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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
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28 February 1985

Dear Nigel

BR CORPORATE PLAN AND PERFORMANCE REVIEW

Two facts stand out from the attached note on BR's 1984 Corporate Plan and their recent performance. First, the choice of Bob Reid as Chairman has proved to be a good one. Second, our policy of setting clear formal objectives to nationalised industry Chairmen on appointment is proving an effective and valuable discipline for BR.

Review of Performance

Between 1979-82, BR's financial performance deteriorated seriously. Since 1983, that trend has been reversed and BR are making steady progress towards the medium-term grant target we set them in October 1983. There has also been good progress on privatisation and asset sales - Sealink, the BR Hotels and the Hovercraft subsidiary are now in the private sector and over £300m worth of property has been sold. All new types of traction and rolling stock are being acquired by competition; and new criteria for the introduction of competition for the supply of support services (eg catering, track maintenance) were published in December. The management of the industry has received a radical shake-up. The old "custodial" attitude is under attack and the emphasis now is on improving the bottom-line and putting the customer first. Bob Reid and his Board have committed themselves publicly to achieving the objectives we gave them. He and his managers have shown skill, sensitivity and determination in moving coal during the miners' strike despite the efforts of the NUR and ASLEF to frustrate their efforts.

All this is encouraging. But there is still a long way to go. BR is a huge and widely dispersed organisation. The "custodial" attitude is deeply ingrained and slow to change. Moreover, the objectives we have set cannot be achieved without some consequences that will be unpopular (e.g. more freight on the road, passenger service reductions and closures). So it will be essential for us - through our statements and decisions - to go on making it plain to the managers, the workforce and the unions that we shall hold BR firmly to the objectives we have set and that the Board can count on our support for the action required to achieve them.

The 1984 Plan

The main issues that arise from the 1984 Plan are:

(a) BR are tackling over-capacity and excessive overheads (e.g. in BREL and in administration) with determination and to good effect. But the Board must make more progress in reducing the basic costs of operating the railway itself. Bob Reid accepts this and it is being pursued by my officials with BR. In particular, there has been little progress in securing changes in working practices. BR intended to press the issue last year but - with our agreement - they did not do so because of the miners' strike. The NUR and ASLEF are a major brake on achieving the changes that are needed. The Board will need to weigh up carefully the benefits and risks of a confrontation during the coming year.

(b) The Plan implies that the total rail paybill will rise slightly in real terms over the Plan period despite an 8% reduction in manpower. According to the Plan, the manpower cuts and the removal of restrictive working practices would be more than offset by the improvements to pay and conditions that would need to be given to the remaining staff so as to achieve change without incurring even greater costs from industrial disruption. I believe this is an unduly pessimistic view of the future levels of pay that BR will need to offer in order to recruit, retain and motivate staff of the right calibre where they are needed. Bob Reid and I have already discussed this. He is in no doubt about the importance we attach to maintaining the downward pressure on the paybill.

(c) BR's freight business is heavily dependent on coal traffic. If the CEBG's and the BSC's experience of road haulage during the miners' strike leads them to switch some traffic away from rail permanently or, more likely, enables them to negotiate lower prices from BR, this could seriously weaken the finances of the rail freight business. Because of reduced scope for cross-subsidy between commodities within the business, they might find that they needed to shed large volumes of non-coal traffic to the road system in order to get back onto their commercial target. I have encouraged Bob Reid to press ahead with a strategy study of the options; this has now begun and the Board hope to complete it by about Easter.

(d) BR are putting a lot of work into their "customer-first" campaign. But too many trains are still dirty, overcrowded and late. That represents poor value for money for the customer and the taxpayer. Bob Reid recognises this and is putting strenuous effort into getting the message across to his workforce that if they cannot satisfy their customers at reasonable cost, the customers will go elsewhere and railwaymen's jobs will be lost. I shall continue to press the Chairman on this issue.

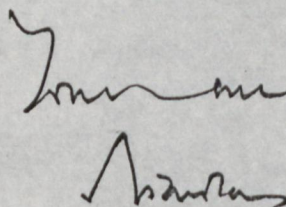
BREL Review

We asked Bob Reid to report to us by mid-1984 on the options for the future of BREL. In the event, he has needed more time to do the job radically and thoroughly. He now plans to send me his conclusions by the Summer Recess. My impression is that his review will point to privatisation - but I do not think he has yet reached even preliminary views on the extent and timing of it. I shall, of course, consult colleagues when I receive Bob Reid's report. Meantime, I am in no doubt both that the issues will be complex and that they will require very skilful handling with the private sector and the unions.

Rolling Forward the Targets

We gave Bob Reid comprehensive medium-term targets when he took office in October 1983. His current appointment expires at the end of 1986. That will be the time to give him - or his successor - a new set of objectives, including a demanding 3-year target for the PSO grant. I propose, therefore, that we should formulate the new objectives during 1986 in the light of the 1985 Plan and BR's performance against the present targets.

I am sending copies of this letter to all members of E(NI) and to Sir Robert Armstrong.



NICHOLAS RIDLEY

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BRITISH RAILWAYS BOARD: PERFORMANCE AND CORPORATE PLAN REVIEW

1. This note reviews the British Railways Board's (BR's) recent performance and their 1984 Plan for the next five years. (The condensed version of the Plan is attached.)

THE CHAIRMAN'S OBJECTIVES

2. In particular, the note relates BR's performance and the Plan to the objectives the Government gave Mr Reid in October 1983, following his appointment as Chairman. The main objectives are:

- (a) to run an efficient railway, providing good value for money, and a good service to customers;
- (b) to reduce the PSO grant requirement in 1986 to £635m in 1983 prices - a reduction of over 20% in real terms compared with 1983;
- (c) to earn a 5% real return on the capital assets of the Freight business by 1988;
- (d) to earn a 5% real return on the capital assets of the Inter-City business - and to remove it from subsidy - by 1988/89*;
- (e) to continue to achieve a fully commercial return on the Parcels business;
- (f) to make Sealink ready for privatisation;
- (g) to rationalise excess capacity at British Rail Engineering Ltd (BREL) and complete a review of the options - including privatisation - for the future of the company;
- (h) to introduce more competitive tendering and private sector participation in BR's activities;
- (i) to submit early views on the practicability of providing bus services in substitution for rail services.

PERFORMANCE AND ACHIEVEMENTS 1979-84

3. Financial Performance: BR's financial performance deteriorated sharply between 1979-81, partly as a result of the recession and partly because of increasing competition, exacerbated by the Board's failure to adjust output to demand and to control costs. The demand for PSO grant rose. In 1981, the Board published a document claiming that without substantially increased grant, they would eventually be unable to comply with the PSO Direction and would need to close 3000 miles of railway; they called for a review of railway objectives and finances. Contrary to the Government's express requirement, the Board produced a claim for grant in 1982 even higher than the revised claim for 1981. The Government accordingly rejected the claim, imposed its own grant figure and - in April 1982 - appointed the Committee on the Review of Railway Finances under Sir David Serpell.

*This objective was set in July 1984 following completion of the Inter-City Strategy Study.

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4. 1982 was the crucial year for BR. Mr Reid, as Chief Executive, pioneered the introduction of sector management (see below); the Board stood up to the unions' refusal to accept new working practices (and BR sustained unsubsidised losses of £170m as a result of strike action); and BR was forced, in preparing its evidence to Serpell, to identify realistic opportunities for cost reduction.

5. Publication of the Serpell Report in January 1983 provided the catalyst for change. It destroyed BR's claim of a massive backlog of investment and demonstrated the scope for major savings in grant by 1986 provided the Board were given financial help with the transitional costs. The Government at once made clear that the Board should set about achieving these savings but allowed time for public debate and examination of the long-term options for the future of the railway. In September 1983, Mr Reid was appointed Chairman and was set his objectives (see para 2 above) the following month.

6. Since then, BR's performance has steadily improved. The improvement has been achieved from reductions in costs, high asset sales and adjusting supply to achieve a better fit with demand (eg in May 1984, train frequencies on the Central Division of Southern Region were reduced by 4%); receipts have shown little growth.

7. The PSO grant figures for the last 5 years illustrate the points made above;

PSO GRANT REQUIREMENT, 1980-84, £m					
	1980	1981	1982	1983	1984
1984 Prices	768	894	905	894	837*
Cash	576	749	817	855	837*

* Subject to audit and final settlement

8. Manpower Reductions: BR has cut its total manpower by over 20% since 1975. This is illustrated by Figure 6 on page 11 of the Plan. In June 1981, the Secretary of State endorsed BR's own target of reducing railway staff (i.e. excluding those employed by subsidiaries) by 38,000 by the end of 1985. The Board are on course to achieve this before April.

9. "Sector Management" was introduced in 1982 to give the railway a stronger business orientation. A Sector Director was appointed for each of the five main railway businesses or sectors - Inter-City, London and South East (commuters), Provincial passenger

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services, Freight and Parcels. Each Sector Director has bottom-line responsibility for all the costs and revenues of his business. This is seen by Mr Reid as an essential step towards changing the management culture of BR; it emphasises the primacy of the businesses over the engineers and - for the first time in any national railway - introduces accountability for the financial results at a level lower than the Chief Executive himself.

10. Quality of Service: BR recognise that their business-like approach demands not only more economical operations but services which are attractive to passengers. Each sector has, therefore, formulated quality of service objectives. These constitute performance aims for local managers. This is welcome because, currently, the cleanliness, reliability and punctuality of many trains is not satisfactory. BR are now putting - and not before time - a lot of effort into making their services more attractive. This is an important aspect of value for money.

11. Privatisation and Asset Sales: In accordance with the policy statement made by the Secretary of State (Mr Fowler) on 14 July 1980, the Board have:

- (a) sold Sealink for £66m (July 1984);
- (b) disposed of British Transport Hotels for a total of some £60m;
- (c) disposed of the loss-making Seaspeed hovercraft operation;
- (d) raised £300m (gross) from property sales since 1979.

The income has been retained by BR and used to reduce their requirement for borrowing.

12. Competition for Traction/Rolling Stock Construction and Maintenance: The Board are now putting out to competitive tender all orders for the construction of new types of traction and rolling stock. This is being extended to vehicle maintenance, starting in the spring with wagons. This is consistent with and supportive of the Board's decision to put BREL onto a full arm's length relationship with the railway as part of the arrangements to ensure fair competition with private manufacturers. The private sector have already won some construction work (in June, the Scottish firm Walter Alexander won an order for 50 railbuses) and BREL's costs and efficiency have been sharpened up by the competitive pressure. Tender invitations have just been issued for 240 Diesel Multiple Units.

13. Competition for Supplies and Support Services: BR have long bought most of their supplies by competition. After discussion between the Secretary of State and Mr Reid, the Board are now committed to extending competition to the procurement of "support services" (such as catering, architectural services, cleaning, track maintenance etc). Short and simple criteria to establish fair and equal competition between in-house and private sector suppliers have been produced. Mr Reid has made it his immediate priority to apply these criteria to the provision of station and rail catering; a programme for the extension of competition to other support services is now being developed by BR.

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14. Bus Substitution: In January 1984, Mr Reid came forward with constructive proposals for legislation to facilitate the substitution of bus services for rail services. Provision for this purpose is included in this Session's Transport Bill, with BR's full support.

THE FUTURE: THE 1984 CORPORATE PLAN

15. The Planning System: In the last 2 years, BR has introduced a comprehensive new planning system. It is designed to remedy the serious deficiencies found in the previous system by Serpell and by Price Waterhouse (BR's own consultants).

