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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BRITISH RAIL COMMERCIAL BUSINESSES

Memorandum by the Secretary of State for Transport

1. I accept the conclusions of the report by the Central Policy Review Staff (E(81)63). As the report clearly indicates, the required changes in the rail freight business and the new policies on Inter-City will be difficult for British Rail (BR) to achieve and unpopular with the unions. Nevertheless, the CPRS report is entirely in line with my approach to these businesses, and we should seek urgently to achieve these changes.
2. Since our discussion last April (E(81)15th meeting) BR's trading position has deteriorated. With the continuing recession, traffics this year are likely to be between four and five per cent below budget, opening up a gap of £80m-£100m. The outlook for next year has worsened. The Board are urgently considering what further cuts they can make over this year and next. I shall satisfy myself that all practical options are being pursued, but we shall certainly need to provide further short-term support by additional grant and external finance; I will discuss this with the Chief Secretary, when we know the outcome of the unions' reference of their pay claim to the Railway Staffs National Tribunal. This situation makes it the more important that we should make clear our policies for the future of the major businesses.
3. The progress that British Rail can make is bound to depend much on the attitude of the workforce. I should warn colleagues that there has been a substantial hardening of attitudes. There is increasingly militant pressure over the cuts this month in the commuter services; the reductions planned over the next twelve months in Inter-City services; the closure at the end of this month of the collected and delivered parcels service; the closure announced this week of the BREL works at Ashford; the plan to close the Woodhead Tunnel route across the Pennines; and the start, with the sale of the three Scottish hotels, of our policy of privatisation. Already the ASLEF conference has passed a resolution instructing the Executive to resist service cuts by industrial action. It is important that the NUR conference at the end of this month should not under these pressures commit the union to outright opposition to further changes, or close the way to negotiations on working practices.
4. For this reason I regard it as essential that I should this month make a statement pointing the way forward, as recommended by the CPRS. This will have two aims: first, to face the industry and the unions with the reality of the position as far as the Inter-City

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and freight businesses are concerned; secondly, to make clear that progress with electrification must depend on productivity and, therefore, will be on a route-by-route basis. Electrification schemes would be subject to individual authorisation and the overall level would be considered in the annual investment and financing review.

5. I annex the text of what I would propose to say.

6. At our last discussion, I was asked to provide a note of the main facts on current productivity performance and subsidies. This is at the appendix.

Department of Transport
2 Marsham Street

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12 June 1981

DRAFT STATEMENT

1. The Government has completed its examination of the report on main line electrification. For this, we have reviewed the prospects for the freight and inter-city businesses of the railway which would benefit from electrification, in order to judge the strength of their case for further major investment. I have met rail management and unions in the Rail Council, to hear their arguments for further investment in the railway and particularly in electrification, and to discuss the pressing need for increases in efficiency and productivity in railway operations.

2. This examination has had to take place at a time when the current financial position of the British Railways Board gives increasing cause for concern. The Government will continue to keep under close review the trading position of the Board, which has worsened during this year. Further economy measures will be required, demanding full co-operation of the industry. The Government for its part will as hitherto support the efforts of the Board to meet the difficulties it has to face and to achieve the changes needed to improve the business prospects.

3. The Government's policy is that as much freight as can economically do so should go by rail. But the future of the rail freight business depends crucially on reduction in its costs. If the efforts of the Board to eliminate uneconomic capacity, and to secure new agreements on working practices, do not bear fruit, and the costs of the freight business are in consequence not substantially reduced, then the future rail freight business will be much smaller than it is today. Only if these cost reductions are achieved will there be enough freight traffic on the railway to contribute significantly to the case for electrification. These are matters entirely in the hands of the industry, but the Government is bound to take account of progress in its further decisions on future investment.

4. The Government's policy is that railway subsidy should be devoted to maintaining the national passenger network with its rural and commuter services. The Inter-City network with its would largely benefit from electrification, should be commercial. But in spite of large investments, it has not made progress towards earning an adequate return on the assets employed. New policies must now be pursued vigorously so as to match the capacity offered closer to the worthwhile demand. The Government believes that given the necessary measures, services comprising the great majority of Inter-City business will be able to support new investment and win traffic on a commercial basis, and I am now asking the Railways Board to put forward plans for an Inter-City business that will achieve a fully commercial performance by 1985.

5. The Government believes that given the necessary will in all parts of the industry these measures can succeed. That is the way to guarantee a healthy future for the large commercial railway businesses to the benefit of their customers and of those who work in them. It will at the same time be important that each instalment of investment is fully and prudently justified in commercial terms. Accordingly, I am now inviting British Rail to prepare and submit a ten-year programme of schemes for electrification of main line routes where the benefits will clearly justify the investment.

6. In these ways the Government expects to see the necessary investment committed to the future of the railway, as progress has been achieved in reducing costs and improving business performance and prospects.

BR PRODUCTIVITY

Past Trends

1. Railway manpower (including BREL) fell from 470,000 in 1960 to 250,000 in 1970. The following table shows changes in the Board's staff numbers since then:

	<u>1970</u>	<u>1975</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Railway staff	212,282	194,578	182,196	182,031	178,059
BREL	37,451	35,268	35,644	36,236	36,567
Subsidiaries (1)	23,240	21,781	25,422	25,817	25,054
	<u>273,063</u>	<u>251,627</u>	<u>243,264</u>	<u>244,084</u>	<u>239,680</u>

(1) Freightliner, Transmark, Ships and Harbours, Hovercraft, Hotels and Rail Catering, Operational and Non-operational Property.

