Note. Spoke to Richard Allan D Tp. Suggests an E(NI) paper updating projections to permit comparison with targets, plus discussion of issues suggested

CONFIDENTIAL

MR TURNBULL

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AT 25/4

REVIEW OF BR CORPORATE PLAN

The questions E(NI) should look at are:

1. Will we hit the PSO target of under £700 million? Will we be faced with a bigger than expected bill in 1986-7?

2a. Pay and productivity; are we making any progress in reducing BR's £1.3 million paybill? Will there be a strike?

2b. Bus substitution.

3. The future of BREL.

4. The Freight Sector.

5. Property development, disposal and new business development on stations.

We are roughly midway through Bob Reid's current 3-year term as Chairman. BR's performance should continue to be judged against the medium-term objectives set in 1982 when he was appointed. Nicholas Ridley proposes to formulate BR's new objectives during 1986 in the light of BR's 1985 Plan and their progress against the existing targets. Increasingly, however, it will be necessary when facing strategic questions to look beyond those targets into the late 1980s and early 1990s.

The long-term core of BR's business consists of three sectors - Inter City, London and South East commuter services, and Freight. The Parcels Sector is an optional extra. That leaves the moribund Provincial passenger network, where costs exceed revenue by 4 times and cumulative losses of some £1.8 billion are foreseen over the next 4 years.

When the current medium-term objectives were set, the radical options for tackling the problem of the Provincial Sector were left in abeyance to give Bob Reid and his management team the chance to show what could be achieved by applying hard-headed business principles. However successful they are it is difficult to see the PSO Grant being brought much below £700 million pa without getting the radical options back onto the agenda. Assuming that the NCB is now moving towards break-even or profit in the late 1980s, BR will stand out as the remaining public expenditure blackspot.

In many cases, buses are the key to meeting the needs of the consumer cost-effectively. For example, Serpell estimated savings approaching £200 million pa through a marginal 4% reduction of passenger miles in the Provincial Sector. Now, of course, we are much closer to having a credible, low-cost alternative in the form of deregulated buses, coaches, or licensed taxis. The minibus experiment in Exeter is proving a great success. Even in the London area, where road traffic congestion is a major handicap, commuter coaches are rapidly winning new business.

BR's recent pay settlement (around 5%) was decoupled from higher productivity through modified conditions of service. BR believe that they can get further and faster by pursuing individual productivity initiatives at local level. They may still have to pay for these, as foreseen in the 1984 Corporate Plan. The unions will no doubt be ready to pounce on any local initiative thought to breach the principle that revised conditions of service have to be negotiated at national level. Will BR's management duck and weave in the interest of keeping the business going and rebuilding customer confidence? Can they afford a set piece confrontation? Is any one measure worth standing and fighting for? On the other hand, is there a danger that continued skirmishing, where necessary followed by retreat, will provoke union resistance and end up with the unions extracting too high a price - or blocking progress? Are the six national initiatives now dead?

Exposing BREL to competition has demonstrated how fat and over-resourced it is; BREL currently employs 25,000 staff. We are still awaiting BR's proposals for BREL, but the signs are that BR and Transport favour rationalisation and slimming as a precursor to privatisation. Why not consider early privatisation, warts and all, and leave it to the would-be purchasers to reshape the organisation and resources in accordance with their commercial judgement?

The prospects of the Freight Sector suffered a severe setback from the coal dispute. Customer confidence was lost. Major customers like the CEGB and British Steel have had their eyes opened to the cost-effectiveness of road haulage and will be tougher in negotiating future rates. The return to profitability can only be achieved by productivity improvements (at most one man to a train and not 2-3), or reduction of the Freight Sector down to a core of high-volume repetitive movements. Jobs will have to go. Is BR seriously facing up to such tough options? (Refer to attached newspaper feature.)

Is there still significant scope to contribute towards BR's commercial objectives by pressing ahead with property disposal and business development on stations?

Nicholas Ridley's note of 28 February 1985 commenting on BR's 1984 Corporate Plan pre-dates the end of the coal dispute and BR's recent pay settlement. It no longer provides a satisfactory basis for E(NI)'s discussion. How about asking the Department of Transport to update the key projections for comparison against the medium-term objectives? They might also care to address the issues outlined above.

JW

JOHN WYBREW

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But technological change is also breeding social change, and there things do not look so certain. Even Japan is now getting itchy on several levels, though not to the extent of the Singapore Establishment's fear of "Western values" damaging national unity. Union concern is growing in Japan that both the job-for-life guarantees for about a quarter of the work-force in the multinational corporations and the philosophy of deliberate over-manning in internal service industries may not survive the emergence of the peopleless factories and the automated offices in an ageing society.

It needs to be remembered also that — Japan apart — the prosperity of the new Asian powers is, in individual terms, only a richness relative to their immediate pasts. The gap between rich and poor in our sample countries is greater than it is in most West European nations. And the poor are poorer.

However, the final common theme is the most powerful of all. It is a fierce pride in national resurgence, which sometimes has its roots in history but which takes its current driving force from each nation's transformation within less than three decades. That pride could well be enough to retain national unity amid the social changes now beginning. It might even teach the rest of the world how to achieve personal liberty without divisiveness. We shall see.