16. Under the new planning system, the lead in formulating the Plan is taken by the Sector Directors. This reinforces the business-led approach to which Mr Reid has committed the railway. Forecasts of costs or revenue improvements are included in the Plan only if they are under-written by the responsible line managers, and backed up by "action plans". As a result, the Plan does not claim credit for improvement for which managers see scope but for which they have not yet developed specific action plans.

17. There is no doubt that the 1984 Plan is better than any previously produced by BR. But the Department are critical of the planning system's treatment of revenue forecasts, the paybill and basic railway costs. They are discussing with the Board ways of strengthening the analysis of these and other aspects in the 1985 Plan.

18. Future Financial Performance: The Plan shows the passenger business falling short of the PSO grant target by only £9m in 1986/87. The Board remain totally committed to achieving the target. But, for the reasons given in paragraph 15 above, they would not forecast that it would be achieved in full until specific action plans for closing the gap had been developed; these are now being prepared.

19. The Department considers that it remains feasible for the Board to achieve the target. But the task, never easy, will be the more difficult because the Plan's revenue forecasts may prove optimistic by as much as £30-40m and the Board will need urgently to find off-setting reductions in costs. In any event the Department considers that, over the Plan period, further reductions in basic railway costs are practicable.

20. The Department and BR have reached agreement about the treatment of the transitional costs needed to rationalise BREL in 1986/7 and subsequent years. It has been agreed that these costs should not be met from grant but, rather, should be treated as a business investment by BREL, financed from profits and borrowing, and recovered over a period of years from BREL's charges to the railway.

21. The Plan forecasts a continuing reduction in the PSO grant requirement after 1986/87 without either substantial closures or a decline in the standards of service. The Secretary of State has already told the Board that they should be aiming for at least these further reductions in grant, leaving the establishment of a new medium-term grant objective until the 1985 Plan has been considered and likely performance in 1986 can be judged with reasonable certainty.

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22. Paragraphs 2.7-2.9 of the Plan forecast a fall in BR's External Financing Requirements. This is consistent with the planned reduction in PSO grant. The Board also aim to fund all investment from depreciation, asset sales and other internal sources from 1987/88. These aims will be the more difficult to achieve because of the longer-term effects of the miners' strike. It has already lost BR over £200m of freight revenue; will force the Board to exceed their EFL for 1984/85; and is likely to require an increase in BR's temporary borrowing limit by April.

23. Paragraphs 2.14-2.16 forecast that BR's Corporate Investment will peak at £480m in 1985/86 and drop to £430m a year thereafter (at 1984/85 prices) for the rest of the Plan period. The early bulge in investment is caused by the need to replace a large part of the multiple unit fleet which is contaminated by asbestos. The Plan levels of investment look realistic but the introduction of competitive tendering and cheaper new technology, coupled with sector directors' drive to reduce costs should help to produce economies in the investment programme. From 1990 onwards, i.e. just beyond the end of the Plan period, BR will face the problem of replacing much of the traction and rolling stock built in the 1950s and early 1960s. The Plan makes no allowance for any BR investment associated with the Channel Fixed Link or for rail links to London's airports: any such schemes would need to earn a commercial return and to find a place amongst the Board's investment priorities.

24. The Rail Businesses: Chapters 3 and 4 of the Plan summarise the prospects for each of the railway businesses. The key points are:

(a) Inter-City is forecast to operate without subsidy by 1988/89 but to be £29m short of the profit required by its commercial target. In commencing the 1985 Plan cycle, the Board have told the Sector Director to show how the shortfall is to be eliminated.

(b) London and the South East forecasts an encouraging reduction in its share of the PSO Grant and a welcome emphasis on the achievement of quality of service objectives. The Department believes there is scope for further reductions in the grant requirement through tighter control of engineering expenses and staff costs.

(c) The Provincial Sector; major cost reductions will be required to achieve the levels of the sector's grant requirement forecast in the Plan. This is because the sector's costs are 4 times the size of its receipts. New rolling stock - particularly the replacement of the DMU fleet - will help. But the sector will face increasingly fierce competition from private transport and bus competition following deregulation.

(d) Freight; the Plan shows the sector achieving its commercial target in 1988/89. But, as a result of the miners' strike, BR may have lost permanently to road transport competitors significant amounts of coal and steel traffic. The Board have, therefore, begun a major review of the sector's prospects and the means to achieve the 1988/89 target.

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(e) Parcels; the sector is forecast to continue making substantial profits. It is operating in an intensely competitive market and is urgently seeking the further cost reductions required to meet the profit targets set by the Board.

CONCLUSION

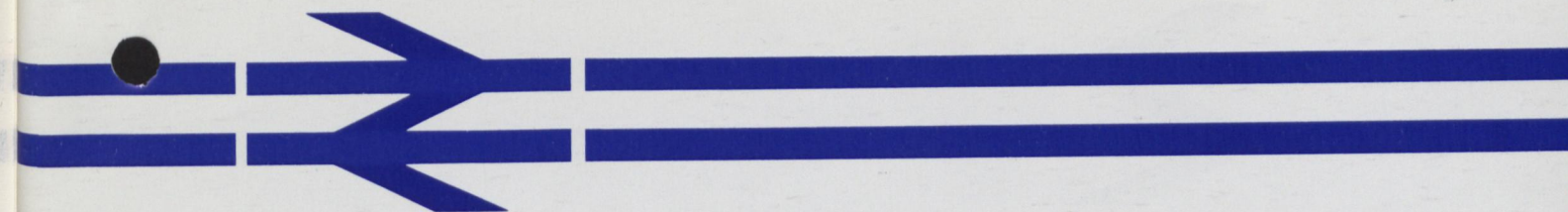
25. BR has made encouraging progress over the last two years. Their 1984 Plan has overcome many of the deficiencies found in the Board's earlier planning system by Serpell and Price Waterhouse. The Plan is firmly directed to achieving the objectives set for the Board by the Government in October 1983. The Department considers that it remains feasible for BR to achieve the PSO grant target in 1986/87.

26. The Department also considers, however, that the Plan's passenger revenue forecasts - particularly for Inter-City - are vulnerable; that the assumptions about the likely levels of pay required to recruit and retain staff are too high; and that further action is required to reduce the basic costs of operating the railway. Moreover, a thorough review of the freight business is now required to assess the medium and long-term effects of the miners' strike and the means to get back on course to achieve the target of a 5% real return on capital assets in 1988/89. All these points have been put to the Board and will be pursued by the Department in discussions with BR in the course of the preparation of the 1985 Plan. The Board have already begun the review of the freight business.

British Railways Board



**Corporate
Plan 1984**



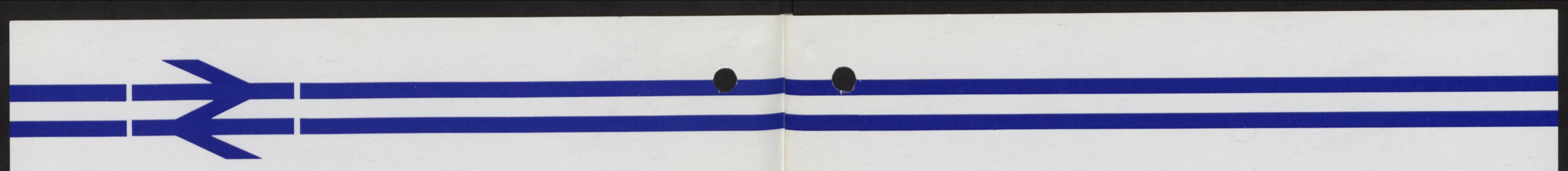
1984 CORPORATE PLAN

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The production of the Board's Corporate Plan is a process which is updated each year, to provide a framework for the direction and control of the Board's railway and other businesses in the five years that lie immediately ahead. In the case of a nationalised industry like the railways, it also gives the Secretary of State information about the future plans of the industry, so that policy issues can be discussed in good time for decisions to be made. The 1984 Corporate Plan differs from those of previous years in that its forecasts are now based not on the calendar year, which formed the basis of the Board's accounting arrangements until 1983, but on the fiscal year. Its forecasts therefore cover the years 1985/86 to 1989/90.

NOTE: all figures quoted in this booklet are given in average 1984/85 prices, unless otherwise stated.



FOREWORD

British Rail's 1984 Corporate Plan provides an essential framework within which the performance of our various businesses can be seen in the perspective of the longer term future of the industry.

It presents a picture of that future which identifies both problems and opportunities: problems of managing change with due regard to the effect on those working in the industry; opportunities, through investment, to open up new markets and new job prospects from increased competitiveness and service to the customer.

It predicts that the railway can be in much better shape at the end of the decade and ready to go on with the major task of earning the money to invest in the continued replacement of assets.

A key point to be made about any Corporate Plan for any major industry is that producing the Plan itself does not guarantee that the results will emerge as forecast. Its value lies in the signposts it offers on a general path that needs to be followed. It only has merit if it can be adapted to meet changed conditions, and still take the industry towards meeting its objectives.

Success depends, in the end, on a lot of hard work by a lot of people, to ensure that action plans are carried through on time and on budget.

The Plan is revised every year to take account of actual results, and the most up to date view of the economy.

The 1984 Corporate Plan indicates a course for the railway and its subsidiary businesses to take over the next five years to make major progress towards BR's financial and quality of service objectives.

When I became Chairman of British Rail in September 1983, the Secretary of State for Transport, for the first time, gave the Board a clear set of objectives. The 1984 Corporate Plan indicates significant progress towards meeting those objectives:

- the forecast reduction in the requirement for financial support of the passenger railway will reduce the call on the taxpayer by about 25%, and is expected to be within about £9m. of the target set by Government.
- The InterCity Sector expects to be in profit from 1988/89, but with further improvement needed to achieve its £34m. profit target.
- the Freight Sector will need to take vigorous action to recover from the disastrous effects of the NUM strike, but is forecast to reach its profit target of £36m. by 1988/89. It is, however, very difficult to see the future clearly whilst the strike is unresolved and customer reaction not yet defined.
- the Parcels Sector is expected to continue in profit.

The Plan also shows the Board's subsidiary businesses making considerable progress - for example, British Rail Engineering Ltd. in responding to workload changes and the development of an arms-length relationship with the railway businesses: Freightliners Ltd. in implementing new strategies to promote growth markets.

During 1984, the emerging forecasts of the 1984 Plan have been discussed with the railway trade unions at a series of meetings. Last month, following more discussions about the future of the industry, it became clear that more time needs to be given to explain and bring out the positive aspects of the Plan in terms of investment in new equipment, service improvements, and increased competitiveness, rather than the negative aspects of manpower reductions on which so much attention tends to focus. I welcome this closer involvement by the trade unions and hope that it will lead to a greater understanding of the progress we are making in securing job opportunities and a long term future for the railway industry.

Four key messages about the prospects for railways emerge from the 1984 Corporate Plan. Provided we continue to carry out the action plans we have set ourselves:

- we will continue to receive Government support at a level which enables us to plan an expanding business on a network only slightly smaller than the present one.
- we will continue to make sensible economies in the size of our workforce and tackle the recruitment of some 25,000 people to replace those retiring or moving to other jobs.
- we will continue to earn the money to invest some £2.2 billion in modernising the system over the next five years.
- we will continue with our drive to improve service to the customer by better deployment of staff, by better information services, better training for staff dealing with customer needs, and by achieving the defined standards of quality of service.

