

E(81)45
6 April 1981

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BRITISH RAIL

Note by the Central Policy Review Staff

1. The Secretary of State for Transport is asking for decisions in principle on the future of the railways. The role, extent and financing of the present system has not changed for a number of years and a critical point has come when significant decisions need to be taken about renewals which could determine the pattern for the next decade and beyond. The British Railways Board has been conducting an active campaign to increase the Government's financial commitments. Ministers will want to be satisfied that any substantial new expenditure on the railways justifies priority over other demands.
2. The British Railways Board, is seeking approval for an investment programme to modernise the 'commercial system' (i.e. inter-city and freight) primarily through electrification and to renew and modernise parts of the 'non-commercial system' (i.e. commuter and rural services). This request is made against a background of unsatisfactory operations. It is unfortunate that British Rail (BR) has over recent years both allowed essential maintenance in the track to be squeezed out by unplanned increases in current costs and has failed to achieve the expected increases in productivity.
3. Productivity is critical but the history of improvements in working practices and de-manning is not encouraging. In recent years reductions in numbers have been due largely to reduced services rather than improved efficiency. There is the danger that present plans are based on improvements which, on past record, are optimistic.
4. In paragraph 9 of E(81)41 the Secretary of State suggests that commitment to substantial investment in the railways is necessary to gain co-operation of unions and management. Although this may be true it should not be the starting

point for strategy decisions.

5. The Secretary of State is not asking for specific expenditure decisions at this stage. However, he does suggest that commitment to further electrification is needed. The Central Policy Review Staff believes that Ministers should first be reassured about the underlying prospects for viability of the commercial parts of the system and also review the policy for the non-commercial parts. Any general commitment must inevitably have significant implications for financial requirements in future years. The papers presented do not provide a basis on which such views can be formed because the financial implications of the policies and of options are not clearly spelled out.

Rural Services

6. These loss making services have been neglected over recent years. The Secretary of State wishes to avoid any closures but this will require renewing track and structures, modernising level crossings and providing new and simpler rolling stock. It would be helpful to know:-

- (a) the cost of this investment over future years;
- (b) what is the subsidy to running costs;
- (c) the expected utilisation rate of these services.

7. This policy could then be compared with the costs and benefits of providing equivalent travelling facilities by road, especially now that the 1980 Transport Act has made possible greater competition among different bus services.

Commuters

8. The Secretary of State is proposing renewal expenditure which should slowly improve the quality of services. It is assumed that fares could be increased in real terms by $2\frac{1}{2}\%$ per annum up to 1985.

9. There may be no radical option for these services since the road system could not cope with the high density of traffic flows. However, it would be helpful to know how the commuter system contributes to the overall transport plans, particularly for the South-East. The Monopolies and Mergers Commission in their report emphasised the need for Government to define clearly the service

which it expected BR to provide.

10. Assuming the system is to be retained broadly in its present form, the right balance has to be struck between subsidy, fares and quality. For example, what fare increase would be necessary to reduce the subsidy by, say £100m per annum? And when the BR Board talks of improvement in quality, what form does this take? Is it, for example, just preventing deterioration in service? Or would it be sufficiently noticeable to the travelling public to justify real fare increases?

11. The MMC report on commuter services high-lighted the poor productivity record and the lack of consideration of options. How has the BR Board responded to these criticisms? To what extent could increased fares or subsidies be avoided by improved efficiency?

Commercial Services

12. In terms of the defined current guidelines these services are not commercially viable. For freight the projections show a real rate of return by 1986 but not reaching the target set. For inter-city, the target is unlikely to be achieved by the end of the decade. This is likely to mean that, for the immediate future, these services will continue to absorb a proportion of the grant which is designed essentially for the non-commercial sector.

13. Part of the problem has been the fall in traffic due to the recession and such rising fare mileage which has been achieved (e.g. by special cut prices) has not contributed to profits.

14. The Department argues that further increases in real prices or, alternatively having a slower, more basic service, would not help the attainment of commercial viability. There may, however, be some scope for financial improvements by running fewer trains so reducing stock levels as well as saving on running costs.

15. The Electrification Report shows a favourable return when applied to the present framework of services, even if the level of passenger mileage is reduced. However, it does not reveal whether Electrification will ensure that these services become commercially viable. Until Ministers are satisfied about the prospects for underlying viability, it would be premature to become committed to further electrification.

Conclusions

16. There is no option other than some subsidy for the railway service. However, before further funds are allocated, Ministers should be satisfied that clear strategies for each of the main sectors have been defined. In particular:-

(a) on the non-commercial sector the precise level of service (bearing in mind alternative forms of transport) should be specified and related to the elements of the grant. The Grant should be used only for providing the service which the Government wants to buy;

(b) on the commercial services, the likely implicit subsidy from failure to achieve targets should be quantified to enable Ministers to decide the extent to which the services should be continued in the light of possible alternatives and whether further investment in electrification is justified;

(c) productivity increases should be clearly targeted. Investment should not be regarded as an inducement for union co-operation unless firm agreement is obtained on productivity improvements.

Cabinet Office

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