CABINET

REORGANISATION OF THE NATIONALISED TRANSPORT UNDERTAKINGS

Note by the Minister of Transport

I circulate for the approval of my colleagues a revised draft White Paper on the reorganisation of the nationalised transport undertakings. This has been prepared by the Prime Minister with the assistance of the Chancellor of the Exchequer and myself, on the basis of a draft produced by the Departments concerned following the discussion in Cabinet on 1st December (C.C.(60) 61st Conclusions, Minute 3).

2. It will be seen that, although there has been a good deal of re-writing and the draft is now more closely argued, few points of principle have arisen.

3. I hope that the Cabinet will feel able to give final approval to the draft this week in order to enable the White Paper to be printed in time for publication on Tuesday, 20th December, before Parliament rises.

E. M.

Ministry of Transport, W.1.

7th December, 1960.
DRAFT WHITE PAPER

REORGANISATION OF THE NATIONALISED TRANSPORT UNDERTAKINGS

1. Her Majesty's Government, having reviewed the position and prospects of the nationalised transport undertakings, now put forward their proposals for their future structure, working and financial reorganisation. In reaching their conclusions, the Government have been assisted by the valuable advice they have received from the Special Advisory Group on the British Transport Commission. They have also taken into full account, the Report on British Railways from the House of Commons Select Committee on Nationalised Industries, and the views of the British Transport Commission and the Trade Unions.

The Government's Aim

2. The Government's aim is that the nationalised transport undertakings shall be soundly based both in organisation and finance, providing efficient services to industry and the public and giving a good livelihood and worthwhile jobs to those who work in them.

3. There is much to do and a long way to go. The accumulated deficits of the British Transport Commission at the end of 1960 will be of the order of £500M. and are currently running at the rate of £100M. a year.

4. Sweeping changes will be needed. Effort and sacrifices will be required from all. The public will have to be prepared to face changes in the extent and the nature of the services provided, and when necessary, in the prices charged for them. The taxpayer will have to face a major capital reorganisation as well as continue to carry a large part of the burden until the railways are paying their way again. Those working in these undertakings, if their livelihood is to be assured, will have to play their part in

* throughout this document the expression "nationalised transport undertakings" excludes the Statutory Air Corporations.
increasing productivity and enabling the labour force to be deployed so as to secure maximum efficiency in operation. When the Government made funds available to implement the Guillebaud Report last spring, they made it clear that far-reaching changes would be necessary.

The Problem

5. The heart of the problem is in the railways. They are a great national enterprise and a vital basic industry. They employ half a million people and represent an investment of nearly £1600M, which is growing by more than £100M. each year. A railway system of the right size is an essential element in our transport network and will remain so for as long as can be foreseen. The development of other forms of transport and new techniques have faced our railways, like the railways in other countries, with problems of competition and adaptation to modern circumstances and public demand.

6. The railways are now in a grave financial plight. They are a long way short of covering even their running costs - by something of the order of £50M. a year. This is quite apart from the problem of meeting their interest charges, whether upon the price paid for the undertakings or upon the money since borrowed for modernisation and other purposes. These interest charges now total some £75M. a year.*

7. The practical test for the railways, as for other transport, is how far the users are prepared to pay economic prices for the services provided. Broadly, this will, in the end settle the size and pattern of the railway system. It is already clear that the present system must be made more compact. There must also be modernisation, not only of lay-out, equipment and operating methods, but of organisation and management structure.

*the figures in this paragraph relate to railways alone; they make no allowance for surpluses, at present some £10M. a year after meeting interest charges, earned from the other activities of the Commission.
8. The answers to these problems will not be found overnight, but the Government are convinced that as an essential first step there must be radical changes in the organisation, financial constitution and the statutory framework of the undertakings controlled by the British Transport Commission.

THE GOVERNMENT'S MAIN CONCLUSIONS

9. The activities of the British Transport Commission as at present constituted are so large and so diverse that to run them effectively as a single undertaking is a virtually impossible task. The size and difficulties of British Railways have understandably tended to preoccupy the Commission and have undoubtedly affected its outlook over the whole range of its activities.