Above all, we will retain the confidence of the customer and the taxpayer, and this secures our future.

R. B. REID
Chairman

October 1984.



CHAPTER 1

Introduction

Purpose of the Plan

1.1 This Plan updates the Plan produced in August 1983 and incorporates the principal developments which have occurred since that date, both in terms of reactions to the 1983 Plan by Government and in refinements to methodology.

For the first time, the Plan is produced in fiscal years, corresponding with the recent change in the Board's accounting years. Its forecasts cover the years 1985/86 to 1989/90 with 1984/85 as the base year.

Board Objectives

1.2 The 1983 Plan was the first to be produced under the new planning process, with full commitment to action plans by those responsible for their achievement. This produced a significantly enhanced credibility for the Plan, not only at all levels within the business, but also within Government. This credibility gave rise to an improved dialogue with the Department of Transport on strategic issues and provided the basis for the challenging target set by the Secretary of State of reducing by 25% the call on the taxpayer for the Public Service Obligation (PSO) grant by 1986.

1.3 A clear indication that the government accepted the general strategy outlined in the 1983 Plan was the production by the Secretary of State in October 1983 of objectives which he wished the Board to pursue and reflect in the 1984 Plan. These included the requirement to bring forward to 1986 the timescale for the reduction in the PSO grant to £635m. (1983 prices) and a re-statement of a financial target for the Freight business dated 1988. The Government also asked the Board to come forward with proposals for more private sector finance and participation in the development of stations and railway services, and to continue to pursue a vigorous policy of property development and disposal. In August, the Secretary of State, stated the InterCity objective which should be achieved in 1988/89 and that, from that year, the InterCity Sector should not consume any part of the annual PSO grant. Quality of service objectives have also been confirmed and these form an integral part of the Board's Plans.

1.4 The 1984 Plan records significant progress towards achievement of the Secretary of State's objectives and, where detailed action plans have already been produced, incorporates the results in the forecasts.

Internal Targets

1.5 The Plan also reflects a number of internal targets for all businesses and sectors, either where no external target exists at present, or to supplement financial objectives with service quality targets.

Key Assumptions

1.6 At the outset of the Plan, certain major planning assumptions were made, in particular that there would be a continuation of present Government transport policies and little change to the size of the network. The Plan period would contain the major part of the asset sales programme, with further steps towards the involvement of the private sector in support activities.

1.7 Electrification of the East Coast Main Line to Edinburgh, authorised by the Secretary of State on 27 July 1984, was assumed to start during the Plan period, in addition to the electrification projects included in the 1983 Plan. The Liverpool Street/Broad Street development was assumed to begin in 1985 with completion by 1992. Neither the Channel Tunnel nor the Third London Airport Link was assumed to occur during the Plan period.

1.8 The general economic assumptions underlying the Plan forecasts were that the slow growth in the UK economy would continue, with GDP rising by a maximum 1.5% per annum during the Plan period with industrial production broadly in line and consumer spending increasing at a slightly greater rate for the last three years.

The Way Forward to the 1990's

1.9 The Plan incorporates further improvements in forecast results compared with the 1983 Plan and most of the Rail sectors achieve their financial targets by the end of the Plan period, with each Sector Director actively developing measures to ensure achievement of these targets, within the required timescale.

1.10 The subsidiary businesses too, demonstrate considerable progress in preparing themselves for the future. The major rationalisation of British Rail Engineering Ltd. workshops, to meet future workload and more commercial relationships with the Rail business, is set out in the Plan. Similarly, Freightliners indicate the progress that has been made so far on implementation of new strategies for the business.

1.11 Overall, the various businesses of the Board will be in a much better shape by the end of the Plan period in terms of manpower and other resources to meet effectively the challenge of the 1990's, when the Board must prepare for a major programme of asset replacement, in particular, of Diesel Locomotives and Electric Multiple Units.

1.12 The 1984 Corporate Plan continues the commitment by BR management, expressed in the last Plan, that it can achieve the planned improvements.

CHAPTER 2

Key Issues

2.1 In terms of performance, the Board's achievements and plans can be examined by reference to eight key issues: –

- (1) Public Service Obligation (PSO).
- (2) External Financing Requirement (EFR).
- (3) Customer Care.
- (4) Electrification and InterCity/Freight profitability.
- (5) Investment trends and forecasts.
- (6) Manpower trends and forecasts.
- (7) Productivity and Performance.
- (8) B.R.E.L. capacity reductions.

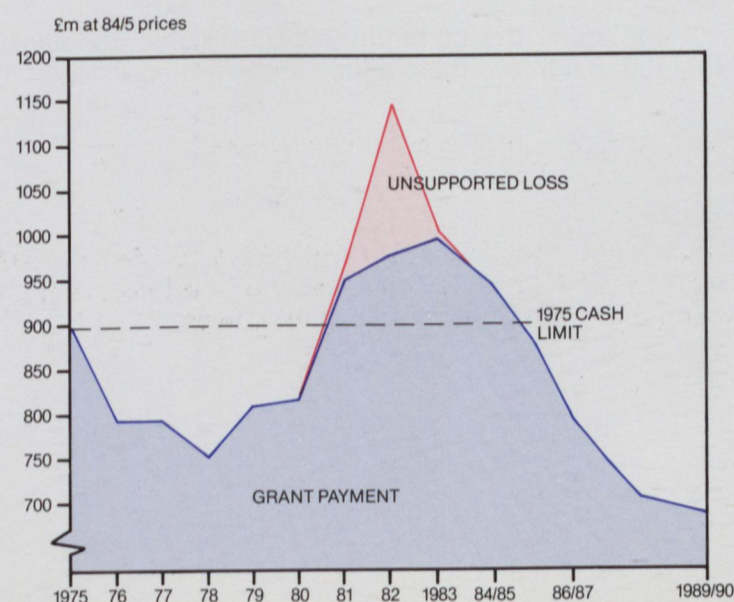
2.2 Before consideration of these issues, mention must be made of the 'transitional' costs which are incurred to enable the Board to restructure its businesses to meet changes in customer demand and to improve productivity. These outlays are at the heart of the continuing improvements in the 'bottom lines' contained in the Plan. Since the PSO target was set, additional worthwhile transitional costs have been identified and discussions are proceeding with Government on the appropriate means of funding these costs. These amounts have therefore been omitted in making comparisons in the Plan between the forecast results and the targets, whether externally or internally set.

PSO

2.3 The total passenger grant comprises the central government PSO payment and grants from PTEs. Figure 1 indicates the level of past passenger grant payments and planned requirements measured against the original cash limit which was based on the 1975 results.

FIG. 1

FALL IN PASSENGER GRANTS (INCLUDING PTE's)

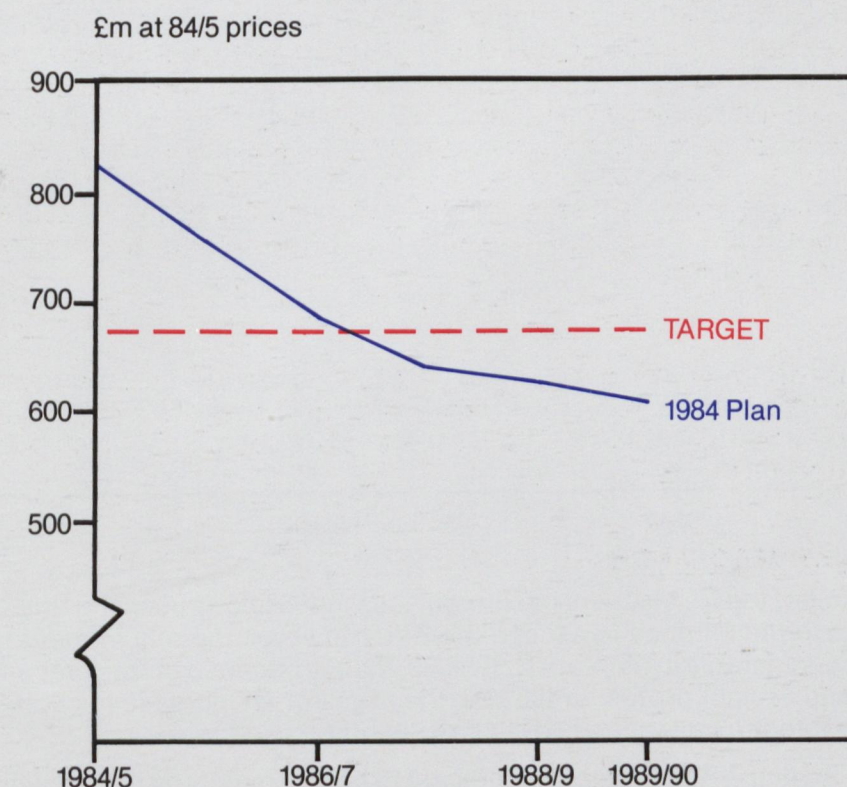


2.4 In the early years, the grant payments were well below the 1975 based targets. However, it was not possible to offset this against the later losses, caused by the economic situation and coach competition. The 1982 'unsupported loss' was brought about by the ASLEF dispute and has been borne by the Board.

2.5 Figure 2 shows the forecast requirement for the central government PSO set against the Secretary of State's objective to the Board to bring forward by two years to 1986, the reduced level of payment forecast in the 1983 Plan for 1988. This requirement was based upon the acknowledged fact that the 1983 Corporate Plan did not contain some £70m. of cost saving initiatives that were in the pipeline because they had not been developed to the required degree of 'action plan' readiness.

FIG. 2

FALL IN PSO REQUIREMENTS



2.6 At 1984/85 price levels, the PSO objective for 1986/87 is £677m. (£635m. in 1983 prices) and the PSO forecast is now within £9m. of that objective. This improvement is mainly the result of including these further cost saving initiatives.

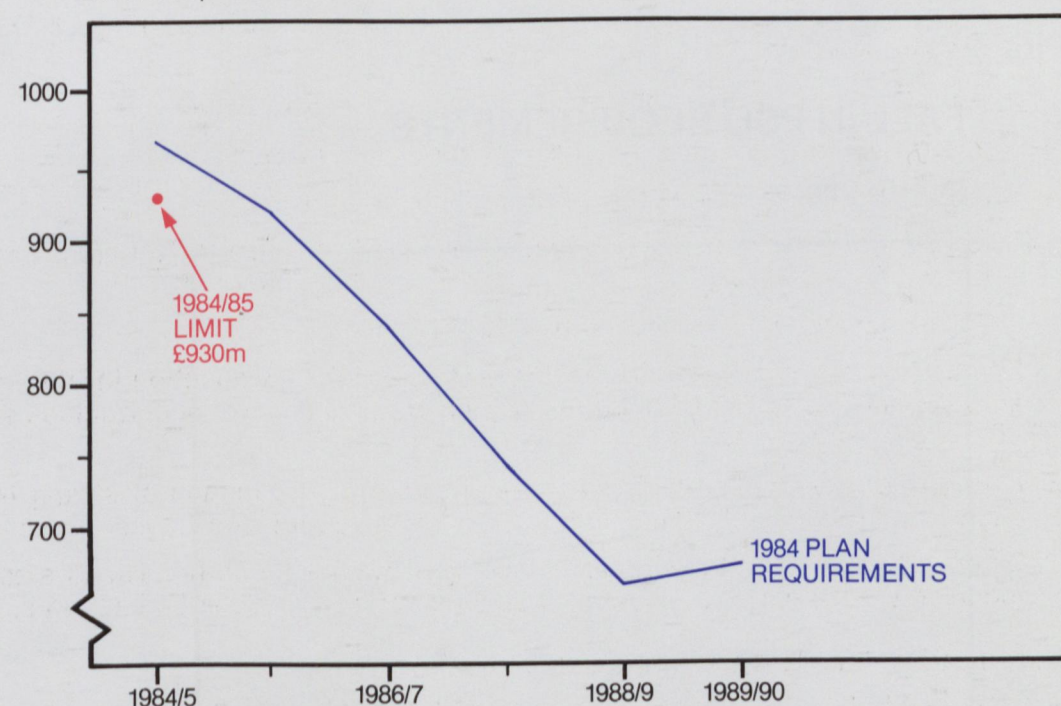
External Financing

2.7 The External Financing Limit (EFL), which is set by Government as part of the overall Public Sector Borrowing Requirement, has not been advised beyond 1984/85. Figure 3 shows the reducing External Financing Requirement (EFR) for the corporate business over the Plan period, and the comparison with the 1984/85 EFL.

