, but thinks that it should be possible to save up to £8m a year on signalling and other track equipment. More investment in terminals is desirable, but the Board may have overbid slightly for this item. The traction and rolling stock bids for the Plan, even

on the Plan's traffic assumptions, appear generous by comparison with those suggested in the Board's own business strategy studies and the Electrification Review which the Department has endorsed. On the basis of these studies, taking account of the Department's lower forecasts of carryings, the Board's proposals for rail investment in 1985 might be adjusted as follows. Some initial adjustment has been made to bring the specific proposals for 1985, which are affected by irregular items, into line with the investment trends for the middle years of the decade as indicated in the Plan.

	£m 1980 Survey Prices	
	Corporate Plan Proposals	Department's View
Additional track renewal ⁽¹⁾	[+27]	[+27]
Signalling and other track equipment	124	116
Inter-City stock	41	31
Freight locomotives and wagons	59	44
Multiple unit stock	63	53
Terminals and miscellaneous	40	38
Electrification works	53	49 ⁽²⁾
Increase over 1980 level in Plan	161	112

Note: (1) Track renewal does not count against the Investment Ceiling.

(2) The Department's figure is based on Option III fast in the Electrification Review.

The Monopolies and Mergers Commission expressed concern about the specification of some rolling stock and the Department is now reviewing the new arrangements set up by the Board for determining specifications for the various classes of rolling stock.

TRAIN SERVICES

12. In the Department's view, further net benefits could be achieved by adjusting passenger train services better to demand, mainly on Inter-City, and will be gained only if BRB are under sufficient pressure to do so. They could total £44m.

FARES

13. The assumed fares increases will produce less on the lower traffic forecasts proposed by the Department. The fares increases are larger on the London and South East services and are discussed further below.

14. The table in 1 above can then be rearranged and adjusted. THE COMPONENTS OF IMPROVEMENT FORECAST IN THE CORPORATE PLAN - 1985 COMPARED WITH 1980 - DTP ASSESSMENT

Components of Improvement (Rail Business)		£m 1980 Survey Prices
Traffic Gains	-	-
Associated Reduction in Costs	23	
Net effect	53	
Lower Manpower Cost	119	
Fares Increases	44	
Service changes (higher load factors)	44	
Total improvement		260
Applied to		
Cost increases - fuel and other	19	
Increased investment and track renewal	112	
of which		
Electrification infrastructure	49	
Track renewal	27	
Signalling	24	
Additional expenditure (not included in Plan 1)	18	
Increased Expenditure	149	
Change in Working Capital and reduction in asset sales	33	
Net improvement in rail business	78	
Net improvement in rail related subsidiaries	24	
Net improvement in Holding Company subsidiaries	17	
Adjustment for the effect of falling inflation on the 1981 pay assumption in the Plan (1)	-43	
Corporate net improvement	76	

NOTE
(1) Because inflation is falling faster than assumed, the Plan probably understates the Board's total wage costs by some £42m in each year, assuming that an 8% wage settlement is achieved in 1981, as provided for in the Board's budget.

ANALYSIS BY BUSINESS

15. The following discussion retains the Plan assumptions on productivity and wage costs.

16. The joint costs of the passenger business (ie expenditure on track and signalling and administration minus the share charged to freight and parcels) are forecast to rise from £666 in 1980 to £736 in 1985 as a result of rising unit costs and the need to increase expenditure to compensate for a decade of neglect. The £70m increase is mainly accounted for by a volume increase in work on track and signalling of £53m. Staff cost increases of £36m are largely offset by a planned £29m reduction in administration costs. (The difference (£10m) is accounted for by changes in level crossing grant and depreciation, and by disengagement costs). Since it is still difficult to allocate parts of these indirect costs to individual business sectors with confidence, the following analysis by businesses is presented in terms of "contribution" to joint costs, ie the balance between revenue and specific costs of train operating and terminals.

NON-COMMERCIAL RAILWAY

17. The non-commercial railway covers all passenger services except Inter-City. It includes the London commuter services, local stopping and rural services, and services in provincial conurbations supported by Passenger Transport Executives (PTEs).

18. The Corporate Plan predicts the following results for the London and South East business sector -

	(£m 1980 survey prices)		
	1980	1981	1985
Revenue	337	347	381
Specific costs	251	252	267
Contribution	86	95	114(1)

Note: (1) The Board say that the figure of £132m in the Corporate Plan is £18m too high because of underestimation of specific costs.

