Prime Minister ?

An interesting note, but I doubt that there is any need for you to suggest that John Moore and Bob Reid should meet. DGN 11/7.

PRIME MINISTER 11 July 1986

BRITISH RAILWAYS - CORPORATE PLAN AND CHAIRMAN'S OBJECTIVES

Next Tuesday, E(NI) will review BR's Corporate Plan and the Chairman's objectives for the next three years. This period could be a watershed for BR - now our most heavily subsidised nationalised industry. After the Serpell Report in 1983, the Government opted to defer further pruning of the most uneconomic parts of the Provincial network and see how much could be achieved through better management and a more businesslike approach.

So far, Bob Reid and his managers have made steady but not spectacular progress. Their most creditable achievement has been to hit the target of a 26% real terms reduction of the Public Service Obligation (PSO) grant since 1983. Productivity has increased and manpower has been reduced. The snag is that BR have so far continued to give away the benefits of productivity improvements in higher real wages and better terms of service. Thus, the 13,000-odd reduction of staff since 1983 has no more than offset the steady drift of real average earnings - up 14% from 1979 to 1984 compared with a national average of 12%. For a manpower-intensive business where wage costs represent over 50% of the total, this has been a crucial shortcoming.

(and the Post Office)

Whether BR can emulate LRT and get back onto the virtuous track of providing a better quality and more appealing service to a growing number of passengers for declining unit costs, will depend, above all, on cracking this nut. Keith Bright of LRT has shown that it can be done whilst avoiding serious strikes. LRT's management have kept the productivity gains from extensive automation and wider use of one-person-operated buses and underground trains. Their manpower has been cut by 8% in 2 years and wages have been reduced in real terms. Much the same pattern is now emerging in the local bus industry, where the prospect of competition and the advent of popular minibus services is breaking the stranglehold of union-imposed restrictive practices. There must be some encouragement in the fact that on 3 occasions now rail union members have rejected their leaders' calls for strike action.

Moreover, there are other encouraging pointers. We may yet look back on the late 1980s and see this as the turning point at which the railway industry changed course from being a declining, increasingly shabby - yet costly - part of our Victorian heritage to become a modern business enterprise competing successfully in the travel, leisure and freight markets.

The Channel Tunnel presents a business opportunity, the scope of which has yet to be fully appreciated. The French have demonstrated the customer appeal of high-speed trains capable of rivalling air services for inter-city travel, while providing top class cuisine, flexible business facilities with all the communications of a modern office and, for the leisure market, entertainments such as discos. Air travellers jostling on crowded flights to Paris, Brussels and even Amsterdam, will find great appeal in the prospect of a comfortable train journey from London to Paris in three and a quarter hours, London to Brussels in two and three quarter hours, and even London to Amsterdam in four hours.

At the top of the leisure and business entertainment market, there is room for businessmen like James Sherwood to emulate his successful Orient Express service. Further down the market, travel companies like Intasun will be able to purchase their own rolling stock and lay on overnight sleeper services (optionally including cars) to the skiing slopes or the beaches of the Mediterranean. Significantly, Foster (from the United States I think) Yeoman have just purchased powerful locomotives to haul aggregates from the West Country to the London area in their own BR-operated freight wagons. It can only be a matter of time before go-ahead freight companies like NFC develop high-speed rail transport services to the Continent.

It will be interesting to see what Chris Green, London and South East's publicity-conscious new Manager, can achieve with his up-beat "Operation Pride" and the emphasis on quality, customer service and imaginative marketing. This new generation of BR managers regard themselves as businessmen more than train operators. If they live up to this promise, they should recognise the considerable further opportunities for harnessing private capital through franchising and joint ventures, for example, to exploit the commercial development potential of stations in prime town centre locations. (The redevelopment of Liverpool Street Station foreshadows many smaller scale projects). On-train catering should be another rich vein for private enterprise; the concourse at Waterloo stations shows what can be done by imaginative franchising.

A substantial source of cost savings still in the pipeline is the fundamental reorganisation of maintenance to take advantage of modern railway technology and the latest maintenance techniques.

Recognising these pointers, Bob Reid and his more forward-looking managers are attracted by the vision of what a modern railway business linked to the Continent might be capable of by the late 1990s. At the same time, they can see that Provincial branch lines requiring subsidies of 30p for every 5p paid by the passenger are not part of that future; on the contrary, they divert scarce capital and resources from the core of the railway business which justifies modernisation.

Deregulated buses, coaches and scheduled taxi services are surely the 1990s answer to the problem. But how do we get there, given the difficult emotion-charged politics of rail closures? Unfortunately, there is little that can be done in the short term. The task should be easier when the next Chairman takes over in 3 years' time and the benefits of the 1985 Transport Act are more widely apparent. BR can help by preparing the ground for a phase of extensive bus substitution. Meanwhile, BR must not overdo the acquisition of new rolling stock for the Provincial network.

Issues

- Given the sensitive politics, how hard should the Government press coach, bus and scheduled taxi substitution for uneconomic Provincial services? In what terms should this be covered in the Manifesto?

- To what extent is the Government prepared to back the vision of a modern rail business with capital investment? Is it perhaps better to err on the mean side and encourage the new generation of BR managers to make greater use of private sector capital and collaboration?

The Chairman's objectives are a sound, medium-term basis for continued progress. It might be worth inviting John Moore and Bob Reid to discuss their aspirations and plans for British Rail in the aftermath of next Tuesday's E(NI) meeting.

JOHN WYBREW

10 DOWNING STREET

Prime Minister [2]

Note that Mr Moore proposes 2-3% real increases in South East rail fares. This follows the past pattern and Mr Moore thinks this will be acceptable as quality improves. (para 8).

DLW
11/7

M