10. While there have clearly been some shortcomings of management, these have no doubt been due in part to the structural defects referred to above. These have been particularly apparent in financial and commercial matters. In the consideration of these matters there has been a marked tendency for technical and operating factors to prevail over others. There has also been, as the Select Committee point out in paragraph 417 of their Report, a "confusion in judging between what is economically right and what is socially desirable".

11. The commercial capability of the railways is circumscribed by outmoded statutory restrictions and obligations on their trading operations.

12. Mounting deficits, the size of capital debt in relation to the earning capacity of the assets represented, and the increasing burden of interest as modernisation proceeds, present a situation detrimental to the morale of management and staff, to financial control, and to hopes of recovery.
13. In these circumstances, the Government have decided:
(a) to replace the British Transport Commission and the existing organisation by a new structure designed to overcome the main defects and disadvantages of the present organisation;
(b) to reconstruct the finances of the Commission and in particular those of the railways;
(c) to give the various activities the maximum practical freedom of operation in their commercial affairs.

THE GOVERNMENT'S PROPOSALS

A NEW STRUCTURE

14. The Government propose that each of the main activities of the present Transport Commission should be managed by a separate board holding its own assets and responsible for its own capital debt. This should lead to concentration of effort, devolution and definition of responsibility, and thus secure more effective management, and foster financial discipline. The object is to provide each Board and management with a clearly defined task within a set field. The administration of such diverse activities as the Railways, Ports, London Transport and Inland Waterways, presents special problems, each of which calls for particular qualifications and experience. The Boards for British Railways, London Transport, British Transport Docks and British Waterways will each be incorporated under Statute with the appropriate duties and powers necessary to the efficient conduct of those undertakings. In view of their importance and the special nature of their problems they
will be responsible direct to the Minister of Transport, who will appoint their members. All the other activities will be grouped under a Holding Company (see para. 24 below). A chart showing the new structure is on page 18.

**Railways**

**The British Railways Board**

15. The British Railways Board will assume the responsibility for running the railways as an effective national system and will be vested with the railway assets and the responsibility for the capital debt of the railways as a whole. It will however perform only those central functions which are essential to the running of the railways as a single entity; all other functions will be the responsibility of the Regional Railway Boards (see paragraph 17 below). Notably the British Railways Board will be responsible for such matters as national staff and wage negotiations, overall control over finance and investment, policies for safety, training and research, and the determination of the future size and shape of the railway system.

16. The Railways Board will be composed as follows:

(a) A full-time Chairman and Vice-Chairman.
(b) A member from each of the Regional Railway Boards (ordinarily the Chairman or General Manager).
(c) Certain full-time members with special responsibilities.
(d) One or two part-time members.

**Regional Railway Boards**

17. The Regional Railway Boards, which will replace the present Area Boards, will be fully responsible for the management and operation of their regional railway systems. Each will be autonomous in all matters which concern its region alone. They will thus continue the process of devolution of authority and decentralisation of management. To assist it in carrying out its duties each Regional Railway Board will maintain a regional trading account. (The Commission's consultants have suggested possible
bases for such accounts and their report is under consideration).

The precise arrangements for capital expenditure, which would be within the control of the Regional Board, and major capital expenditure, which would require the approval of the Railways Board, must be worked out as experience develops.

18. The membership of the Boards will be small in number and will contain a strong element of full time Members. The Chairman will be appointed by the Minister. The post of Regional General Manager will carry a seat on the Board.

19. To secure coordination between national railway policy and regional railway operation one Member of each of the Regional Railway Boards will, as already stated, be a Member of the British Railways Board.

Packet Ports and Shipping Services

20. The packet ports and those shipping services which are extensions of the railway system will continue to be treated as part of the railway system.