FIG. 3

EXTERNAL FINANCE

£m at 84/5 prices



2.8 As a direct result of the NUM strike, the Freight loss in 1984/85 causes the Board requirement for External Finance to exceed the EFL. However, the requirement is forecast to drop considerably in all years to 1988/89, mainly because of the forecast PSO reductions and Freight profits. In 1989/90, the effect of an increase in capital investment is expected to cause the EFR to rise slightly.

2.9 The External Financing Requirement is forecast to be met mainly by grants, with the balance, if any, representing the Board's Borrowing Requirement: this amounts to some £30m. in 1985/86 and 1986/87, but is forecast to be eliminated thereafter.

Customer Care

2.10 A review carried out recently has established the need for better co-ordination of passenger marketing activities for a sharper focus on the needs of customers. The intention is to ensure that maximum opportunity is taken to relate the products offered to the market needs.

2.11 Preparation of a full Passenger Marketing Plan is in progress and, in future years, it will provide an input to the Sector Plans. For 1984/85, the key action points are: –

- (a) A Customer First programme to carry forward initiatives started in 1983 in profitably meeting customer needs by: –
 - adopting of best practice in customer service more widely through the system.
 - deploying manpower resources to best customer advantage.
 - improving internal communications of customer needs.
 - developing the customer care staff training programme.
 - reviewing and enhancing information provided for customers before and during travel.
 - achieving defined standards of quality of service.
- (b) Preparation of a new and simpler fares structure for introduction in 1985 to embrace all Sectors, highlighting to customers cheap travel opportunities at other than peak times.
- (c) A review of the present cost and effectiveness of the means of selling to customers through salesmen, stations, BR travel centres and Travel Agents.
- (d) Development of new standard ticket-issuing machines for stations and trains, reducing time spent on accountancy and increasing customer contact time.

Electrification & InterCity/Freight Profitability

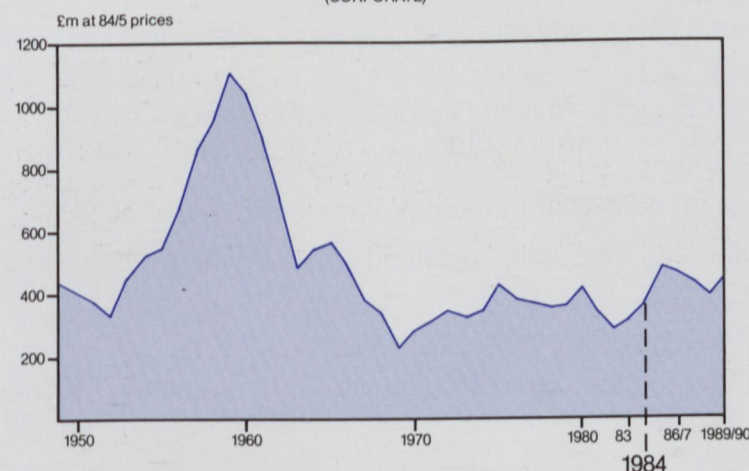
2.12 The Board decided from the outset of the current planning cycle that the electrification of the East Coast Main Line would be included, because it was considered that satisfactory performance in the InterCity and Freight Sectors could be demonstrated, together with achievement of further improvements in the PSO in the early years of the Plan.

2.13 This has been justified by the recent decision of the Secretary of State to authorise the project. The 1984 Corporate Plan, therefore, provides for work on the East Coast Main Line to begin in 1984, with the first electric services on the route being introduced in 1988. The completion of the Anglia schemes, a number of small extensions and linking projects, together with some third rail extensions on the Southern Region, are also included in the Plan.

Investment Trends & Forecasts

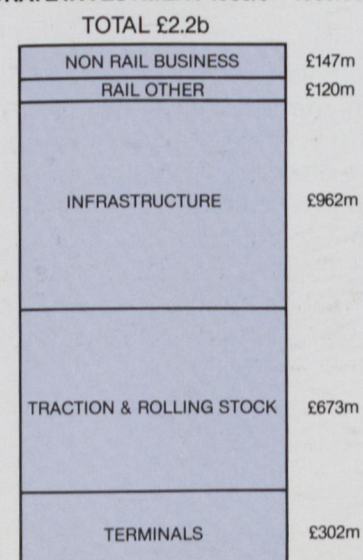
2.14 Figure 4 indicates the present and forecast levels of investment. In the late 1950's a massive programme of investment in infrastructure and rolling stock was initiated over a period of a very few years. Replacement of these assets will take place over a longer period in the late 1980's and 1990's and, because of the technological and productivity improvements, will be at a lower overall level. Renewal of the DMU fleet, which has recently begun, will continue over the next few years, and that of InterCity vehicles is planned to start in the later years of the Plan period, followed by major renewals of the locomotive fleet in the 1990's.

FIG. 4
INVESTMENT 1950 – 1989/90
(CORPORATE)



2.15 Investment spending by category is shown in Figure 5 and totals approximately £2.2 billion in the Plan period, representing what the Board considers to be the appropriate level of investment consistent with the achievement of its objectives, strategies and Plan forecasts. Major spending will be concentrated on renewing traction and rolling stock (£673m.) of which £527m. is for the Passenger Sectors, Infrastructure (£962m.) and renewal of Terminal and Depot facilities (£302m.). Included in these figures is a significant level of investment in Electrification (£243m.).

FIG. 5
CORPORATE INVESTMENT 1985/6 – 1989/90

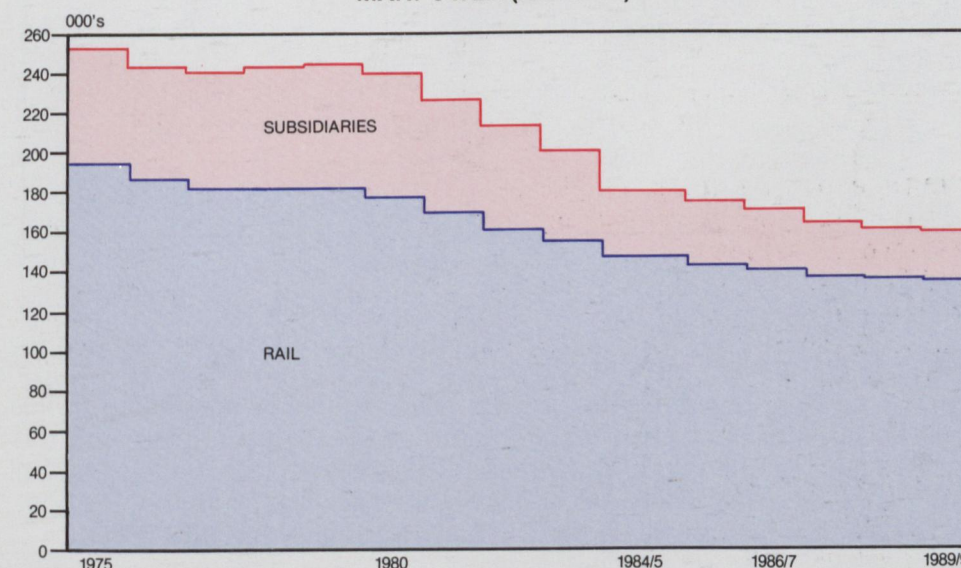


2.16 In the early 1980's shortage of finance caused the Board to restrict investment levels somewhat, but this Plan indicates higher levels of investment over the next few years, peaking in 1985/86 at £480m. and returning to an average of about £430m. per annum for the remaining four years. This level of investment is expected, over the period of the Plan, to be funded out of the Board's internal resources without recourse to borrowing. However, accomplishment of the planned levels of spending will require a sustained effort by all concerned, not only on the physical work, but also in terms of ensuring that the major individual projects pass smoothly through the Board's investment procedures for final authorisation, in the more significant cases, by the Secretary of State.

Manpower Trends & Forecasts

2.17 Figure 6 illustrates substantial reductions in Manpower already achieved by the Board's businesses since 1975 and shows the continuation of that trend, albeit at a slower rate of change, over the years of this Plan. The reductions shown in the figures include the staff transferred with the sale of BT Hotels (about 4000 between 1981 and 1984) and Sealink (about 9000 in 1984/85). The target, set by the Secretary of State in 1981, of a reduction in Railway staff of 38,000 posts by the end of 1985, is forecast to be achieved before the end of 1984/85.

FIG. 6
MANPOWER (PAYROLL)

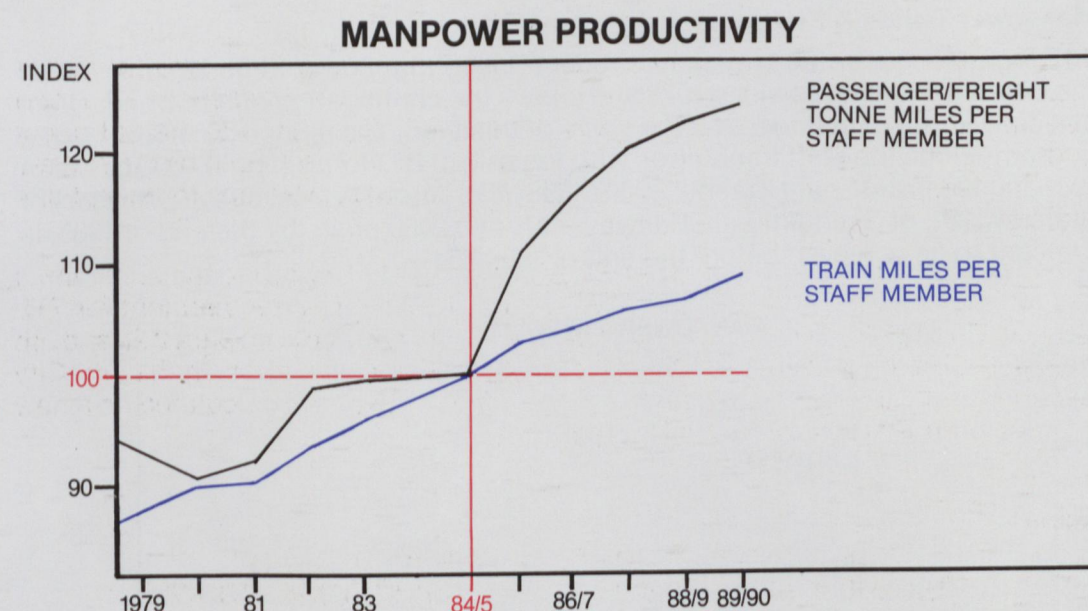


2.18 Most of the reduction in manpower in the current year is in Railway salaried staff following the successful implementation of the Administration & Organisation initiative. In the Plan period, there are significant savings forecast in the Railway Operations function and in BREL. However, the future trend of reductions is much less than that experienced in the past, even after allowing for the previous corporate reductions as a result of disposal of subsidiaries. At the end of the Plan period, the total Railway workforce will be about 137,000, and as the high level of natural wastage exceeds the reductions referred to above, there will be a need to recruit some 25,000 staff throughout the period.