2. Railway productivity can be measured as traffic units - passenger miles and tonne miles combined - per employee. The productivity trend is largely determined by the manpower changes and shows an increase in index terms from 100 to 168 between 1960 and 1970, an average of 5% better a year. Since then the changes have been -

<u>1970</u>	<u>1975</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
168	170	173	177	172

3. The rapid improvement between 1960 and 1970 was associated with major structural changes - the Beeching cuts, the changeover from steam traction and a substantial decline in coal carryings.

4. The figures for train miles per employee show very similar trends.

International Comparisons

5. The following table compares BR with other European railways and with Japanese National Railways (JNR) in terms of traffic units per employee and train miles per employee in 1979.

Traffic Units
(Passenger miles
+ tonne miles) per
employee
(thousands)

BRB	182
OB - AUSTRIA	162
SNCB - BELGIUM	168
SNCF - FRANCE	310
DB - WEST GERMANY	196
FS - ITALY	167
NS - NETHERLANDS	282
CFE - SWITZERLAND	261
JNR - JAPAN (1978)	377

Train miles
per employee

1564
875
1036
1269
854
1154
862
2566
1626
1081

6. In 1979, the figures for freight train crews per million train kilometres were:-

	Drivers	Assistants	Guards and Others	Total
BRB	88.5	41.6	54.9	185.0
DB - West Germany	79.8	10.4	10.8	101.0
FS - Italy	71.4	81.1	50.3	202.8
NS - Holland		No figures available		
SJ - Sweden	70.0	0	0	70.0
SNCB - Belgium	69.8	0	0	69.8
SNCF - France		No figures available		68.9

The much lower crew requirements in other countries except Italy were achieved mainly by operating freight trains with a driver alone. BR figures can be converted approximately to miles per man per day as follows:

Drivers	29
Assistants	61
Guards and Others	46

1980 Pay Deal

7. The 1980 pay deal settlement envisaged changes, up to 1983,

	Job reductions
Parcels - collected and delivered service now closing completely in June 1981	3,300
Marshalling yards - proceeding	2,000
Administration - proceeding	5,000
Working practices - no progress in negotiation	10,000

Corporate Plan

8. The Board's Corporate Plan 1981 contains proposals for the reduction of railway posts by 38,000 between 1980 and 1985. It includes the following reductions in specifically identified areas (some of which overlap with paragraph six):

Freight rationalisation, changes in product mix etc	9000
Parcels, C&D withdrawal and other rationalisation	5000
Passenger workload and productivity measures	6000
Restructuring and remanning of Permanent Way Work	3000
Resignalling and Level Crossings etc	2000
Administrative Economies	4000

BR SUBSIDIES

9. Total subsidies paid to BR from 1975 to 1980 were:

	1975	1976	1977	1978	1979	1980
PSO	584	515	497	532	576	576
of which: Special Replacement Allowance:	-	-	-	69	69	69
Level Crossings Grant	18	17	15	15	14	15
Research and Development	4	3	3	3	2	3
Freight Deficit Grant	130	46	8	-	-	-
TOTAL CENTRAL GOVERNMENT PAYMENTS	736	581	523	550	592	594
Revenue Support from PTEs	37	43	49	53	54	57
TOTAL SUBSIDY FROM CENTRAL AND LOCAL GOVERNMENT	773	624	572	603	646	651

Notes

(1) Public Service Obligation (PSO) grant is paid under EEC regulation 1191/69 in respect of British Rail's Public Service Obligation, imposed by the Government in December 1974. This requires BR to operate a rail passenger service which is comparable generally with that then existing. Grant is paid in respect of calendar years (i.e. BR's

accounting year) and broadly represents the difference between budgetted costs and revenues on the passenger railway in each year. Since 1978 PSO grant has included a "Special Replacement Allowance" towards the cost of replacing the passenger business assets. Total grant for 1981 was agreed at £644m plus PTE support of £65m (outturn prices).

(ii) Level Crossing Grant is paid under EEC Regulation 1192/69. Government pays up to 50% of the cost of construction, maintenance and operation of level crossings. Total payments for 1981 have been agreed at £16.9m.

(iii) Research and Development Grant is paid under S.57 of the Transport Act 1968 to fund 50% of an agreed programme of long-term technological research by BR. Payments in 1981 will be approximately £4m.

International Comparisons

10. Exact comparisons between countries are not possible. Two studies are available: the European Commission's Second Biennial Report on railways, and the Railways Board's Comparative Study of European Rail Performance, and they show the following results for 1977:

State intervention as a percentage of total rail costs:

	i. EC Second Biennial Report	ii. BRB Comparative
BR	23	29
SNCF - Belgium	79	50
DSB - Denmark	35	39
SNCF - France	38	45
DB - West Germany	35	39
FS - Italy	58	68
NS - Netherlands	55	45

Japanese National Railways appear to have state intervention of 30-35% of costs. For the United States overall support is estimated at about 10% of costs, but there is wide variation between railroads. Freight movements dominate US rail activity but on some parts of the Amtrak passenger system, intervention accounts for 80-85% of costs.