London and South East peripheral services make a negative contribution of about £6 - 7m throughout the period.

19. The London and South East commuter services contribution is thus forecast to increase by £27m by 1985, which the Board estimate will be sufficient to offset the increase in joint expenses which might be attributed to them. On the Plan assumptions, therefore, the grant requirement will remain stable. The figures do however show that direct costs are expected to rise, mainly as a result of increased expenditure on rolling stock refurbishment and staff costs, (although the latter should be offset by planned improvements in productivity). The contribution increase is therefore dependent on an expected revenue gain of £44m, mainly as a result of planned real price increases of 2½% per annum.

20. The Department believes that the Board's revenue estimates for 1985 could be optimistic by as much as £18m. On the other hand, there might be more to be gained from productivity than the Plan forecasts and it should be possible, as the MMC suggested, to reduce costs by increasing load factors through service reductions. This should be worth £9m a year by 1985. By these means the real fare increases to pay for the increased work on track and signalling might be restrained. The option considered is to limit these increases to 1% pa real if traffic fails to reach the Board's forecasts, or to nil if the traffic holds up. The costs would accumulate to some £18m p.a. by 1985.

21. A further choice arises in the later years, concerning the EMU build after present authorisations run out in 1983. The Board plan to continue the rolling programme of 220 EMUs a year, but a reduction in 1984 to 95 a year would help to accommodate expenditure on replacing the worn-out DMUs currently in use on the Board's Other Provincial Services.

22. This reduction to 95 a year reduces the LSE cash requirement by £22m in 1984 and 1985, but it means accepting an increase in the average age of EMUs operating on L & SE services (from 20 years to 23 years by 1990). It would not however involve any of the fleet remaining in service longer than 40 years, which the Board decided some time ago was the most cost-effective life for these vehicles.

23. The Plan predicts the following financial results for the services supported by PTEs (including cross-boundary services):

	(&m 1980 Survey Prices)		
	1980	1981	1985
Revenue	55	55	59
Direct Costs	85	84	91
Contribution	£307	£297	£327

But the cost to the PTEs of supporting these services, which has already risen rapidly over the last five years, is expected to rise by 20% by 1985 - from £56m to £67m - as a result of the increased interest and depreciation burden arising from the introduction of the new rolling stock urgently needed for these services. The financing requirement of these services will increase even more steeply - from £53m to £73m.

24. The Department believes that it may be possible for PTEs to limit somewhat the increase in their support payments by using cheaper replacement rolling stock, by service changes involving higher load factors and some fares increases; but have not written down the financial requirements because decisions on these matters are for the PTEs themselves. The PTEs will thus be under continuing pressure to review service levels and fares but it may be necessary to ease the financial pressures somewhat if they are not to cancel their contracts with BRB and hand back these services to the Government en bloc. The right method would be to meet some of the renewal costs as part of the Special Replacement Allowance within the PSO Grant.

25. But of course all this may be harder to handle if the Metropolitan Councils elected in May embark on costly policies for fare reductions.

26. The Plan predicts the following financial results for the Other Provincial Services -

(£m 1980 Survey Prices)

	<u>1980</u>	<u>1981</u>	<u>1985</u>
Revenue			
Direct Costs	51	52	55
Contribution	85	84	91
	[34]	[32]	[36]

But these figures give a very misleading view of the requirements of these services. All the existing rolling stock requires replacement by the early 1990s, and a DMU replacement programme will have to start by 1985. There is an especially acute problem on the 50 or so rural branch lines where little money has been spent for many years. More expensive still, there is an urgent need to increase expenditure on the long-neglected track and signalling used by these services.

27. Little financial improvement can be gained from fares increases or reduction in services, and further de-manning depends on investment. Even when allowance has been made for a target 10% reduction in train operating costs over the decade, the cash demand of this sector (taking into account expenditure on track and signalling not used by other passenger services) will increase by £27m by 1985.

28. If no more finance is provided for these services, the result may be 2 - 3 closures a year with half or more being lost by 1990 - without providing for any costs of substitute buses. It is not possible to predict exactly which services these would be - a closure might be precipitated by the failure of a major structure like Barmouth Viaduct - but BRB might seek to maximise the savings by seeking to close those lines with the largest amount of track not also used by other passenger services.

