

CF
cc to Wybrew
for squiggle under

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2 (but for week-end box)

X - the PM has doubts about this.

PRIME MINISTER

11 September 1985

BRW
16/9.

BR AND LRT FARE INCREASES

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Much has been achieved in changing the frame of mind of British Rail and London Regional Transport managements. They now see themselves not as instruments of social policy, but as business enterprises subject to commercial disciplines and competitive market pressures.

In view of this, the Government should be very wary of tinkering with established medium-term objectives or of second-guessing the managements' business judgements. Fortunately, in current circumstances there is no need to intervene on overriding political grounds.

LRT's decision to increase fares, just under 7% on average, is consistent with the established objective set by Nicholas Ridley to hold real fares broadly stable beyond January 1985. The volume of traffic is on a healthy rising trend - passenger miles up nearly 50% from 1982-1984 for the underground and 13% for buses. The quality of service is improving. LRT's new Travelcard has been a marketing success. Having inherited an EFL approaching £400 million and set to go on rising, Keith Bright has done a good job in reversing the trend.

BR won't be making a final decision on fare increases until their November Board meeting. If inflation continues to

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X | fall, the package will probably be pitched a shade lower than the numbers indicated in Nicholas Ridley's note. As he says, the proposed fare increases are selective, rightly being governed by marketing considerations and the strength of the competition. The London commuter market is robust and can bear a small real fares increase. There is no case for subsidising this sector; likewise the Inter City sector now that the public service obligation is fulfilled by a network of highly competitive, attractive, low-cost coaches. BR aim to move up market, looking for higher unit revenue rather than volume, based on rapid, more reliable, better quality services.

Conclusion

No Government intervention is required.

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