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Ref. JV 42

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister

Content?

No - I think they should be made to realise [illegible] and quickly. MAP 26/2

Michael Scholar Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

26 February 1982

Dear Michael,

BRITISH RAIL'S TEMPORARY BORROWING

In view of the earlier discussions about BR's cash position in connection with the ASLEF dispute, my Secretary of State thought that the Prime Minister would want to know straightaway that BR have asked for a short-term increase in their temporary borrowing limit, to enable them to manage their cash flow over the next few weeks. The Board had hoped that, with the end of the strike, this could be avoided. But in a business with cash flow, in and out, of about £5½ billion, daily fluctuations are difficult to forecast precisely. The Department heard of the requirement two days ago, and immediately alerted the Treasury.

The Board's cash requirements, above what they earn by commercial revenue, are met by grants, long-term borrowing (including leasing), and by temporary borrowing, to meet the day-to-day needs of the business. My Secretary of State sets a ceiling on temporary borrowing under the 1962 Transport Act, which is at present £110m. The limit is set by reference to the range within which day-to-day cash requirements can be expected to fluctuate. The level of borrowing normally increases during the winter, and declines, frequently to a cash surplus, in summer when revenue is buoyant. This year, the Board have had to meet the accumulated loss of revenue during the ASLEF strikes (£75m, less saved costs) on top of a rising short-term cash requirement, normal at the time of the year. As a result, they now expect that they will need to exceed the present limit on 5 - 9 March, on 22 - 25 March and again in April.

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My Secretary of State has naturally pressed the Board on whether this unwelcome excess can be avoided. They have made efforts to reduce their costs both during the strikes and since, and are pressing ahead with property disposals, from which they hope to bring in £10m - £12m in the next few weeks. But it is not feasible for them to offset the accumulated loss of revenue by completing further disposals or to make sufficient further savings in costs within the timescale required.

In my Secretary of State's view, about which he is in touch with the Chief Secretary, there is no practical alternative to authorising an increase for a short period. The Board could not properly exceed a statutory limit, and the Government could not allow that. But if nothing were done, the Board would not be able to pay its bills and wages.

Normally, provided that my Secretary of State and the Treasury were satisfied that a short-term dispensation was justified to enable the Board to manage their cash flow, a short-term increase could be handled as a technical matter. In present circumstances, however, in view of the Board's present financial position, and the industrial relations problems, Mr Howell considers that Parliament should be informed. He shares the Chief Secretary's view that the terms of this will require great care.

Mr Howell is satisfied a short term dispensation would not relieve the Board of the necessity to seek all possible ways to offset the costs of the industrial dispute, or close options which Ministers may want to consider in the situation after Lord McCarthy has made his next report. The official group on railway policy will be reporting on this.

Copies of this letter go to the Private Secretaries to the Chief Secretary, the Secretary of State for Employment, Sir Robert Armstrong and Mr Ibbs.

Yours,

Anthony Mayer

R A J MAYER
Private Secretary

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26 FEB 1982

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PRIME MINISTER

cc: Mr. Hoskyns

BRITISH RAIL's TEMPORARY BORROWING

Your meeting this afternoon will look at the two proposals you made in response to Mr. Howell's request for authority to exceed BR's borrowing limit:

(i) "Distress sales" of assets: but time is very short, and buyers are apparently few.

(ii) An advance of next year's grant: but there are difficulties of financial propriety.

If our objective is to keep BR financially afloat but to make it quite clear that the railway industry as a whole has been harmed as a result of the recent industrial action, a better way forward would be to increase this year's borrowing limit, and to make a corresponding reduction in next year's. This would be accompanied by an announcement explaining why, and drawing attention to the consequences of industrial action.

Next year's EFL was to have been £950 million. They need an increase this year of £40-50 million. Taking that amount off next year's EFL will be very tough, but not impossible. BR would have to increase their disposal of assets; would have to consider reducing investment (but Norwich electrification does not start until 1985); and would have to contemplate cutting of some services, probably in the freight area. And it would put even greater pressure on the forthcoming pay settlement.

J.V.

2 March 1982

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Transport BR fares + finances pt 3.

Transport

MR. SCHOLAR Overtaken

cc: Mr. Hoskyns
Mr. Ingham

BRITISH RAIL'S TEMPORARY BORROWING

In his letter of 26 February to you, Mr. Howell's Private Secretary seeks our approval of an increase in BR's borrowing limit, to be announced to Parliament shortly.

This proposal is curiously incomplete: it lacks details of the increase proposed, and the nature of the proposed announcement. But I understand that some further advice may be coming from Mr. Howell's Office, and it may be best to put all this together before consulting the Prime Minister.

On the substance, however, the position is clear. BR's present borrowing limit is £110 million, and they will need to exceed it by up to £20 million at the end of this week, and by up to another £20 million in the last week of this month. The proposal ought therefore to be to authorise them to borrow up to £150 million.

Giving this authority carries no implications for the future handling of the BR/ASLEF relationship. If a nationalised industry needs to borrow, but is prevented from doing so, it has to default on payments - and the problem comes straight back into the Government's lap. There is in practice no way of declining this proposal. They will need a further increase in their borrowing limit at the beginning of April anyway. There is very little presentational mileage in it, whenever the decisions are taken. The Prime Minister could safely leave this to be sorted out between Mr. Howell and the Chancellor on the basis of what is necessary for the purposes of BR's internal financing.

1 March 1982

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bc Walters
Vereker

10 DOWNING STREET

From the Private Secretary

1 March 1982

Dear Anthony,

British Rail's Temporary Borrowing

Thank you for your letter of 26 February about British Rail's request for a short-term increase in their temporary borrowing limit.

The Prime Minister, to whom I showed your letter, is opposed to an increase in this limit. As she understands it, the reason why the limit is about to be breached is the effect on the Board's finances of the recent ASLEF strikes. The Prime Minister believes that agreement to an increase in the limit in these circumstances will be seen as an accommodation of the Board's difficulties.

The Prime Minister's preferred course would be to tell the Board that they will need to sell assets - and quickly - in order to tide them over their present difficulties. She recognises, however, that in the very tight timescale set out in your letter this will be impractical. She accordingly suggests that the Department of Transport offers to the Board an advance of next year's passenger grant, to be paid this week, and to be deducted from next year's grant, with interest being charged in the interim. This would make it clear that the costs of the dispute were having a real impact on BR's financial position, and would make concrete the references which Ministers have made on a number of occasions recently about the effect on railways investment; it might, for example, prove necessary on this approach to defer the Norwich electrification scheme. As an alternative, the Prime Minister enquires whether there are any assets which the Board might commit themselves to sell to the Government, in exchange for an advance payment this week of some fraction of the purchase price.

The Prime Minister will be ready to consider alternative suggestions on these lines. I am therefore arranging a short meeting with your Secretary of State and the Chief Secretary at 1700 tomorrow afternoon.

I am sending copies of this letter to Terry Mathews (Chief Secretary's Office), Barnaby Shaw (Department of Employment); and to David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Anthony Mayer, Esq.,
Department of Transport.

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