29. Assuming that the sector is to be maintained in its entirety, there is only one real prospect for containing its long-term cash requirement. BRB have now produced proposals for a more cost-effective form of renewal - with lightweight vehicles, radio controlled signalling and accelerated automation of level crossings (the last of which generally give a rate of return of 25 - 33% because of the saving in manpower). These proposals are certainly worth developing.

Although to implement them would increase the financing demand of these services in 1985 by about £5m over what it might otherwise have been, it should by the end of the decade secure that the subsidy is contained some £13m below what it would otherwise be, i.e. the annual cash requirement would be some £13m higher than at present.

COMMERCIAL RAIL BUSINESSES

30. Achievement of the Plan depends essentially on better performance in the commercial businesses. The net improvement forecast in operating results, from 1980 to 1985, is:

	<u>£m</u>
Inter City	71
Freight and Parcels	151
Freightliner	5
Other ancillaries and rail subsidiaries	9
	<u>236</u>

The major components of improvement are:

Traffic gains - Inter-City and Freight	136
Cost reduction - Freight and Parcels	102

FREIGHT AND PARCELS

31. The Department would write down the traffic gain for freight and parcels by £40m. The cost reductions depend almost wholly on closing C & D parcels, eliminating wagon-load traffic and its marshalling yards, and securing the consequent savings; and on new train operating agreements. On these figures, the freight and parcels businesses would, by 1986 or earlier, be earning a real return on assets after meeting all costs on the present basis of charging, and full current cost depreciation, but the return would not 14.

yet equal 5% in real terms.

INTER-CITY

32. The Corporate Plan shows Inter-City's contribution rising from £155m in 1980 to £225m in 1985. When these projections are put on the same basis as the interim financial target announced in 1980 (which is to make a contribution of £141m in 1980 survey prices, in 1982, after making allowance for current cost depreciation and the net loss on train catering) the Corporate Plan projects the following:

	<u>(£m 1980 Survey Prices)</u>					
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Revenue	422	446	477	497	512	529
Specific expenses	329	337	343	348	361	372
Contribution	<u>93</u>	<u>109</u>	<u>134</u>	<u>149</u>	<u>151</u>	<u>157</u>
Contribution as % of passenger indirect costs	<u>14</u>	<u>17</u>	<u>19</u>	<u>21</u>	<u>21</u>	<u>21</u>

On the Plan figures, therefore, Inter-City will fail to achieve its interim financial target by £7m. There is no formal objective for Inter-City beyond 1982, but it has been agreed with the Board that for the purposes of planning the business a contribution objective of 25% of joint costs should be assumed. (This is taken as equivalent to 30%, when account is taken of the benefit to the parcels business of the currently free carriage of Red Star parcels on Inter-City trains). On the Plan figures, this objective would not be achieved until 1988. On more realistic traffic forecasts, it would not be achieved within the decade. Electrification would improve the Inter-City results starting towards the end of the decade.

33. The Board's revenue forecasts might be over-optimistic by as much as £67m in 1985. If that is the case, the Board reckon that they should be able to escape working expenses of about £9m. But the Department thinks that a more rigorous optimisation of service levels should reduce working expenses by about £22m. The Department also believes that Inter-City's financial position could be further improved by as much as £31m a year by management action to increase load factors by running fewer trains. After adjusting for depreciation on the smaller fleet, that leaves Inter-City making a contribution, on the less optimistic traffic forecasts, of £156m (21%) in 1985, the same result as forecast in the Plan, but by different means.

34. This is a matter of great concern for a sector which competes directly with other modes, demands continuing major investment, and, by failing to earn a return, is squeezing necessary expenditure on the non-commercial railway. The Department is urgently discussing with the BRB the measures that are needed. It was thought that further real pricing might be the answer, but recent studies have shown that because of high elasticities, price rises alone will not resolve the financial problem. The answer does not appear to lie in a slower, more basic railway. Studies have shown that better financial results have been obtained by increasing speeds up to 100/125 mph. These studies have not looked specifically at a slower more "basic" railway, but, because of the traffic that would be lost and the relative invariance of the Board's cost structure, there is no reason to think that better financial results would be obtained from moving in that direction. BRB now recognise that pulling back capacity closer to effective demand, ie less frequent trains, must be an important part of the solution, and are planning to reduce Inter-City train miles by 10% in the 1982 timetable. This is a major step in the direction pointed by the Department's assessment. It has considerable risks and it will be vital to see whether the results confirm the need for further similar changes. There may also be some Inter-City services which cannot be "commercial", and whose future will have to be considered

as part of the non-commercial railway.