Productivity & Performance

2.19 Railway passenger miles and freight net tonne miles are forecast to increase by 10% over the Plan period and an 11% reduction in average rail staff numbers is also forecast. The resultant improvement in staff productivity is shown in Figure 7 which demonstrates a 25% increase in passenger/freight tonne miles, and a 9% improvement in train miles per employee. It will be seen that the Plan forecasts follow a similar trend to recent years.

FIG. 7



BREL Capacity Reductions

2.20 The plan for BREL continues to provide for the bulk of the rolling stock maintenance and new construction requirements of BR in accordance with the needs of the Rail business. However, the forecasts of workload to be undertaken on behalf of BR reflect the expected overall decline in fleet sizes and judgments about the size of the role that the private sector will play in competition with BREL.

2.21 The Plan provides for the continuation of rationalisation of capacity, with further reductions in manpower. Substantial transitional costs will arise as a result of these rationalisation measures. Major benefits are forecast in terms of reduced overheads and improved productivity, resulting in lower unit costs and greater competitiveness.

2.22 The Plan also reflects the steps being taken towards making BREL a more accountable and free standing Company. These include the introduction of 'arms length' relationships between BREL and BR in the areas of design, materials and parts procurement and also repair contracts.

CHAPTER 3

The Rail Business

3.1 Sector management continues to develop its customer and business orientated role in the management of the Railways, being supported by Regions and Functions, spanning both planning and current operations. The aim is to obtain value for money for customers and the nation as a whole by ensuring that financial and service quality objectives are paramount and achieved in terms of efficiency and effectiveness.

3.2 The Directors of the three Passenger Sectors face a special problem in this regard since grants are made by central Government and Passenger Transport Executives for benefits which the rail services bring to those who are not direct customers. The value for money of such benefits can only be judged by the elected bodies themselves while British Rail ensures the costs are kept to acceptable levels.

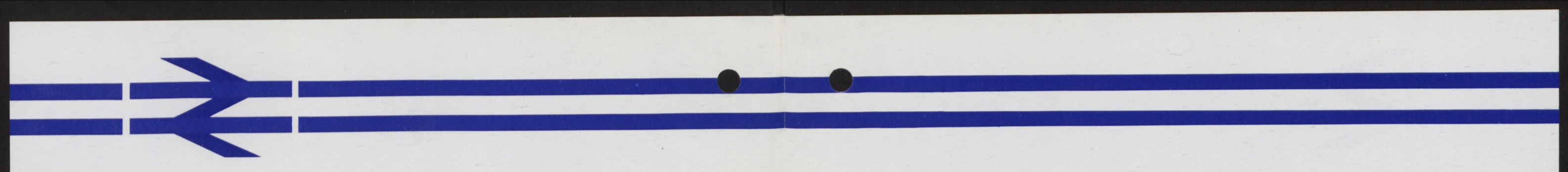
3.3 The forecasts of Passenger Grant are given in Table 1, showing the substantial reduction planned. These forecasts, which include the grant requirement for PTE services, are before deducting the transitional costs referred to in para 2.2., and are calculated on the present method of infrastructure cost allocation. In the InterCity section (para 3.6 *et seq.*), the comparisons with objectives are calculated on a new method of infrastructure cost allocation.

Table 1

SECTOR FORECASTS OF PASSENGER GRANT INCLUDING PTE PAYMENTS AND TRANSITIONAL COSTS (using current infrastructure allocation conventions)

£m @ 84/85 prices	1983	84/85	85/86	86/87	87/88	88/89	89/90
InterCity	184	188	166	133	111	95	90
L&SE	293	255	244	210	194	171	166
Provincial	528	492	465	450	442	436	434
Total	1005	935	875	793	747	702	690

3.4 The Secretary of State has accepted the Board's claim for the central Government grant for 1984 at £837m, subject to adjustment for certain factors to be settled with the Board. The claim is £25m. less than the cash limit for 1984 set last December, and £18m. less than the Board's final claim for 1983. The PTE grant for 1984 is estimated at £82m.



3.5 The Secretary of State set a number of objectives for the Board last October, the principal one of which was to reduce the central Government grant requirement to £635m. (in 1983 prices) in 1986. In order to compare the forecasts with this objective, estimates of the PTE grants (which are not cash limited) need to be deducted. It is assumed that the objective can be increased by 6.6% to £677m. for 1984/85 prices and taken to apply to 1986/87 now that the change has been made to fiscal-year accounting. Allowance should also be made for the additional 'transitional' costs. After taking account of all these adjustments, there is a forecast shortfall of only £9m. on the objective in 1986/87, followed by improvements over the target in subsequent years.

INTERCITY SECTOR

3.6 The commercial objective of the InterCity Sector, set by Government, is to earn a 5% return on its assets on a current cost accounting basis by 1988/89. At 1984/85 prices this means earnings a profit of £34m. The Secretary of State also requires that this Sector should not consume any part of the PSO grant from that year. The Sector has quality of service objectives for punctuality (85% of trains to arrive within 5 minutes of right time) and carriage cleaning (40% improvement in vehicles satisfactorily cleaned) and very low tolerances for cancellations, inadequately or wrongly formed trains and failure to provide correct catering facilities.

Strategy

3.7 InterCity has just completed a major review of its Strategy, looking at every aspect of its markets and its cost structure. The strategy input into this Plan draws on the results of this work, which will be published by the end of the year. Service restructuring is planned for each of the five Service Groups – the West Coast, East Coast, Midland and Western Main Lines and NE – SW. It starts with WCML in May 1985 and culminates in the electrification of the ECML as far as Leeds in 1989 (and Edinburgh by 1991). However, the whole basis of the changes is to match supply better to changing demand patterns and passenger volume is forecast to increase by 9% to over 8600m. passenger miles. Receipts per loaded train mile and loadings are both forecast to increase by 16%. Restructuring will involve reductions in loaded train miles, by 7% from 48.4m. to 45.1m, and vehicle numbers – a further 10% following the 26% reduction already achieved in 1982 and 1983.

3.8 The major policy developments which are designed to achieve these results are investment, pricing and customer care. New traction and rolling stock will be introduced on the WCML from 1986/87 and top speeds will be progressively increased from 110mph on selected trains to 125mph by the end of the decade. The East Coast route will be electrified, and will also benefit from new traction units and new coaches. The Midland and West of England routes will continue to exploit the potential of 125mph running with increased HST formation lengths.

3.9 Although there is no scope for across-the-board real price increases in the Sector, the major restructuring and simplification of fares to be introduced in 1985 will bring in more receipts by letter segmentation of the market between business and leisure sectors with a mixture of higher peak and lower off-peak prices. Customers will also benefit from increased investment in terminals, especially car park provision, Train Enquiry Bureaux and computer seat reservation systems and

from improved stopping patterns for stations on the edge of the major conurbations. An extensive programme of refurbishment of Mark II and Mark III coaches will start this year and will include a new InterCity livery. On-train customer service will be improved by the Trainphone project and a new catering strategy based on modular vehicle systems and shore based food preparation.

Plan Forecasts

3.10 The forecast results for the Sector, including the costs of transition, show a substantial improvement during the Plan period with the loss falling from £188m. this year to £90m. in 1989/90. Total receipts are forecast to rise by £48m. and this combines with a £43m. reduction in working expenses and a £7m. fall in interest charges. The working expenses reductions are chiefly in the operating and maintenance functions (where unit costs fall by 10%) and in civil engineering costs. Although this demonstrates major progress towards profitability, it is not sufficient to reach the Sector objective laid down by Government. After making allowance for the accountancy changes necessary to put the forecast results on the same basis as the objective, a loss of £69m. in 1989/90 is forecast.

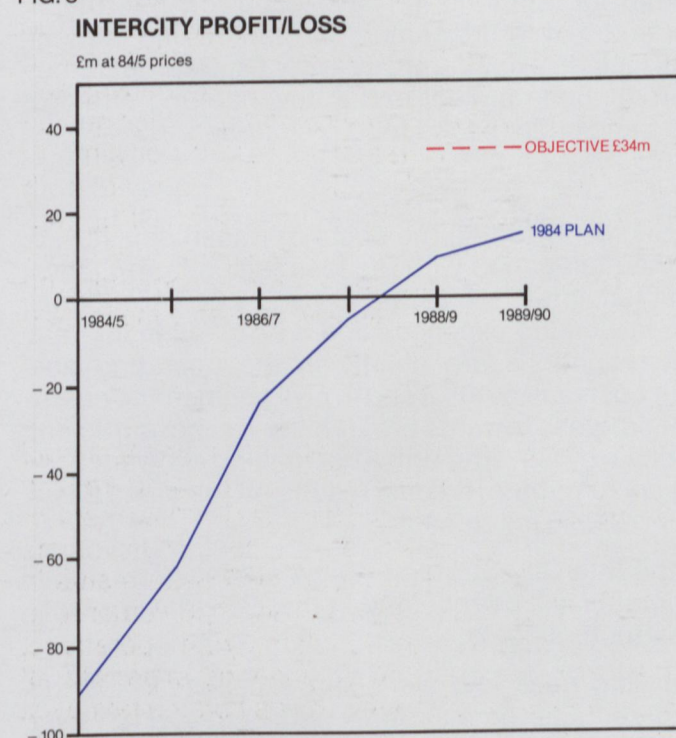
3.11 However, not all aspects of the InterCity Strategy review are included in the present Plan, and further developments will be reflected in the 1985 Plan, notably changes to the treatment of infrastructure costs.

3.12 The present method of analysing track and signalling expenses takes the costs of the *existing* Railway and deducts the marginal costs of secondary user Sectors to obtain those attributable to the prime user Sector. The new method assesses the costs of track and signalling which would be required for the prime user Sector *if the Railway was being built now*, using the most appropriate forms of modern equipment to meet present day demands. The marginal cost of secondary user Sectors is then assessed, again assuming modern equipment to meet current demands. Any surplus of the cost of the existing Railway over the 'ideal' track and signalling is added back to the Sectors which have historically incurred them.

3.13 On this basis, the InterCity Sector would, by 1988/89, fall short of the profit objective of £34m set for it by the Government by some £25m.

3.14 The 1985 Plan will address the problem of how this remaining gap is to be closed and the Board remains determined and confident that the objectives will be achieved. The changes in infrastructure charges will impact on the other Sectors, and their objectives will need to be reviewed at the same time. The forecast of InterCity profits on this basis is shown in Figure 8.

FIG. 8



LONDON & SOUTH EAST SECTOR

3.15 The London & South East Sector has been set the financial objective by the Board of reducing its grant requirement to £213m. (at 1984/85 prices) by 1986/87, as part of the overall PSO objective for that year. The Sector has agreed with the Department of Transport and the Central Transport Consultative Committee a series of quality of service objectives. Average level of cancellations should not exceed 1.5%; at least 87.5% of trains should arrive within 5 minutes of right time; load factors should not exceed 135% for sliding door and 110% for slam door stock with no passenger having to stand for more than twenty minutes. Additionally, it has laid down standards for carriage cleaning and response time at Train Enquiry Bureaux and required that staff levels should be sufficient to achieve them.