London Transport

21. The London Transport Executive will again be called the London Passenger Transport Board and will continue to be composed mainly of full time members of whom a number will have special responsibilities. It will be responsible for the public transport monopoly at present delegated to the London Transport Executive. As hitherto, it will work in close concert with the London lines of British Railways in all matters of common concern.

British Transport Docks

22. The ports and docks at present administered by the Commission's British Transport Docks Division will be transferred to a new statutory Docks Board. The Board will be small in number. Its composition will reflect those functions affecting the Docks including finance which require to be dealt with centrally. The management of the more important of their ports will be represented on the Board.
Inland Waterways

23. British Transport Waterways will be placed under an independent statutory board to be known as the Inland Waterways Authority. This body will own and manage the nationalised inland waterway system. It will also be responsible for proceeding with the redevelopment or disposal of waterways which no longer have a transport use. The composition, powers and duties of the new body will require further discussion. It will be necessary to take account, on the one hand, of the charge which the waterways system imposes on public funds, and, on the other, of the varied purposes which they can be made to serve.

The Holding Company

24. British Road Services, Tilling Bus Group, Scottish Bus Group, British Transport Hotels, Road Freight Shipping Services, and Thomas Cook and Son Ltd., will each be operated as companies incorporated under the Companies Act with their own boards of directors.

25. All these undertakings (except the Hotels) are already in company form; and all operate in the same general field as private enterprise with which they are often in competition. They will all, including the Hotels, now be grouped under a new Holding Company responsible to the Minister who will appoint its Board.

26. The Commission's present minority shareholdings in certain transport concerns including bus companies which are subsidiaries of the British Electric Traction Company Limited will be transferred to the Holding Company. Certain controlled companies and holdings essentially connected with the railways will fall within the general responsibility of the Railways Board.

27. On the other hand there are certain companies either controlled by the Commission or in which the Commission hold a minority interest, the activities of which are essentially connected with the Railways. The Commission's holdings in these companies will be transferred to the Railways Board.
Freehold and Leasehold Property

28. The development of the valuable properties at present held by the Commission is a matter requiring special attention (see also para. 59 below). It is proposed to set up one or more organisations specially equipped to advise and as appropriate act for the statutory Boards and Companies in connection with the development, transfer and the disposal of property no longer required, and thus to assist in obtaining the best possible return.

COORDINATION

29. Coordination of policy between the new Boards including allocation of funds for new investment will be the responsibility of the Minister of Transport. In this he will be assisted by a new advisory body, the Nationalised Transport Advisory Council. Suitable arrangements for coordinating the day-to-day activities of individual undertakings will also be established by means of consultation between the Chairmen of the new Boards.

30. The new organisation is intended to provide for direct contact between the Minister and the component parts of the nationalised transport industry. This will necessarily be closest where there are deficits to be financed from the public purse. Apart from this the Government do not propose that the Minister's existing statutory powers and responsibilities in relation to the nationalised transport undertakings should be extended. As in the case of other nationalised industries, the Minister's main charge will be for overall coordination and for securing the general efficiency of the industries in accordance with his responsibility to Parliament for them. He will continue to discharge these responsibilities through his powers of appointment and of general direction, and his control of development, investment and finance. His special duties in respect of safety, training and research will continue.
Nationalised Transport Advisory Council

31. The Nationalised Transport Advisory Council's main responsibility will be to advise the Minister on questions referred to it by him relating to the coordination of the nationalised transport undertakings and on questions of policy. It will also be available to advise the Minister in the exercise of his responsibilities towards the particular undertakings including appointments, finance and development. The Council will have no executive or supervisory functions.

32. The Nationalised Transport Advisory Council will consist of the Chairmen of the Boards of British Railways, London Transport, British Transport Docks, Inland Waterways Authority, and the Holding Company. Other members will be added, drawn from outside the nationalised transport undertakings. The Minister will ordinarily act as Chairman of the Council.

APPOINTMENTS

33. All appointments to the major boards will be made by the Minister of Transport. Certain other appointments will be subject to his approval.