35. The railway workshops (BREL) had a turnover of £434m in 1980 on major overhauls and manufacture of rolling stock. These costs are contained within the figures for railway operations and investment. To the extent that the Plan's forecast rolling stock requirements turn out to be generous and the actual build is less, the costs will be reduced. The Board are considering the possibility that manufacture might be put to competitive tender. Steps in this direction could lower costs and give better value for money and would reduce BREL's activities. They might also lower the cost of railway procurement and put pressure on BREL management. There is scope for greater efficiency. Although this is as yet unquantified, BREL's turnover is such that even a small percentage improvement would offer substantial savings. The Board are now moving to establish clearer financial objectives for these major monopoly engineering operations.

PRIVATISATION SUBSIDIARIES

36. Legislation is before Parliament to provide the powers needed for the four subsidiaries that have been identified for privatisation (Sealink, Hovercraft, Hotels, and non-operational property) and BRB have now set up a holding company which will take over the assets of these operations and arrange for privatisation. The Corporate Plan ignores the privatisation policy; the underlying business plans show a profit forecast for the four taken together rising from £2m in 1980 to £52m in 1985, the main contribution coming from a projected improvement in the performance of Sealink UK Ltd. Over the same period capital investment in the businesses remains steady at £25m - £35m per annum, half of which is attributable to Sealink ship investment. There should be a sound underpinning in rents and sales of

property; but neither the profit nor the investment line can command belief. Sealink, Seaspeed and hotels are currently performing badly and there must be significant risks that most of the projected improvement of £49m in profits deriving mainly from improvements in the economy will not be achieved. In those circumstances, the call on investment could be correspondingly reduced. The combined financing statement of the four businesses shows a contribution over the five years of about £135m to BRB internally generated funds. This must also be at risk. The net cash flow effect of privatisation within the period 1981/85 has previously been estimated at £100m at the most and, in view of the deteriorating performance of the subsidiaries and the general economic climate, the achievement of that amount must be doubtful. The conclusion must be that these businesses can produce, at most, less than £100m towards railway requirements, mainly from 1983 onwards.

EXTERNAL FINANCE 1981/2 - 1985/6

37. On the assumptions in the preceding analysis, the external finance figures appear as follows in 1980 survey prices:-

	<u>1981/2</u>	<u>1982/3</u>	<u>1983/4</u>	<u>1984/5</u>
Cmd. 8175				
Estimated requirement	701	579	570	-
- BRB Corporate Plan (amended)	701	629	607	591
- DTP Assessment	701	695	628	603
In 1981/2 out-turn prices the figures are				
Cmd. 8175				
Estimated requirement	920	760	748	-
- BRB Corporate Plan (amended)	920	826	797	776
- DTP Assessment	920	913	825	792

These results include provision for substantial additional expenditure on track and signalling, and for the rapid introduction of electrification. The Department's figures include the Board's estimate of savings made by manpower reductions, £119m net over the Plan period.

MANPOWER AND WAGE COSTS

38. The manpower forecast assumes a reduction of 38,000 in the number of posts on the railway between 1980 and 1985 of which 4,000 were secured in 1980. The Plan also projects an increase of about 6,000 posts at BREL to cover an increased workload largely on new building but, on the Department's assessment, this will not be required. (Since changes may be needed to reduce the number of hours worked at overtime rates, the actual reduction in numbers may be 25,000-30,000 to achieve the same total reduction in labour costs). This saving in jobs is equivalent to £213m or about 10% of working expenses in 1985. Some would flow from major investment - resignalling, level crossing modernisation. Part of the savings would accrue from business changes - closures of C & D parcels services, marshalling yards, simplifying administration - mainly committed in the 1980 pay settlement. Another major part depends on new productivity agreements - on train manning, train working rules. The Plan assumes that, until 1983, all the changes will be those identified in "Challenge of the 80s", the Board's statement of their productivity objectives, and will be achieved with real pay increases moving broadly in line with movements in GDP. The productivity initiatives in 1984 and 1985 have still to be identified, but it is assumed that they will be paid for by increases in real wages 2% or so above the rate of growth in GDP; this will also serve to make BR more competitive in the labour markets. Overall the increases in real wages reduce the saving from manpower cuts in 1985 by £94m. In addition there are redundancy payments of £17m in 1985. Redundancy payments total £118m over the period 1981 to 1985.

