

E(81)48

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BRITISH RAIL

Supplementary Note by the Central Policy Review Staff

1. The following five papers have already been presented to Ministers:

E(81)41 Railway Policy and BR Finances

E(81)42 Metro-Cammell

E(81)43 Railway Policy. An Appraisal of British Rail's Corporate Plan

E(81)44 Railway Policy. Mainline Electrification

E(81)45 CPRS Note on British Rail.

The Secretary of State for Transport has now submitted a further paper, E(81)47, which asks for commitments on the size of the network and electrification and also seeks an adjustment to the 1982/83 EFL. He does not discuss policy options. This further note by the CPRS attempts to draw together the main issues.

2. Some facts on British Rail are summarised in the Annexes to E(81)47 and illustrate the scale of BR, e.g. it employs around 260,000 people and provides a steady 7 per cent of passenger kilometres travelled in the United Kingdom and a declining level of freight ton kilometres currently at 15 per cent. Manpower productivity, which rose rapidly in the 1960s, has stagnated since 1975. Although BR has achieved its financing targets, this has been at the expense of essential renewal of track, signalling and rolling stock. Partly because of the recession there are fears that revenue in 1981/82 will be well below that forecast (perhaps by as much as £100m.).

3. The British Railways Board has submitted plans (appraised in E(81)42). Basically their proposals are for -

- (a) keeping the network in its present form, and achieving traffic gains on the commercial systems (around 2 per cent per annum for labour and over 1 per cent per annum for freight);
- (b) significantly increasing labour productivity (over 2 per cent per annum);
- (c) raising commuter fares in real terms ( $2\frac{1}{2}$  per cent per annum for five years);
- (d) investing in track and signalling renewal together with ambitious plans for main line electrification.

As the Department of Transport point out in E(81)41 the traffic forecasts and investment requirement are too high and the Department has substituted lower estimates. In the light of previous experience, we also question the productivity assumptions.

4. The Secretary of State in E(81)41 was asking for commitment to:
- (a) a programme of essential track and signalling renewals which may require some (at present not clearly specified) increase in their financing limit;
- (b) the principle of further electrification of the main line commercial railway (summarised in E(81)44) for which he is proposing a stage-by-stage approach. This could require additional financing, rising from £5m. in 1981/82 to around £40m. in 1985/86, with further sums in later years;
- (c) investment in rural branch lines to avoid closures of local stopping services;
- (d) separately in E(81)42 the bringing forward of £50m. to support the private sector manufacturer, Metro Cammell.
5. In E(81)47 the Secretary of State seeks urgent decisions on:
- (a) acceptance of political commitment to maintain the passenger network at broadly its present size;
- (b) authorisation for the 1982/83 EFL to be raised by some £100m., in consultation with the Chief Secretary. He argues that the present

figure is unrealistic and will lead to loss of control of BR's expenditure;

- (c) the need for him to take a public position soon on the principle of further electrification. He is, however, willing for the prospect of the commercial business to be examined quickly in relation to electrification, and refers to exploring further the prospect of private investment.

Apart from the reference to an addition of some £100m. for 1982/83, the overall extent of the expenditure entailed by these proposals is unclear.

6. Before reaching the decisions requested, Ministers may wish to consider what options are available for both the non-commercial (rural and commuter) and commercial services and what savings should be forthcoming from efficiency improvements. In the view of the CPRS the main issues are as follows.

#### 7. Rural Services

These services are relatively little utilised: trains carry an average of 40 passengers. They are subsidised through the PSO grant but track, signalling and rolling stock are in need for urgent replacement in part because the grant has been used to cover current losses. The three options are:

- (a) further investment as proposed in E(81)47, or
- (b) do nothing and allow two or three closures a year by default; or
- (c) devise a programme of closures determined by the level of subsidy per passenger carried, the availability of alternative bus services and other relevant social factors.

Ministers may wish to ask for the relevant data before reaching a decision. Even if it were decided that an immediate programme of closures is ruled out by previous commitment, it may be wise not to reiterate this so as to leave some freedom for a change in policy if later economic analysis demonstrates a strong case for this.

#### 8. Commuter Services

Commuter services are supported by the PSO grant but have also deteriorated in the past few years. The recent Monopolies and Mergers Commission report highlighted the poor productivity record, lack of consideration of options, and the need for a clear specification of the objectives of the network.

9. There may be no radical options since the road system could not cope with the high density of traffic flows. The choices require a balance between

- (a) the real rate of increase in fares;
- (b) the level of subsidy;
- (c) the quality of service, i.e. frequency, loading factors, general comfort, and time-keeping.

10. At present the Department of Transport is unable to identify the level of subsidy for these services. However, the Secretary of State argues that a declining grant level is unrealistic. Ministers will wish to know:

- (a) the commuter service which BR is expected to provide;
- (b) how far the objectives can be achieved by improved productivity;
- (c) what increase in grant will be necessary to meet the deficit.

#### 11. Commercial Services

Within the foreseeable future, these services are unlikely to meet the financial target set and will continue to be subsidised from grants designed essentially for the non-commercial sector. Nevertheless, the Secretary of State is proposing a public commitment to an electrification programme. Provided the system is maintained in its present form, electrification is claimed to show favourable rates of return because of the cost advantages. However, Ministers may feel that such a substantial commitment should not be considered until they have a clear appraisal of the prospects for commercial viability of the system. There are alternatives to maintaining the network at its current level. For example, some of the least profitable lines could be removed from the commercial system and served by lower grade services with consequent economic

#### Conclusion

12. The CPRS suggests that before entering into any commitments Ministers might consider asking the Secretary of State to provide information on the options set out above.

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