

Prime Minister (2)

9 September 1983
Policy Unit

PRIME MINISTER

RAILWAY POLICY

Please see, too, Tom King's

E(NI) paper (Plan A). Alan Walters will be

letting you have his views. *mes a/a*

1. British Rail is at last beginning to think along the right lines. So is Tom King. They need to be pushed along a bit faster.
2. We must be explicit from the outset in our instructions to Bob Reid. If he is merely invited to "review" or "keep in mind" a possibility for disposal or closure, the temptation will always be to find excuses, "after careful consideration" naturally, for keeping his empire as nearly intact as possible. The officials' report provides some useful and positive advice for reform of BR. It should be used as a manual for action, not as an inspiration for further reports.

Financial Target

The BR Corporate Plan is offering a reduction in subsidy to £700 million-plus by 1986. Tom King suggests a reduction in the PSO grant to £635 million (in constant prices). This welcome, if tardy, enthusiasm for retrenchment suggests that there is still more fat on the bone. We recommend a target of £600 million cash by 1986 as the total public subsidy to the railways. The present figure is about £1,000 million.

Network

Our Manifesto commitment ("no programme of major route closures") does not inhibit the early scope for further major reductions in subsidy "over and above those achieved by improved efficiency", as Tom argues. We can sharpen up the draft objectives as follows:

BREL (paragraph 10): an "urgent review of the options" is insufficient. This might well inspire BR to spend more time and money on fattening BREL for market - by expensive redundancy payments, new orders for rolling stock, export missions, etc. If BR knew how to rationalise BREL, why has it not already done so? How would BR know what private operators might have in mind for BREL? The instruction should simply be to "prepare BREL for privatisation as soon as possible".

Contracting out (paragraph 11): we should expect BR to contract out to competitive tender all supply and support services. We should also expect BR to dispose of all under-utilised assets, notably its land holdings, as fast as is commercially prudent.

Commuter fares (paragraph 8): I do not honestly think that the rest of the nation should be expected to continue to subsidise commuters in the South-East at the present rate of £290 million a year. On any economic criterion, season tickets ought to be subject to real, albeit gradual, increases. It is wholly illogical that subsidies on this scale should go to BR's only semi-captive customers. The political difficulty of such increases is somewhat reduced by lower rates of inflation. Of course, any real fare increases ought to be accompanied by improvements in standards of service too.

Bus Substitution

We can rely on BR to report positively on this. BR wants to close the most uneconomic of the provincial routes; it has suggested that buses might replace trains on 25 per cent of the whole rail network. The National Bus Company has claimed that buses could replace trains on 75 per cent of the provincial network. Together, BR and NBC have already produced illustrative studies of specific cases, which indicate substantial savings (half the losses). It would be a straightforward task for BR to develop these ideas for all the provincial services. Mr Reid should be asked to identify losses per passenger mile, line by line, on all the provincial routes; these must feature in the eventual presentation of the substitution proposals.

Tom neglects to point out that, on a number of uneconomic routes, BR already competes with a bus service, which need not necessarily be a subsidised one. To introduce a subsidised BR substitute bus service on these routes would be wasteful and unfair to the existing bus operators. Ministers will need to brace themselves to closure of some lines, without any bus substitution, if they are to make a significant impact on BR's losses.

Splitting up BR

The creation of Southern Rail is the obvious starting point for a more manageable unit. As the officials' paper points out, SR is

self-contained, dedicated to one business sector (commuter services), its infrastructure is managed regionally, it has its own type of rolling stock, and its own maintenance. It is vital that the Government retains the initiative on this, because BR (and its new Chairman) are bound to resist. We do not at all like Tom King's proposal to commission a "positive investigation" by outside consultants of "the pros and cons" of separation. If Ministers are convinced that BR is too large to be managed as a unit, Mr Reid should be asked to prepare plans to establish Southern Rail by, say, end-1984.

Inter-City Frequency

BR ought to be readier to consider profit and loss not only line by line, but train by train. One of the greatest potential sources of savings - on fuel, manpower and track maintenance - is the reduction of off-peak main-line services, often run largely for prestige reasons ("there's a train to Barchester every hour"). Reduction of mid-day frequency does, however, require more readiness of railwaymen to work split shifts if it is to produce the maximum savings. We suggest a mention of to the need for BR to improve the load-factor on all its passenger services.

fm

FERDINAND MOUNT