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Driverless trains will put BR on right track

British Rail's freight business has been ravaged by the coal strike. RICHARD HOPE writes that customer confidence has been undermined by secondary action which diverted oil and iron ore to road, and now 38-tonne tipper lorries are attacking the very core of Railfreight's traffic — power station coal

A YEAR AGO, Pitstone cement works in the Chilterns was taking three 1,000 ton trainloads of coal a week from Daw Mill pit near Nuneaton. The miners' strike had begun, but Daw Mill was still working and so were local railwaymen. Then the pickets moved in and the trains stopped. Now the strike is over, but the 70 mile coal haul has stayed on the roads.

The pattern is repeated nationwide. Six weeks after the strike ended, coal trains had built up from 40 to 200 a day; there were 300 a day before the strike. Many mines have yet to resume full production, but BR will be lucky to carry 120 million tonnes of freight in their new financial year which started on April 1. In 1983 the trains moved 145 million tonnes, so 5,000 railwaymen's jobs have been sacrificed.

The coal strike cost BR £240 million in lost revenue, but the real damage to Railfreight's future stems from the £60 million worth of coal, oil and steel traffic which the rail unions diverted to road in support of the miners. "Our customers are not likely to forget that we left them in the lurch," BR's business manager for oil Brian Burdsall remarks bitterly.

Far more serious is the discovery by major customers like British Steel and the Central Electricity Generating board that heavy flows of bulk materials can be handled just as cheaply by road. Colin Driver, who took control of Railfreight this month told BR's staff newspaper Rail News: "We have allowed road transport to get hold of our core traffic and have given them a year to perfect methods of carrying it better than we do."

So Railfreight is in a two-way queeze: much traffic has been lost, pushing up unit costs for the remainder by worsening utilisation of staff and assets, and at the same time customers are demanding (and getting) rate reductions.

Rank and file railwaymen are baffled, as are outraged members of the public who assumed that the stream of strike-breaking juggernauts past their front door would cease when the strike was officially called off. They share with some BR managers who ought to know better the simplistic notion that one locomotive hauling 1,000 tons in 30 wagons must be more economic than 40 lorries with 40 drivers carrying 25 tons. The truth is very different.

Writing in my own journal this month the CEGB engineer, responsible for coal transport Charles Smith points out that before the strike 12,000 wagons delivered 60 million tons a year to his power stations under the merry-go-round (MGR) system introduced 20 years ago.

MGR was a real breakthrough in productivity. Instead of shunting interminably in marshalling yards, complete trains of hopper wagons shuttle direct between mines and power stations where they run round a loop and unload without stopping — hence the name.

Even so, Mr Smith's 12,000 MGR wagons average only three trips a week where tipper lorries make three a day. So one train consisting of a locomotive and 30 wagons costing perhaps £2 million is replaced not by 40 lorries but by eight, costing one-tenth as much.

An over-simplification, certainly, but you take my point: BR managers still don't understand the meaning of the word "productivity" as applied to capital assets.

There is worse to come. Because freight train crew productivity is so poor — 10 times worse than lorry drivers in terms of miles driven per man-shift — the penalty in extra wages of using road is far less than the casual observer would expect. No way does "a crew of three in charge of one train do the work of up to 172 lorry drivers" as another BR publication Western Traveller boasted recently.

In fairness to BR, the board has tried for five years to convince the unions that freight trains crewed only by the driver are essential if rail is to hold its miserly 3 per cent of the freight market, let alone make a comeback. The National Union of Railwaymen refuses to budge, and management has once again chickened out by not linking productivity agreements to this year's 5 per cent pay rise agreed earlier this month.

In the chilly competitive dawn that has followed the long night of the coal strike, even driver-only trains would not suffice. Since January, far-sighted planners and engineers at BR headquarters have been examining an even more drastic option — unmanned trains. A model for this type of operation can be found in Ohio, where 15-wagon driverless trains have been shuttling coal from Muskingham mine to a power station safely and economically since 1969.

It is not just a matter of saving wages. Freed from the constraints of crew scheduling, short trains can be run. That means less delay loading and unloading; the wagon fleet could be halved, and the number of locos cut by at least 30 per cent.

The technology for driverless trains was fully developed at Wilmslow in Cheshire eight years ago, but it was expensive and BR officials could see no need for it. Now the work is being taken up again, this time using far cheaper methods based on the radio signalling introduced in the Scottish Highlands last autumn.

The aim is to try it out on a freight-only line, such as the 12-mile link between Bevercotes colliery and High Marnham power station in Nottinghamshire. Once safety and reliability had been demonstrated, unmanned freight trains would be introduced on passenger lines.

With crew wages eliminated and vastly improved rolling stock utilisation, the intrinsic advantages of rail over road — such as reduced energy consumption — could be exploited to the full.

BR's share of the £19-billion-a-year freight market would still be modest because so many destinations are out of reach, but even £1 billion would be riches compared to the £350 million earned last year. Far from destroying jobs, there would actually be more railwaymen required to maintain the track and rolling stock than the present traffic requires with a driver and guard on each train.

Without such a quantum jump in the productivity of men and assets, the future for Railfreight is bleak indeed.

Richard Hope is editor of Railway Gazette.