34. In making appointments to the various Boards the Minister will have regard to the special contribution which can be made by those with Trade Union experience. It is essential to use this experience in the management of industries, such as the Railways, where manpower plays so large a part.

35. The Government consider it important that, so far as possible, the nationalised transport undertakings should produce their own leaders. Promotion from within the undertakings to the highest levels should be within the grasp of those who prove themselves capable. In particular, there should be much greater opportunities in future for those in all parts of the railway service to make their way to the top. At the outset, however, some major posts may have to be filled from outside.

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FINANCE

36. A far reaching financial reconstruction is necessary to deal both with the serious financial state of the railways and because of the changes proposed in the organisation.

FINANCIAL RECONSTRUCTION

37. The financial situation of the Commission and the railways (as indicated in paragraphs 3 and 6 above) is so serious that they cannot now carry on without large scale support from the Exchequer. Financial reconstruction has therefore become imperative. The expectation that the Commission, and more specifically the railways, will be able to meet in full their existing liabilities is now unrealistic. A drastic scaling down of debt is urgently needed to give the railways a fresh start.

38. The plan of financial reconstruction now proposed is of an interim character. This is inevitable in view of the uncertain prospects. The railways are in the midst of a large modernisation programme, of which the financial results are yet to be seen: it will take time also to reap the benefits of the new organisation and of the greater freedom of action which the Government propose for the railways. The objective of the financial reconstruction is to find a working basis for the railways over the next five years and to lay the foundations for financial recovery.

39. Accordingly the Government put forward the following proposals. The figures quoted are based upon the position recorded in the Commission's last Balance Sheet on December 31st, 1958, and will have to be worked out in detail later. Nevertheless, they give a broad indication of the general size and nature of the problem and the action proposed.

Capital Liabilities

40. The net capital liabilities of the Commission at 31st December 1959 amounted to approximately £2,000m., of
which £1400M. consisted of British Transport Stock in the hands of the public and £600M. of advances from the Minister of Transport; and it is with these liabilities that the proposed reconstruction is primarily concerned.

41. Some £1600M. of the £2000M. capital liabilities are attributable to the non-railway activities of the Commission which, in the main, have been self-supporting. Responsibility for this amount of debt will, in effect, be transferred to the appropriate new boards. The debt in each case will be based on the book values of the assets transferred.

42. The balance some £1500M., relates to the railways. Of this, some £400M. is attributable to losses which have accumulated between 1955 and 1959 and have been financed mainly by Exchequer advances. There is, in the Government's view, no prospect of these losses ever being recovered. They propose, therefore, that this amount should be written off and the outstanding debt reduced accordingly.

43. After this £400M. of accumulated losses has been written off (para. 42) £1,200M. of capital liabilities is left. The Government propose that, of this sum £400M. - equivalent to the written down book value of the railways' investment since modernisation began in 1955 - should continue to rank as an interest-bearing loan on normal terms.

44. The remainder (£800M.) would be placed to Suspense Account and would carry neither fixed interest nor fixed repayment obligations. The amount and treatment of this Account will be subject to review from time to time, in the light of developments and in particular of a careful review which will have to be made of the book value of assets acquired up to and including 1955. Amounts may well have to be written off in respect of ascertained capital losses, (including losses in respect of assets which become obsolete as modernisation proceeds).
The existence of the Suspense Account, however, will enable the Exchequer to obtain some return if railway finances improve sufficiently. The possibility cannot, however, be ruled out that much of the amount placed in Suspense may well ultimately have to be accounted lost and written off.