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39. The railway record over the past decade is of a wage movement only 1% in total above the national average but little improvement in productivity. Change as envisaged in the Plan implies a new momentum - now started on parcels and marshalling yards. On past form the present effort could peter out after job reductions of 10-15,000, without net benefit to the paybill. The broad position thus is that the paybill improvement forecast in the Plan is some £100m over five years. This will not be gained, and the figures above would be worsened by an equivalent amount, if the present effort runs into the sand and no new productivity agreement is achieved.

40. If the growth in GDP is less over the period than assumed in the Plan, rail wages would presumably rise less in total and the finances of the businesses in the Department's assessment could thereby be improved.

FINANCIAL PROJECTIONS AND OPTIONS

41. The following tables compare forecasts for external finance, grant, and investment from Cmd. 8175, BRB's Corporate Plan, and the DTP assessment reflecting the discussions above, but retaining the Plan productivity assumptions. In addition the tables show the differences that could be secured by 1985/6 by three options:

- a) no increase in revenue support to rural services (ie two or three closures a year);
- b) an additional spend to restrain fares increases on London commuter services;
- c) no main line electrification.

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EFL GRANT AND INVESTMENT - CMND 8175 COMPARED WITH CORPORATE PLAN AND DTP ESTIMATES

£m 1980 Survey Prices

	<u>Out-Turn</u>	<u>EFL</u>	<u>1982/3</u>	<u>1983/4</u>	<u>1984/5</u>	<u>1985/6</u>
	<u>1980/1</u>	<u>1981/2</u>				
<u>INTERNAL FINANCE LIMIT</u>						
Cmd 8175 (1)	679	701	579	570		
Corporate Plan (2)	679	701	629	607	591	538
DTP Estimate			695	628	603	579
<u>Options</u>						
i. No increase in OPS revenue deficit						- 18
ii. Reduced fares increase for L & SE						+ 18
iii. No electrification						- 40
<u>PASSENGER SUPPORT</u>						
Cmd 8175 (1)	576	608	579	579		
Corporate Plan (2)	564	564	575	572	584	587
DTP Estimate			629	625	633	633
<u>Options</u>						
i. OPS						- 18
ii. L & SE						+ 18
iii. No electrification						- 22
<u>INVESTMENT</u>						
Cmd 8175 (1)	325	325	325	325		
Corporate Plan (2)	258	291	355	399	414	418
DTP Estimate			353	355	371	385
<u>Options</u>						
i. OPS						-
ii. L & SE						-
iii. No electrification						- 36

Notes

- (1) Excludes special provision for Victoria-Gatwick
- (2) Figures for 1980/1 and 1981/2 are more recent than the Corporate Plan.

EXTERNAL FINANCE REQUIREMENT

£m 1980 Survey Prices

	Out- turn 1980/1	EFL 1981/2	<u>Corporate Plan</u>			
			1982/3	1983/4	1984/5	1985/6
Cmd 8175 (1)	679	701	579	570		
<u>Corporate Plan (2)</u>						
- Borrowing	107	137	54	35	7	-49
- PSO	<u>572</u>	<u>564</u>	<u>575</u>	<u>572</u>	<u>584</u>	<u>587</u>
Total	679	701	<u>629</u>	<u>607</u>	591	538
Overshoot (-)	-	-	-50	-37		

DTP Estimate

- Borrowing		66	-3	-30	-54	
- PSO		<u>629</u>	<u>625</u>	<u>633</u>	<u>633</u>	
Total		<u>695</u>	<u>628</u>	603	579	
Overshoot (-)		-116	-58			

Options

i. No increase in OPS revenue deficit						-18
ii. Reduced fares increase for L & SE						+18
iii. No electrification						-40

Notes
 (1) Excludes special provision for Victoria-Gatwick
 (2) Figures for 1980/1 and 1981/2 are more recent than the Corporate Plan.