Strategy

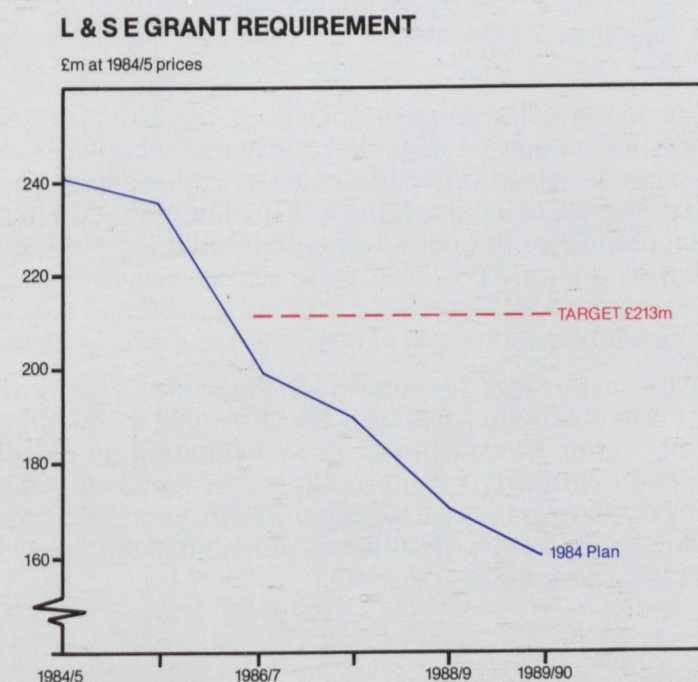
3.16 The Sector aims to improve the service offered to the customer at costs which achieve its financial objective. This will be done by optimising use of existing resources; trimming back lightly loaded train mileage where it has least effect on passengers and redeploying the rolling stock saved on to newly electrified lines. Train mileage declines from 82.3m. to 78.9m. (4%) over the Plan period. The electrified area is being expanded, through investment of £50m, to include the East Anglian lines to Cambridge and Norwich, the Tonbridge – Hastings, Bedford – Kettering – Corby, Romford – Upminster and Bournemouth – Weymouth lines, the East Grinstead and Southminster branches, as well as the Hitchin – Peterborough section of the ECML. Improvements in rolling stock are planned for the Euston services and the Bournemouth/Weymouth services by 1987/88. The number of EMUs needed should fall by over 100 with a further 500 vehicles withdrawn from the DMU and loco-hauled fleets.

3.17 A major marketing development in the Sector has been the successful launch of the Gatwick Express service in May 1984. The Sector aims to exploit other traffic growth points and the travel possibilities provided by a network of regular interval services. The implementation of Open Stations and Customer First initiatives and the investment of over £13m. p.a. in terminals will also provide better service quality for the customer. Together with London Regional Transport, the Sector aims to provide a high standard of service for the Capital, giving value for money to both passenger and taxpayer. The overall effect of all of these changes will be that passenger volume is forecast to increase slightly to more than 8600m. passenger miles. Receipts per passenger mile are expected to go up by 4% and, together with the volume increases and the train miles reductions, lead to a 7% increase in train loadings and a 11% increase in receipts per train mile.

Plan forecasts

3.18 The results forecast for the Sector show that the target set by the Board should be met in 1986/87 and that the Sector's grant requirement, shown in Figure 9, is expected to continue to decline in the later Plan years. The total improvement of some £81m. is almost equally attributable to increased receipts, mainly in volume improvements, with modest real pricing in the early years, and to betterments in working expenses, interest charges and ancillary income. The improvements in working expenses are spread across all of the major functions with operations, maintenance (unit costs down 8%) and infrastructure engineering expenses all declining to a marked extent. In terms of value for money, the call on the taxpayer, when measured in terms of grant per passenger mile, is forecast to fall significantly over the Plan period.

FIG. 9



3.19 In summary, the L&SE Sector has plans to meet its financial target by 1986/87 whilst operating its services to the required quality of service standards and with levels of output and demand only marginally different from now.

PROVINCIAL SECTOR

3.20 The Board has set the Provincial Sector the objective of reducing its grant requirement to £426m. (at 1984/85 prices) by 1986/87, as its part of the overall PSO objective in that year. Because of the nature of the Sector, quality objectives are being developed on a local area basis, for inclusion in the 1985 Plan.

Strategy

3.21 The Sector's strategy is based on the premise that its heterogeneous set of services can be best run locally with decision-making largely devolved to identified managers who will produce and implement plans meeting financial and physical targets agreed with the Sector Director.

3.22 With working expenses roughly four times as large as receipts, the Sector must look to cost reduction measures as a means of meeting its financial target. Train working costs, both operating and maintenance, will be directly affected by the Sector's fleet renewal policy. Over 75% of the Sector's investment of £480m. in the Plan is in new DMUs which will totally replace the existing fleet and, in the later years, substitute some DMU for loco-hauled vehicles. As a result of forecast improvements in utilisation, stemming largely from the significant investment in DMUs, the Sector fleet is forecast to fall by 700 to some 3000 vehicles, of which over half will be new DMUs built since 1983. This should lead to a 33% cut in maintenance costs per loaded train mile. In total, the output of the Sector is expected to reduce by less than 3% to 60.9m. loaded train miles and the greater efficiency of operation and fuel economy of the new vehicles means operating costs per train mile also decline by 4%. Further economies are being sought in infrastructure costs. New radio signalling systems will be installed on branch lines, and the civil engineering function will be making savings in the relaying of lightly used track and responding to the impact of low axle weight DMUs on maintenance patterns.

3.23 Whilst most of the drive of sector policy is directed at cost reductions, every opportunity will be taken to exploit changes in the market and to initiate policies to combat increasingly severe competition in order to secure revenue gains. The introduction of a new fleet, often liveried in local colours, will itself be a marketable item and can be used by local managers to best advantage in tailoring services more closely to local needs with appropriate fares and promotional activities. Overall, demand is expected to increase by some 7%, to 3200m. passenger miles, and average loadings by 11%. Very little change is expected in the real level of fares.

3.24 The Provincial Sector network in this Plan remains much the same as it is now, although some services, most notably Settle – Carlisle, are already in the closure machinery. However, this Plan contains no allowance for bus substitution of rail services as none of the schemes with *prima facie* potential for improving the Sector's results are sufficiently developed for inclusion in the Plan. Legislation for this purpose will be required and the Secretary of State has announced that he will be bringing forward the necessary measures.

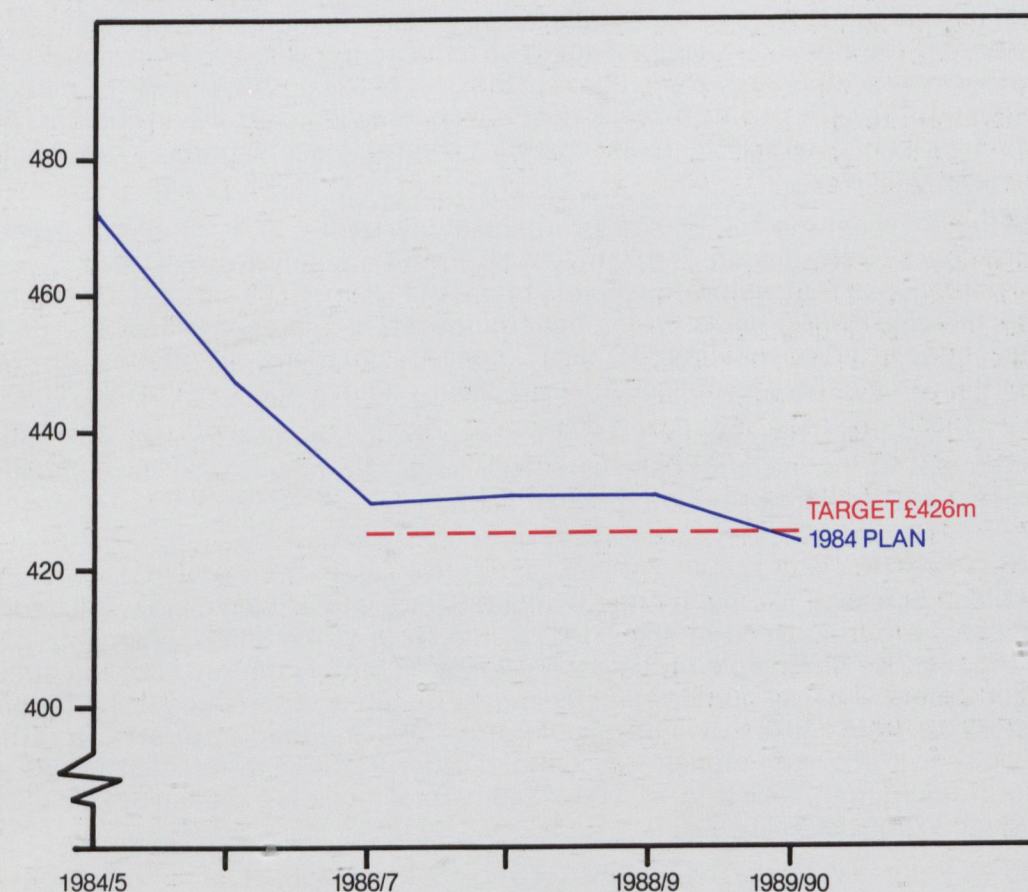
Plan Forecasts

3.25 The Sector forecasts show that total receipts, including ancillaries, should rise by £13m. and working expenses fall by £61m. The bulk of this is in the operating and maintenance functions with further worthwhile reductions in civil engineering expenditure. However, depreciation and interest charges increase by £29m. as a result of the new investment. In spite of this, the Sector is expected to achieve the Board's target by 1989/90, as shown in Figure 10. A reduction in grant requirement per passenger mile of the order of 18% is forecast in the course of the Plan and the Sector is identifying further areas with potential for cost reduction with the functions and regional management, with a view to developing initiatives for improving the forecasts further.

FIG. 10

PROVINCIAL GRANT REQUIREMENT

£m at 84/5 prices



FREIGHT SECTOR

3.26 The Freight Sector's financial objective, set by Government, is to achieve a 5% return in 1988/89 on its assets on a current cost accounting basis, equivalent to earning a profit of £36m. (at 1984/85 prices).

3.27 The Sector Director has specified quality of service objectives after examining the trade-off between costs of achieving them and the risk to receipts if they are not achieved. During the course of the Plan, the percentage of services run is planned to increase from 95% to 98% and punctuality (arrivals within 30 minutes of right time) from 82% to 92%, with improvements also to the percentage of arrivals within 60 minutes. Availability objectives require the present targets (Diesel main line locomotives 75%, air braked wagons 91%) to be maintained throughout.

Strategy

3.28 The start of this plan coincides with the final withdrawal of the Freight Sector from the national non-airbraked wagonload network. From now on, the Sector strategy will revolve round the maximum worthwhile development of Trainload and Speedlink products combined with cost reductions in every aspect of working expenses.

