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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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ck Press
Mr Duquid
Mr Walters
Mr Venker

PRIME MINISTER

The announcement will have been made by the time you see this, but you

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

7 October 1981

may like to see the details. They are encouragingly modest this year. MAF/x

Dear Mike,

[The announcement has been brought forward from 19 October]

RAIL FARES

British Rail planned to announce this Friday 9 October details of the fares increase which will come into effect on Sunday 29 November. But in view of the speculation in Tuesday's New Standard they are bringing forward the announcement to tomorrow. The average fare increase will be 9.4%. There will be higher increases on services where there has been a recent improvement in quality, but there will be no general weighting of fares against commuters in the London and South East. I am attaching a note setting out the details of this increase and of previous ones.

This increase is below the current level of inflation (11.5%), but British Rail thought that any higher increase would cause unacceptable passenger resistance. As a result of the increased competition from long distance coaches, BR are making no increase in the costs of railcards and special promotional fares. The package will also include a popular decision to raise the present age limit for half-rate travel from 14 to 16 years of age. The present limit has caused a good deal of concern among parents having to meet the travel cost of sending their children to school and this move will, therefore, be widely welcomed. This concession will cost BR very little (£0-2m) in lost revenue. Finally, BR have been able to return to their previous policy of 12 monthly intervals between fares increases.

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As the increase is less than the rate of inflation, my Secretary of State would not expect the fares package to attract undue criticism. However, comparisons are bound to be made with the reduced fares structure which came into effect from 4 October on London Transport services. In the event of questions on this point, my Secretary of State will make it clear that it was only possible for LT fares to be reduced because of the increase in the subsidy given by the GLC which has had to be met by the ratepayers. He will make it clear that he is not prepared to increase the subsidy to BR in the same way as the reduction of public expenditure is a central Government aim.

I am sending a copy of this letter to the Private Secretaries to the Lord President, the Paymaster General, the Chief Secretary, the Secretary of State for Education and Science and Sir Robert Armstrong.

Yours,

Anthony Mayer

R A J MAYER
Private Secretary

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RAIL FARES

1. Decision on fares and tariff structures are solely the responsibility of BR under the Transport Act 1962. Ministers have no power to intervene although they have made it clear that they would disapprove of any attempt to weight fares against commuters in London and South East compared with other rail travellers.

PREVIOUS FARES INCREASES

2. Under the previous Government, fares rose by 168%. In 1975 when inflation was at its highest, there were three increases. Between January 1977 and January 1980, the Board managed to keep a 12 month's interval between fares increases, but last year fares were increased twice - by an average of 19.6% in January and by 18.5% in November, representing a cumulative increase of 41.7% and adding 0.23% to the RPI. A major reason for the November increase was last year's pay settlement. But BR were also badly affected by a fall in revenue due to the onset of the recession. In recognition of difficult trading conditions, the ceiling on the PSO grant was increased by £23m to £678m in order to help BR to meet their aim of holding fares at the same level for 12 months.

LATEST FARE INCREASE

3. The Board have been able to return to the pattern of twelve month intervals between fare increases and have decided on an average increase of 9.4% from 29 November. This increase will add about 0.07% to the RPI and means that there has been a cumulative increase under the present administration of 55%. The present increase will be about 2 points lower than the present inflation rate, but BR consider that this is the maximum increase the market will bear in view of its present depressed state, coupled with the increase in competition from Inter-City coach operators. The increase last November was 5% more than the inflation level and met greater than expected resistance from passengers. There will be no general weighting of the fares increase against L & SE commuters, although actual levels will vary between 7% - 11% due to minor adjustments on particular lines. Where ^{there} are inter-available services (ie stations with cross-platform interchanges between BR and LT services), BR have reduced their fares from 4 October so that they are consistent with LT's. BR estimate that this will produce a loss of £1m in revenue over the next year.

4. There will be slightly larger fare increases on Inter-City services on the East Coast Main Line where there has been an improvement in quality. But BR are disinclined to weight fares generally on Inter-City services because of competition from coaches. In addition, BR will not be increasing promotional fares or the price of railcards.

5. BR have decided to increase the age limit for half-rate rail travel from the present 14 to 16 years, in order to bring it into line with most other transport operators. The age limit had always been a contentious issue and has generated a good deal of correspondence. As a social concession this initiative is to be welcomed, although it will cost BR a small amount (£0-2m a year) in lost revenue.

6. BR estimate that this increase will produce a net increase in yield of 8.3% giving a revenue out-turn for 1982 of £1018m. The increase itself is expected to generate some £77m in additional revenue in a full year. The Department think that BR may be over-cautious in estimating the net yield.

PATTERN OF FARE INCREASES

7. The pattern of fare increases since 1974 is as follows -

1974	June	12.5%
1975	January	12.7%
	May	16.5%
	September	15.0%
1976	March	12.2%
1977	January	12.5%
1978	January	14.5%
1979	January	9.4%
		<hr/> 168.5%
1980	January	19.6%
	November	18.8%
1981	November	9.4%
		<hr/> 55%

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The pattern of the increase since 1970 is as follows:

Year	Month	Value
1970	June	12.75
1971	January	12.75
1972	May	12.75
1973	September	12.75
1974	March	12.75
1975	July	12.75
1976	January	12.75
1977	May	12.75
1978	September	12.75
1979	January	12.75
1980	May	12.75
1981	September	12.75