RAIL POLICY IN BRITAIN - WHAT NEXT?

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ABSTRACT

The 1974 Railways Act set British Rail (BR) the rather vague objective of providing a passenger service broadly comparable with that then existing within a given level of support. For the first few years under the Act, BR succeeded in operating within the financial constraints imposed, but only by considerable increases in charges and by negotiating wage settlements which implied declining real wages. From 1978 on, rising labour costs and reduction in traffic led to a rapidly developing crisis in BR’s financial position.

The position of each section of BR’s business is discussed briefly. It is shown that the designation of some sectors as being purely commercial is inappropriate, since this means that benefits to users and to the community at large are ignored in decision-making. Similarly, the direction to maintain “social” passenger services at a given level means that finance and investment are concentrated unduly on preservation of the existing pattern of service, rather than on providing value for money. In both sectors, the likelihood is that in general fares are too high and services too frequent.

At an operational level, the criterion of maximising the (weighted) volume of traffic carried is advocated as a practical way of choosing between alternative fare and service-level packages. More broadly based strategic studies would be needed to decide on the weights to be adopted, the level of finance to be made available, and the overall strategy.

1. Background

Since nationalisation, the major legislation surrounding the provision of rail transport in Britain has rarely remained unchanged for more than six years. The last major landmarks were the Transport Acts of 1962 and 1968 (Gwilliam and Mackie, 1975, Ch. 12), and the Railways Act of 1974. By these standards, the 1974 Act is already relatively long-lived. However, a number of strains on that framework were already building up before the financial crisis brought about by the recession, rising costs and industrial disputes. The aim of this paper is to consider the performance of British Rail (BR) under the 1974 Act, to discuss the
merits and shortcomings of policy under that Act, and to consider possible future developments.

Firstly, it is necessary to offer a brief description of events leading up to the 1974 Act and of the Act itself. Until 1968, rail policy in Britain was based on the premise that the railways could and should be commercially self-supporting. To this end, controls on fares and charges and common carrier obligations were removed progressively, and, under the Chairmanship of Dr. Beeching, closure of loss-making services was accelerated. The 1968 Act essentially continued this philosophy, except for one major change. It was decided that the scale of closure of local passenger services would be unacceptable (in fact, previous governments of both political complexions had frequently refused closure permission), and specific grants for individual services – based on the difference between revenue and fully allocated cost – were introduced. Other measures which aided BR financially – the transfer of sundries traffic to a separate state-owned body, the National Freight Corporation, and grants towards the elimination of excess track capacity – aided the elimination of unprofitable activities rather than their retention. The one provision which might have yielded BR some additional protection – quantity licensing of long-distance freight by road – was never implemented. In fact, removal of the existing system of licensing increased competition in the freight market.

Initially, the new framework seemed to be working, and BR showed a small surplus after receipt of grants. However, as Gwilliam and Mackie (1975, p. 249) have pointed out, even the low level of investment then taking place – which was certainly not sufficient to maintain the railway at its existing size in the long run – greatly exceeded the provision made for depreciation in the accounts (which was at historic cost on only those assets which had not been completely written off in capital reconstructions). By 1971, the surplus had turned into a loss, which grew rapidly in succeeding years. At the same time, the new Conservative government wished to examine the option of withdrawing grant aid from, and permitting closure of, many local services. Because for many services, the avoidable cost of withdrawal – particularly in the short run – was much less than the fully allocated cost on which the grant was based, this would greatly have increased the financial difficulties of the remaining services. The outcome was a complete review of railway policy, which considered alternative networks. The conclusion was that no smaller network could survive without significant financial assistance, and that, at least within the time scale under consideration (10 years), no smaller network would give a markedly improved financial result (partly because of the high costs of transition of a rapid closure programme). At the same time, various events – including the oil crisis – led to a more favourable political attitude towards the future of the railways, in which closures were virtually halted, increased support was provided to permit the existing pattern of services to continue and to freeze fares (as part of a general anti-inflation policy), and a