3.29 On the cost side, the Sector forecasts savings from ending the old wagonload system, improvement of diagramming and rostering productivity and the introduction nationwide of Automatic Vehicle Identification. Improved utilisation will enable the BR owned wagon fleet to be reduced by over 11,000 vehicles during the Plan and by 1989/90 over two thirds of the fleet of 32,000 wagons will be modern airbraked stock. The private owners' fleet is also forecast to decline in numbers but not capacity because of the replacement of smaller, older wagons by new higher capacity vehicles.

3.30 Freight volume in 1984/85 is at an artificially low level of 107m. tonnes as a result of the coal industry dispute and from 1985/86 onwards a fairly even profile of roundly 150m. tonnes is forecast, with receipts of about £560m. to £570m. p.a. Compared with 1985/86, 1989/90 shows significant increases in aggregates and Speedlink, offset by some compensating decrease in coal. Freight tonne miles increase by 7% over the same period, from 10,597m. to 11,360m, and average loads by 4%.

3.31 Other than the Sector's contribution to locomotive renewals, capital investment in the Freight business is very small. No new wagon investment is forecast beyond 1986/87 during the Plan period.

Plan Forecasts

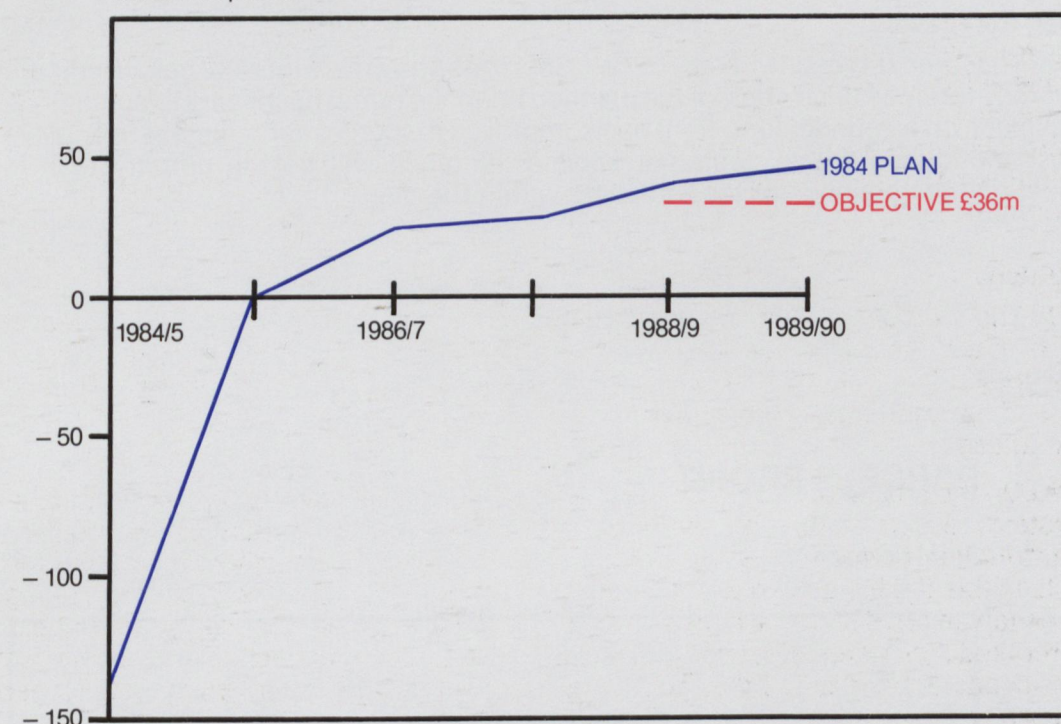
3.32 The forecast results for the Freight Sector are shown below. All years' forecasts are influenced by the effect of the NUM strike on coal carryings, the enormous loss of receipts in the base year being largely the result of the strike. Future years' receipts are heavily dependent on assumptions about the level of restocking which takes place after the strike and the long term effects of the dispute on the overall market for coal and other traffic. The forecast shows an improvement from 1985/86 to 1989/90 of £49m. Total receipts increase by £23m. and working expenses fall by £26m.

3.33 As Figure 11 shows, the Freight Sector should meet its objective of a profit of £36m. in 1988/89 and exceed it in 1989/90.

FIG. 11

FREIGHT PROFIT/LOSS

£m at 84/5 prices



PARCELS SECTOR

3.34 The Board has set the Parcels Sector the financial target of making a profit, before interest, of £16m. from 1986/87.

3.35 Service quality objectives have been set which relate to the punctuality of passenger train services and the performance of key parcels trains reflecting the essential service requirements of the major customers concerned, the Post Office and the Newspaper Publishers' Association.

Strategy

3.36 The opportunity for market growth in two major sub-sectors of the Parcels business, Post Office traffic and Newspapers, is very limited and the prime objective is to sustain maximum traffic volume levels within economic resource commitment. Quality of service plans and performance will be critical in responding to more exacting demands from customers for service improvements, and changes in technology will influence the forecast decline in volume by 1989/90.

3.37 Market growth potential to offset longer term adverse trends in Post Office and Newspapers lies primarily in the premium and non-premium parcels sub-sectors where more favourable economic trends are anticipated. Competition for market share, however, is intensive and significant improvements in marketing and product quality, together with the new pricing strategy introduced early this year, will be necessary to achieve the planned revenue gains.

3.38 Investment will be stepped up to accelerate modernisation of terminal facilities to improve customer service and further investment in the parcels vehicle fleet, involving re-bogieing and completion of conversion to air-braking, is expected to improve reliability and increase potential for 100mph running.

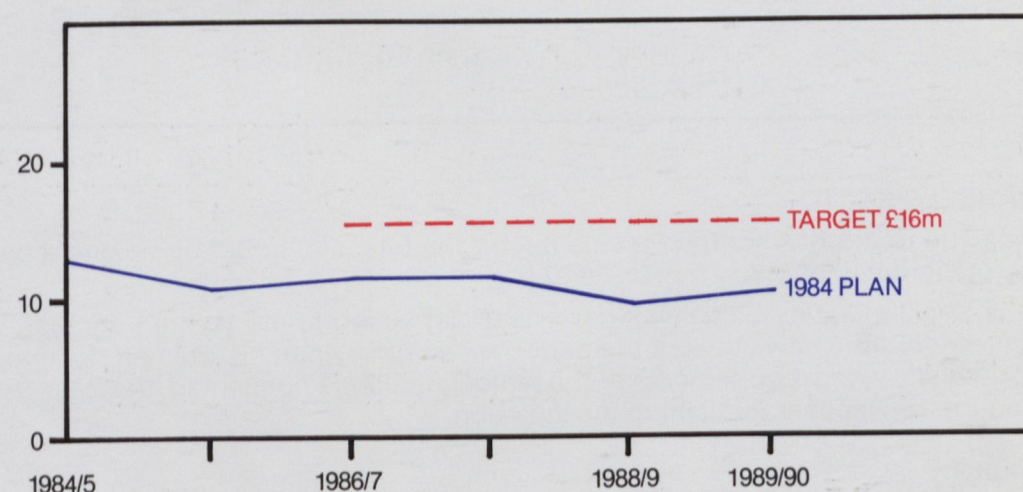
Plan Forecasts

3.39 The forecast results of the Parcels Sector as shown in Figure 12 below indicate overall margins falling short of the planned financial target necessary to sustain the business on a sounder long-term base. Improved resource management to achieve cost reductions within customer service tolerance will be the primary task in meeting the challenge of the forecasts within the plan.

FIG. 12

PARCELS PROFIT

£m at 1984/5 prices



3.40 Parcels train mileage is forecast to reduce by 2.6% over the Plan years but operations expenditure falls by only 1% over the same period with a consequent increase in operations unit costs of 1.5%. Maintenance costs are expected to rise in 1985/86 reflecting the increased modification expenditure on rolling stock referred to above. The overall trend of unit costs on maintenance expenditure, however, should reduce by 6% by the end of the Plan.

CHAPTER 4

Other Businesses

Introduction

4.1 The Board continues to use the planning process as a means of monitoring the performance of its ancillary businesses and guiding their overall direction. Each Other Business/Division has contributed to this Plan, addressing the business and financial objectives set to it at the beginning of the planning cycle. These include the specific requirements stipulated by the Secretary of State last October in respect of BREL, Travellers Fare and BR Property Board.

4.2 With the completion of the current programme of privatisation following the sale of B.T. Hotels Ltd. and Sealink UK Ltd., no separate contribution has been made by British Rail Investments Ltd. (BRIL). Instead, continuing sales of property are identified separately in the Property Board forecasts.

Summary of Results

4.3 The net profit forecasts for each trading Company/Division (except BREL for commercial reasons) are shown in Table 2.

Table 2

OTHER BUSINESSES – PROFIT/(LOSS)

£m @ 84/85 prices	1983	84/85	85/86	86/87	87/88	88/89	89/90
Freightliners	1	1	3	4	4	4	5
Non-Op. Property							
BRIL	16	8	5	4	4	4	3
BR Residual	(1)	(1)	(1)	(1)	(1)	–	–
Transmark	–	–	–	–	1	1	1

4.4 In addition, Table 3 shows the forecasts for Travellers Fare, Operational Property and BT Advertising (BTA) which are included directly within the Rail Plan figures, as are the repair charges to Rail from BREL. Research and Development expenditure is allocated to the businesses concerned, mainly Rail.

Table 3

NET RESULTS INCLUDED IN RAIL PLAN – PROFIT/(LOSS)

£m @ 84/85 prices	84/85	85/86	86/87	87/88	88/89	89/90
Travellers Fare						
Station Catering	3	3	3	4	4	5
Train Catering	(6)	(5)	(4)	(4)	(4)	(4)
Op. Property	36	43	48	50	52	55
BTA (Net Surplus to BRB)	5	6	7	8	9	9

British Rail Engineering Ltd.

4.5 The BREL forecasts demonstrate progress towards making the Company a more competitive business capable of exploiting future opportunities. This is reflected in the Plan forecasts which show improvements in productivity, lower unit costs to the Railway, and increases in profitable exports.

4.6 BREL started in 1981 to reshape the business and tailor resources to a realistic assessment of the future workloads; and to set up the necessary engineering company support functions to be able to compete more effectively for world railway rolling stock business.

4.7 The most significant activity of BREL, both in terms of sales and more particularly in terms of manpower, continues to be repairs for BR. This workload is expected to decline by approximately a third over the Plan period. This reflects reductions in fleet sizes and reductions in maintenance requirements resulting from increased investment in new traction and rolling stock (e.g. DMUs) and the impact of competition.

4.8 The Rail Plan contains increases in new construction workload, notably carriage investment, over the Plan period. BREL's expected share of this demand has been assessed with due allowance for the impact of competitive tendering.

4.9 The reduction in the total repair and new construction work forecast to be undertaken by BREL on behalf of BR is expected to be offset to some extent by increased sales to outside customers. A larger share of the world export market is confidently expected to be won based on the increasing success already being achieved by the new commercially orientated BREL organisation and the new range of products – including the Railbus, and the recently launched International Coach and its derivatives.

4.10 Overall, there is a decline in total BREL sales of 13% during the Plan period, from £413m. to £376m. (at 1984/85 prices).

4.11 Considerable progress has already been made towards implementing the Company's restructuring programme including the closure of Works at Temple Mills and Horwich (excluding the foundry) in 1983, and at Shildon in 1984. Further rationalisation of capacity, involving the contraction of sites, is planned, and substantial transitional costs will arise as a result of this restructuring.

