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PRIME MINISTER 25 July 1984

BR'S INTER-CITY STRATEGY

BR are beginning to adopt a more realistic approach to their Inter-City business. They no longer assume that economic growth will automatically increase passenger volume. BR recognise that simply to keep their customers they will have to improve their unpunctual, dirty, and unhelpful image by real changes, and not just by advertising. This itself is one achievement of our approach to BR.

60% of the planned "improvement" in the Inter-City figures over the next five years is due to accounting changes, transferring the costs elsewhere. The theory is that it will force rail managers to say what infrastructure they need. We should therefore press for action to dispose of the surplus infrastructure which is exposed by these changes, otherwise they will be merely cosmetic.

Aspects of the strategy which trouble us are:

i The access problem: history has left BR with lines which converge on London from declining centres of population but do not interconnect. The challenge for BR is to scoop up train loads of customers from a more dispersed population and offer them quicker and more

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convenient inter-connections. BR have good ideas on how to achieve this - linking up Western, West Coast, and South East markets via the West London line, opening a new Inter-City station at Iver and developing easy-access stations close to the M25 and Heathrow. But not all these plans will not come to fruition quickly enough (by 1988-89): this makes BR's targets very difficult to achieve. More money on this type of investment might be profitable.

ii Loss-making services: BR has not sorted out what to do about its major Inter-City loss-makers. Cross Country (ie routes from NE to SW, SE to NW, by-passing London) had a shortfall in 1983 of £44 million, against revenues of £52 million. Its shortfall is planned to be £21 million in 5 years' time. We doubt whether the plan is man enough to deliver the improvement.

iii Reductions in maintenance costs: BR plan to reduce maintenance and manning costs by £27 million but have yet to present all their BREL rationalisation proposals, upon which this must partly depend.

BR envisage a shortfall against a target of £29 million on Inter-City in 1988-89. Nicholas Ridley proposes that they make up this shortfall by that time and that the PSO grant then be discontinued. This is a tough target which is only realistic if BR take further steps to reduce the losses

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on Cross Country, and to a lesser extent on Midland and Western.

We think BR should be set these exacting targets but they will need to generate much more revenue from service improvements stemming both from improved interconnection and from all round better business management.

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