PASSENGER SUPPORT

1980 Survey Prices

	Out- turn 1980	EFL 1981/2	1980 Survey Prices			
			1982/3	1983/4	1984/5	1985/6
<u>Cmd. 8175</u>	448	479	445	445		
- PSO	62	64	64	64		
- SRA	53	52	55	55		
- PTEs	<u>13</u>	<u>13</u>	<u>15</u>	<u>15</u>		
- Level Crossings						
Total	576	608	579	579		

Corporate Plan

- PSO etc (1)(2)			564	562	575	578
- Level crossings			<u>11</u>	<u>10</u>	<u>9</u>	<u>9</u>
Total	<u>564</u>	<u>564</u>	<u>575</u>	<u>572</u>	<u>584</u>	<u>587</u>
Headroom (+)	+ 8	+44	+ 4	+ 7		

DTP Estimate

- PSO etc			614	610	618	618
- Level Crossings			<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>
Total			<u>629</u>	<u>625</u>	<u>633</u>	<u>633</u>
Headroom (+)			-50	-46		

Options

i. No increase in OPS revenue deficit						-18
ii. Reduced fares increase for L & SE						+18
iii. No electrification						-22

Notes

(1) The figures have been adjusted for underestimation of expenditure identified after the publication of the Plan.
 (2) The figures include estimated net effects of electrification as follows - 1981/2 £8m; 1982/3 £16m; 1983/4 £22m; 1984/5 £28m; 1985/6 £29m.

INVESTMENT

1980 Survey Prices

	Out- turn 1980/1	EFL 1981/2	1982/3	1983/4	1984/5	1985/6
Cmd. 8175 (1)	325	325	325	325		
<u>Corporate Plan (2)</u>						
- Railway			315	359	377	382
- Subsidiaries			40	40	37	36
Total	<u>258</u>	<u>291</u>	<u>355</u>	<u>399</u>	414	418
Overshoot (-)	+67	+34	-30	-74		

DTP Projections

- Railway			302	307	320	333
- Subsidiaries			51	48	51	52
Total			<u>353</u>	<u>355</u>	371	385
Overshoot (-)			-28	-30		

Options

- i. No increase in OPS revenue deficit
- ii. Reduced fare increase for L & SE
- iii. No electrification

Notes

- (1) Excludes special provision for Victoria-Gatwick
- (2) Figures for 1980/1 and 1981/2 are more recent than the Corporate Plan

Abbreviations

- EFL - External Finance Limit
 PSO - Public Service Obligation Grant
 SRA - Special Replacement Allowance
 PTEs - Passenger Transport Executives
 OPS - Other Provincial Services
 L & SE - London and South East Services

Conclusions on Control Mechanisms

42. A number of conclusions emerge from this review pointing to areas for improvement in control mechanisms.

43. There is a clear need to increase the work on track renewal so as to sustain the passenger network, and to increase the volume of work on resignalling. But such expenditure has been steadily squeezed over the last years even though Government support has not been reduced, and it follows that the increase necessary in the volume of work cannot be secured simply by the Government increasing the amount of money provided. A new procedure is needed to secure that an adequate renewal programme is carried through and that the railways are not allowed to deteriorate because of other pressures on the railway budget. The appropriate sort of mechanism would be to require from the Board, as part of the procedure for submitting the grant claim, a statement of the renewal expenditure on the infrastructure, and on refurbishment and replacement of rolling stock for commuter, PTE, and other provincial services that is to be committed in the grant year, and that is planned for the two future years. The approval of this could then be associated with a rearrangement of the special replacement allowance so as to establish a link between the amount of payment and the amount of work committed. This segregation would on the one hand work to establish a separate investment programme for the non-commercial railway, and by putting it within a wider renewal programme would exert a downward pressure on operating costs, since it would no longer be possible to accommodate increases in those costs simply by cutting back on renewal.

44. This would not however by itself be sufficient to press the Board to a more effective control of costs in those areas where analysis by the Department has shown particular cause for concern, that is mainly in engineering costs of various kinds. Under pressure from the Department BRB is now developing appropriate

indicators for measuring changes in these unit costs, so that targets for containing or reducing these unit costs can be set as part of the Board's budgeting process. As part of the arrangements for dealing with the grant, the Department has sought and obtained from the Board their agreement that the Department will consider with the Board the setting of these targets each year, so that they can from the start be built into the preparation of the Board's annual budget.

45. Within the general scope of the grant, changes are needed to set clear requirements for improved performance of Inter-City, and to give a better demonstration that fare increases on commuter services are no more than needed for the costs of those services. The BRB are themselves developing new proposals for a clearer sectorisation in this way of the management of the various business and this - with the idea of a subordinate board for commuter services - should provide the clearer accountability on commuter services. As to Inter-City, the pressure for improved performance might be exerted by establishing in advance the level of contribution from Inter-City which is to be assumed for each year in determining the total of the grant, and the availability of resources for ^{the} renewal programme.