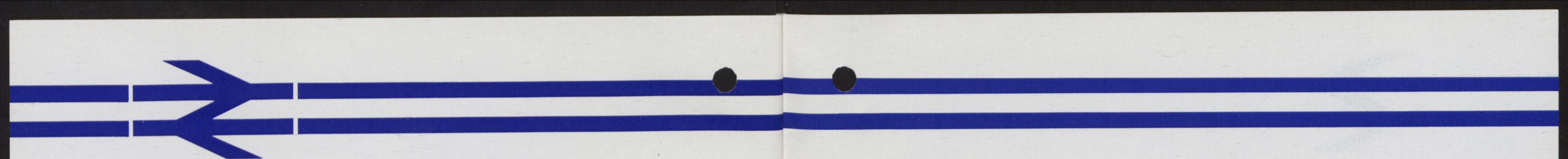
4.12 The combined effect of the rationalisation of facilities and manpower reductions will provide a sound and competitive cost structure for the future development and success of the Company. At the same time, further steps will be taken towards making BREL a more accountable and free standing company, at 'arms length' with the Railway. BREL design, materials and parts procurement functions have already been successfully established. The next steps include more autonomous financial management and independent industrial relations machinery.

Travellers Fare

4.13 This is the third Plan produced by Travellers Fare since its inception as a separately accountable Division of the Board. The Division continues to work to its overall objectives of increasing market penetration through enhanced products and customer service as well as improving its financial contribution to the Railway. The financial target set to the business for the 1984 Plan was to achieve a similar level of improvement in results to that which the Board is planning in respect of the PSO Grant. In response to the Secretary of State's remit that more rail and station catering services should be obtained from outside contractors, areas of the business have been identified where greater private sector involvement is envisaged to the mutual benefit of the Board and the customer.

4.14 Travellers Fare's Station Catering Division is contracted by the Passenger Sector Directors to provide catering facilities at 170 stations. The strategy for this sector of the business centres on the introduction of new high profit margin products, investment in new concepts which improve customer impact and judicious attention to cost control and staff performance. The Plan includes a rolling programme of investment in outlets financed by the business totalling some £8.5m. over the life of the Plan. The Division continues to pursue involvement with the private sector where this is expected to improve the net revenue position of the Board and enhance facilities for the customer. A number of the smaller, marginal units continue to be transferred to private sector operators and an element of competitive tendering has been introduced to test the Division's performance against outside competition. Station Catering turnover is forecast to increase from £56m. in 1984/85 to £62m. in 1989/90 with net profits almost doubling from £2.7m. to £5.1m. over the same period (at 1984/85 prices). The Division is, therefore, expected to meet its financial target in 1986/87.

4.15 The Train Catering Division, whilst operating with a totally separate accounting identity, responds directly to the Passenger Sector Directors' service specifications on an agreed contractual basis. The terms of the contracts, however, allow Travellers Fare to benefit from success in reducing controllable contract costs and to be penalised for any increases. Following a major review of Train Catering Strategy in 1983, agreement has been reached with the Director, InterCity on the preferred option. This will be based on a move away from the present high cost restaurant service to an at-seat style of catering backed by a radically new shore-based system. The latter will offer scope for extensive private sector participation. The Plan forecasts for Train Catering reflect the interim strategy of improved on-board service quality, market penetration and cost reduction within the present catering specification. These show a continued reduction in the marketing cost of Train Catering from £5.7m. in 1984/85 to £3.8m. in 1989/90 (at 1984/85 prices) and hence achievement of the Division's financial target.



Freightliners Ltd.

4.16 Following a strategic review of the business at the beginning of the year, the Company was set an internal financial target of achieving a 6% return on assets, after allowing for current cost depreciation. The review concluded that Freightliners Ltd should continue as a separate subsidiary and that the present network size should be retained. A new Rail Haulage Agreement was to be settled between Freightliners and Railfreight based on direct costs plus a 16% contribution to indirect expenses together with full current cost depreciation on locomotives used and a 6% return thereon. The consequential increased charges are, however, largely offset by train crew productivity initiatives. Based on the results of the strategic review, Freightliners were required to find economies of £4.3m. (at 1984/85 prices) in order to achieve the new financial objective.

4.17 Freightliners Ltd continues to forecast significant expansion of the Deep Sea and European Sectors of the business which reflects anticipated growth in international trade. More modest market growth is forecast for the Irish Sector and a steady state in the Distribution business. Overall, turnover is expected to rise from £103m. in 1984/85 to £116m. in 1989/90 (at 1984/85 prices).

4.18 The Plan forecasts net profit after interest rising from £1.4m. in 1984/85 to £5.3m. in 1989/90 (at 1984/85 prices). Major reinvestment in the form of renewal of assets is due at the end of the 1980's and the Plan signals the start of this in 1989/90 with a significant increase in capital spending on cranes. However, implementation of this programme will depend on progress towards achievement of the medium term financial target.

4.19 The Plan includes some £1.4m. of additional savings from staff costs and road operations which are fully supported by action plans. After allowing for the forecast improvement in trading results, there is a shortfall (£2.3m.) from the financial objective for 1989/90. However, further areas for improvement have been identified amounting to £3.6m. which will flow from changes in demand for locomotives, competitive tendering for wagon maintenance and further savings from staff costs and road operations. These areas will be developed in the 1985 planning cycle.

BR Property Board

4.20 The financial targets set for the Property Board were to achieve results as least as good as those in the 1983 Plan. These were seen as consistent with the Secretary of State's remit requiring that the Board should continue to pursue a vigorous policy of property development and disposal.

4.21 Options for the provision of estate management services to the Board were reviewed recently and it was concluded that the present organisational arrangements generally represented the best position.

4.22 Operational Property net letting income is forecast to rise from £36m. to £55m. over the Plan period (at 1984/5 prices). This represents a slower rate of growth than in the 1983 Plan due mainly to adverse market conditions. In the case of the Non-Operational portfolio, net letting income and sales are forecast to achieve and, in some years, better the Plan objectives.

4.23 The Plan reflects continued pursuit of station development schemes (notably Liverpool St./Broad St.) on the basis that developers will both pay for and administer the projects rather than the Board using its own investment and resources. Nevertheless, some £5m. to £6m. p.a. of direct investment is expected to be spent on minor development schemes including the preparation of sites newly released by the Rail business for sale or development. Whilst significant increases in property releases by Rail are expected in the short-term, scope for further significant property sales in the medium/longer term is expected to diminish. Despite decreasing sale proceeds over the Plan period, the Property Board still expects to generate a corporate net cash contribution of £273m. over the period to 1989/90 (at 1984/85 prices).

Transmark

4.24 The major strategic change forecast in the 1983 Plan was implemented in December, 1983 with the entry of Transmark into the railway projects field through the formation of a joint Company with Davy McKee (Davy BRI). This venture is forecast to start generating profits from 1986/87 onwards.

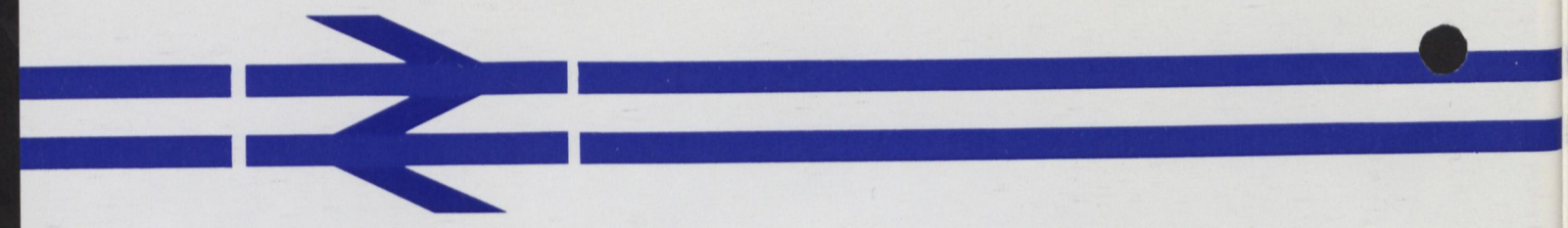
4.25 Improved market prospects are now foreseen for the Company's consultancy sector with a resumption in profit growth assumed throughout the Plan period. Forecasting beyond the short-term in the world consultancy business, however, is extremely hazardous as most jobs secured are short-term in nature. Major exceptions, such as Transmark's current bid to supply Indian Railways with a computer-based operations information system, are few in number.

4.26 Transmark is stepping up its marketing activity with its Canadian partner and joint venture Company – Cole Sherman/Transmark, and is strengthening its U.S. subsidiary Transmode to meet rising market demand. A joint venture with London Regional Transport will be launched this year to create Transecon International, a joint Transmark/L.R.T. economics and market research consultancy unit capable of tackling main line, suburban and urban transport studies. Transmark is also pursuing the possibility of an Australian joint venture. Australia represents a significant proportion of Transmark's existing markets, and has growth prospects.

4.27 Net profits over the Plan period are expected to total some £3.1m. (at 1984/85 prices). Whilst these show a shortfall over the 1983 Plan forecasts, they do not include revenue from the Indian Railways project, nor the potential revenue from a major scheme in Iraq now under development. The Company will continue to draw on the Board's businesses for secondment of specialist manpower in return for guaranteed payments.

British Transport Advertising Ltd. (50% Owned)

4.28 Jointly owned by the BR Board and National Bus Company, BTA continues to work to its overall objective of seeking to maximise the net surpluses returned to its principals. During 1983 the Company conducted a strategic review and detailed strategies were agreed for each sector of the business. This study also formed the basis of the financial target set to the Company by the BR Board.



4.29 In addition to the general effects of the recession on the transport advertising market, great uncertainty exists at present in the roadside poster industry following the recent sale of a major group with whom BTA had close links through joint ventures. The BTA Plan, therefore, takes a more cautious view of development and pricing prospects for this sector in the short-term, pending clarification of the position later this year. The Rail Division prospectus, however, is more firmly based with a range of new site and product developments reflected in the Plan.

4.30 Joint ventures with the private sector remain an important element of the Company's strategy and will contribute to the very substantial increase in net surplus forecast to be returned to BRB, from £5.1m. in 1984/85 to £9.4m. in 1989/90 (at 1984/85 prices). This heralds an era of further rapid expansion following the slower rate of growth experienced over the past two years.

Research and Development

4.31 The prime objective of the Board's R. & D. Division is to ensure the technological base for future business success. An important secondary objective is to assist the Board in the shorter term through technical support in improving equipment and operating practices. This is achieved through collaboration with the Board's engineering and operating functions and with the railway equipment supply industry.

4.32 The Plan assumes continuation of funding at broadly the present level, with total expenditure forecast to remain at roundly £18m. p.a. (at 1984/85 prices) over the Plan period, of which some £13m. is financed through the PSO and the remaining £5m. direct from DTp. Some adjustment to both the level and allocation may be necessary following the current Board review of BR's research and development policies, which will include an examination of the objectives, programme, organisation and funding of the Division.

4.33 The balance of research effort, as between technical support and longer term research and development, is planned to remain at about 45% and 55% respectively. The commitment of Sector and Functional Directors as appropriate has been obtained for the Rail business projects included in the Plan. Increased sponsorship of projects in the development stage by industrial partners is being pursued. The need for more rapid implementation of technical innovations to produce more cost-effective and reliable products as an aid to improved business performance remains a key element of R & D strategy. The Plan includes a number of projects in this category including work on improved track maintenance techniques to reduce infrastructure costs and the application of radio and micro-electronics to control and signalling.



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