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E(81) 15th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 14 APRIL 1981 at 11.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP
Chief Secretary
Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Fowler MP
Secretary of State for Transport

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

SUBJECT

RAILWAY POLICY

RAILWAY POLICY

The Committee considered memoranda by the Secretary of State for Transport (E(81) 41, 42, 43, 44 and 47) and by the Central Policy Review Staff (CPRS) (E(81) 45 and 48) on railway policy and British Rail (BR) finances.

THE SECRETARY OF STATE FOR TRANSPORT said that BR's External Financing Limit (EFL) for 1982-83 had been based on out-of-date figures and, in the light of his Department's examination of BR's Corporate Plan, it was clear that it was too low by about £100 million. It was now necessary to replace it as soon as possible by a tough but realistic figure. He accepted that it was difficult to do this in advance of discussions on the 1981 Public Expenditure Survey, but the Chief Secretary, Treasury, had agreed to consider with him what guidance he could give BR in the meantime on their preparations for their 1982 Budget. The main strategy for BR was based on their need to improve productivity and to cut their labour force. Their Corporate Plan assumed that they would reduce railway jobs by 38,000 to 153,000 in 1985. Freight and parcel services would be closed where they could not be economically justified. He invited the Committee to accept, however, that the Government was politically committed to maintaining the railway passenger network at broadly its present size. Any steps to close rural lines would involve long and contentious public inquiries and bring relatively small savings. The better course was to maintain rural lines but to look for economies from the introduction of simpler and more automated services. The recent report on electrification, prepared by his Department and by BR in consultation with the Treasury and the Department of Energy, had shown that, if the present network were to be maintained, electrification had significant advantages over diesel operations, and would also bring considerable business to private sector manufacturers. He was, however, content for discussion of these proposals to wait until the CPRS had examined BR's commercial business in relation to the electrification report. In the meantime, the railway unions had rejected a 7 per cent pay offer for 1981 and the unions on the London underground had rejected 6 per cent. Further negotiations would take place shortly, but the risk of industrial action in May remained.

In discussion the following were the main points made -

a. The Secretary of State for Transport had already made a commitment in November 1979 that there should be no substantial cuts in the passenger rail network, and there was no present need to go beyond saying that there had been no change of policy. This commitment recognised the very real importance of rail services to rural communities; it did not, however, mean that each rural line should be kept open regardless of the use made of it and of any improvements in roads.

b. BR had mounted a successful publicity campaign to convince the public of the need for further substantial investment. It would be helpful if Ministers could have available the facts on the amount of subsidy now available to BR and details of BR's present productivity record. This would show that there was ample room for savings on current account which would enable BR to concentrate more of their resources on capital investment and on essential maintenance of track and signalling which they had neglected in recent years.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that there should be no change in the Government's present commitment not to make substantial cuts in the passenger rail network. There was no need to take any initiative to reaffirm this commitment and it should be understood that, in practice, it did not mean that all lines would be kept open regardless of the use made of them. The Committee took note that the Secretary of State for Transport would reach agreement with the Chief Secretary, Treasury, on what guidance he could give to BR on their planning for 1982, pending decisions later in the year on their External Financing Limits for 1982-83 and for later years. The Committee agreed to defer consideration of the proposals for a major electrification programme until the CPRS had examined the prospects of BR's commercial business in relation to the electrification proposals. The Committee took note of the present position in the pay negotiations for BR and for the London underground and agreed that they should be left to the respective managements to pursue.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Transport -
 - i. To reach agreement with the Chief Secretary, Treasury, on what guidance he should give to British Rail in the preparation of their 1982 Budget.
 - ii. To circulate to the Committee, and to the Secretaries of State for Scotland and for Wales, a list of the main facts on British Rail's current productivity performance and the subsidies available to them.
3. Invited the Central Policy Review Staff to prepare a report on the prospects of British Rail's commercial business in relation to the report on electrification.

Cabinet Office

16 April 1981