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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP
Secretary of State
Department of Transport
2 Marsham Street
London
SW1P 3EB

NBPM

25 March 1985

Dear Secretary of State

BRITISH RAIL: PERFORMANCE AND CORPORATE PLAN REVIEW

Thank you for your letter of 28 February to Nigel Lawson. I look forward to the discussion at E(NI) which the Prime Minister has now suggested, and I thought it would be helpful to set out my own views as a preliminary to this.

I endorse your view that Bob Reid seems to have been a good choice as Chairman, and BR deserve credit for progress in a number of areas, including the introduction of sector management and of a credible planning system. The 1984 Corporate Plan has of course now been partly overtaken, but I would like to comment on some of the issues raised by your letter and the attached Review.

The test of BR's success will be the delivery of the three financial targets which are now in place. The PSO grant target is an important symbol of change in BR's financial and business management, but we must not lose sight of the fact that this represents a long overdue reduction in the cost of the railways to the taxpayer, and I am glad to see that BR have already identified further cost savings beyond the target year. I agree that we should set the next medium-term target in the light of the 1985 Plan; but I think it important that this should be available rather sooner than the 1984 Plan, in order to assist the investment and financing review in the public expenditure round as well as our consideration of a new medium-term target.

The freight target now looks unattainable unless BR can cut out some of the loss-making freight activities. The CEGB contract is up for re-negotiation early next year and BR must expect both reduced volume and a reduced profit margin as a result of the electricity industry's experience

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with BR during the miners' strike. I hope that we will continue to insist that BR make the necessary reductions in the freight business if this is necessary to comply with their target. We must ensure also that infrastructure costs do not feed into the passenger business as a consequence of any freight cutback, and if this happens I would like to see additional savings in the passenger business to offset the increase.

The Inter-City target looks particularly vulnerable, since revenue is currently below target, there is no serious sign of growth in receipts, and the business environment for Inter-City remains highly competitive. A tough line on costs will be required, since there is no scope for real increases in fares across the board.

I believe that you are also right to identify as a particular problem the financial performance of the provincial sector. It absorbs some £400 million of grant every year at present, and all the financial improvements in this sector too will have to come from cost reductions. I am glad to see the powers for bus substitution in the Transport Bill, but I am concerned that BR should get the right message on this. Although bus substitution will only come in as an adjunct of rail closure procedures, and will certainly call for careful handling, I believe that early and substantial progress in this area is in the interests of all parties concerned. It could save a significant sum for BR and the taxpayer while maintaining the network of services covered by the Public Service Obligation; the scale of savings available should enable BR to offer through bus contractors a better service than is at present available by train; and since bus deregulation will in any case tend to draw passengers away from BR, this is the ideal opportunity for them to make progress with bus substitution while the bus passenger market is in transition.

So long as we require BR to maintain the present network of services, it is right that we should expect to subsidise loss-making passenger activities in the provincial sector. But the cost to taxpayers of the railway looks set to continue at a high level, particularly when compared with many of the other nationalised industries which have improved their financial performance and now make little or no call on external finance. We should expect BR to continue to take every opportunity to reduce costs, but we must expect the continuing cost of the railway to present a serious issue in public expenditure priorities in future years.

One of the objectives set for the BR Chairman was to secure improvements in the industrial relations machinery, which has slowed the pace of change. Little has yet been achieved in this area. The unions have played a successful hand in stalling major progress on certain productivity issues in the past two years. These issues will come up again in the imminent pay round, and they will be an important test of BR's management since the manpower savings which they will bring are assumed in the Rail Plan.

I am disappointed at the lack of progress on BREL. The BR Chairman has failed to meet the objective which was set him, and now expects to report a year later than we had asked. I think it essential that he should be required to report to Government on the options of the future of BREL before the Summer Recess, as you suggest. We cannot decide how to deal with over-capacity at BREL until the problem is quantified, but it is important that we do so quickly. BREL has a contribution to make to the privatisation programme, and it is more than time to take a realistic view of this.

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

Yours sincerely

A Broadbent

f PETER REES

[Approved by the Chief Secretary]

cc N/O

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

2 April 1985

Dear Peter

BRITISH RAIL: PERFORMANCE AND CORPORATE PLAN REVIEW

Thank you for your letter of 25 March about BR's Performance and Corporate Plan Review. There will be an opportunity to discuss the detailed points when we meet in E(NI) to discuss the Review, but there are two issues on which I think I should comment straightaway.

The first is the timing of the BR Plan. As you acknowledge, BR deserve credit for the major improvements to their planning system. The Plan derives its credibility from the fact that it is an internal management tool - the blue-print for running the business - and not something prepared by a group of central planners to satisfy Government requests for information. Of course, BR must give us the most up-to-date information for the IFR. They are able to do that from the <u>draft</u> Plan. It would be quite wrong for us to lay down a timetable for the Plan just to suit the IFR process. That would increase the likelihood that the Plan will be out of date by the time its first year begins and would weaken the management's commitment to the Plan. Moreover, we would push BR back towards a planning system whose primary function was seen as being a bid for Government resources rather than the mechanism for driving the business to achieve the objectives we have set them.

Second, you expressed disappointment about the delay in completing the BREL Review. We would all agree that it is essential that this is now completed as soon as possible. But, through me, Bob Reid has kept us fully informed of how he was handling the work and we gave him strong support for treading very carefully during the miners' strike because of the Review's industrial relations sensitivity. So I think it would be wholly unjust to blame him now for delay.

I am copying this to members of E(NI) and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

Transport: BR Pt 8

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10 DOWNING STREET

From the Private Secretary

18 March 1985

The Prime Minister has seen the Secretary of State's letter to the Chancellor of 28 February about the BR Corporate Plan. She would be grateful for an opportunity to discuss the Corporate Plan, and in particular its proposals for greater efficiency and for manpower in E(NI).

I am copying this to the Private Secretaries to members of E(NI) and to Sir Robert Armstrong.

Tim Flesher

Henry Derwent Esq
Department of Transport.

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