SLBG

Prime Minister[2]

DRN 22/7

PRIME MINISTER

NEW OBJECTIVES FOR THE BRITISH RAILWAYS BOARD

ATTACHED

E(NI) discussed new objectives for the British Railways Board under my chairmanship on 15 July.

2. The Secretary of State for Transport gave a clear presentation of the position and prospects of British Rail's businesses, both commercial (Inter City, Freight, Parcels, Freightliner) and non-commercial (the Provincial and South East Networks). British Rail had made great strides under Sir Robert Reid's chairmanship, and the target of a real reduction in central Government subsidy of 25 percent had been achieved. But there was little prospect that Inter City would achieve its target real rate of return of 5 percent in 1988-89, and the freight businesses faced continuing difficulty. Moreover, although substantial progress had been made in reducing manpower, much of the benefit had been offset by surprisingly large increases in real wages. The task now was to set new objectives for British Rail in terms of the level of subsidy and the real rate of return on commercial businesses to be achieved by the end of Sir Robert's further three-year term as Chairman in 1989-90.

3. The central Government subsidy this year is £725 million. British Rail accept that subsidy should no longer be paid on Inter City after next year, and this will save more than £100 million a year. This saving presupposes substantial progress in generating revenue and achieving real cost reductions. Further progress in reducing the subsidy will depend on rationalisation of the Provincial Network where revenues cover only about 25 percent of costs, and on real fare increases on the South East Network.

4. Nicholas Ridley as Transport Secretary asked British Rail to consider a range of £470-£520 million for the subsidy target in 1989-90. In addition to other measures to cut costs, getting down to this range would almost certainly involve substituting guaranteed bus services over a significant part of the loss-making provincial services, and increasing real fares in the South East by perhaps 3 percent a year. The Sub-Committee agreed that John Moore's objective, in his further discussions with the Chairman of British Rail, should be to agree a subsidy target in this range, the achievement of which would have the full commitment of the Board. But they acknowledged the political sensitivity of moves to implement bus substitution, and emphasised the importance of service improvements if real fare increases in the South East were to be justified. The Transport Secretary will settle the precise figures for the grant target with the Chief Secretary in the light of his further discussions with British Rail.

5. As to the commercial businesses, the Sub-Committee agreed that there should be a single rate of return target to replace the present separate targets for Inter City, Freight and Parcels. This sensibly reflects the fact that much of the manpower and equipment can be used interchangeably between British Rail's different businesses. Here again it is important that the target should be a realistic one, which would carry the support of the board. The figure will be settled by the Transport Secretary with the Chief Secretary; the Chief Secretary made it clear he would need to be fully satisfied about the arguments if it were to be below 5 percent. Once the numbers have been settled, John Moore will agree with John MacGregor the terms of an appropriate statement of British Rail's new objectives, keeping E(NI) colleagues informed.

NL.

N.L.

21 July 1986

10 DOWNING STREET
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From the Private Secretary

23 July, 1986.

NEW OBJECTIVES FOR THE BRITISH RAILWAYS BOARD

The Prime Minister was grateful for the report of E(NI)'s discussion of new objectives for the British Railways Board set out in the Chancellor's minute of 21 July.

(David Norgrove)

Tony Kuczys, Esq.,
HM Treasury.