45. These proposals for capital reconstruction of the British Transport Commission are summarised in the following Table:

<table>
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<tr>
<th>Summary of British Transport Commission's Capital Liabilities and Government's Proposals for Reconstruction</th>
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<tbody>
<tr>
<td><strong>Railways</strong></td>
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<tr>
<td>£M.</td>
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<tr>
<td>Capital Liabilities (after deducting Capital Redemption Fund investments)</td>
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<td>(paragraphs 40 and 41)</td>
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PROPOSALS

- Debt to be written off on account of Revenue Losses (paragraph 42) 400 400
- Debt to be carried in Suspense (paragraph 44) 800 800
- Interest-bearing Capital Liabilities to be retained 400 400 800 (paragraph 43)

**TOTAL:** 1,600 400 2,000

Effect on British Transport Stock and other capital liabilities

46. The Treasury will assume all responsibilities for existing British Transport Stock. The rights of stockholders will therefore be fully safeguarded. At the same time appropriate amounts of debt to the Exchequer will be assumed by the new Boards.

Consequences of the Capital Reconstruction

47. The effect of these proposals is that the railways would be given immediate relief in respect of obligations to the extent of £1200M., of which £100M. would be written off, and £800M. put to suspense. While the Government regard these drastic measures as
required to deal realistically with the existing financial situation, they also think it most desirable that their nature and size should be fully appreciated. Their effect will be to take from the shoulders of the railway undertaking (a) the whole burden of accumulated losses and (b) the greater part of the liability relating to its capital value prior to the beginning of modernisation in 1955, except insofar as at a later date the undertaking may be able to resume the burden. But these heavy liabilities, though removed from the shoulders of the railways, will not have ceased to exist. They will only have been transferred to the public in another form since they will fall upon the Exchequer.

Future Revenue Prospects and Objectives

43. The capital reorganisation outlined above, will by the writing off of £200M. and the carrying of £800M. to suspense provide an immediate relief to the railways of over £20 M. annual interest. They will, however, have to pay interest on :-

(a) The reduced capital liability of £200M. referred to in paragraph 43;

(b) New borrowings for capital expenditure;

(c) Certain other liabilities, e.g. superannuation funds and Savings Bank deposits (paragraph 55).

At the end of the next five years the total charge under these heads may amount to some £60-70M. a year, depending on the level of new borrowings and the rate of interest. Before the railways can meet these charges they will have to eliminate their operating loss, now running at a total of £60M. a year.
49. The Government recognise that the task before the Railways of eliminating the present operating loss and moving to a surplus of £60-70M a year within the next five years will be very formidable. They will therefore keep the financial position of the Railways under very close review and will make a special review of the position at the end of the five years. They will establish in consultation with the railway administration targets of financial performance which the Railways should aim to achieve from year to year over the five-year period.

50. It is still clear on a realistic appraisal of the situation that large sums will have to be provided from the Exchequer during the interim period to meet railway deficits; and the Government will seek the necessary powers.

Productivity and Manpower

51. If the railways are to regain solvency, and provide a fair livelihood for their workers, efficiency of operation and the most economic use of manpower are crucial; thus they must be a special concern of the new Railways Board. As the Select Committee on Nationalised Industries noted, work study - which has been successfully applied in a number of fields - should be extended far beyond the 6 per cent. of railway staff so far covered. The British Railways Productivity Council has already considered this, and the Government have welcomed the recent joint appeal by the employers' and the Union sides of the industry for cooperation by all concerned.

Railway Fares and Charges

52. Increases in railway fares and charges must, where and when appropriate, make their due contribution towards meeting railway costs.
53. The foregoing special arrangements for the remission of debt and the writing off of liability apply only to the railways. The other Statutory Boards will be expected to conduct their affairs in accordance with the general system applicable to Boards of this character, that is taking one year with another, to balance their accounts. Special aid may, however, have to be given in the initial years to the Inland Waterways.

54. The Holding Company is in a different category, since it will hold shares in businesses which are operating in the same field as private enterprise. These businesses, like similar businesses in the private sector, may be expected to yield a good return. Subject to regulations which affect private as well as public businesses of these kinds it will be the duty of the holding company to secure the best possible results for the public purse. The profits of the Holding Company group will accrue to the Exchequer in the form of dividends and should be some offset to losses on other nationalised transport undertakings.

Other Financial Matters

55. There are certain other liabilities not mentioned in the Table in paragraph 44, including liabilities in respect of savings bank deposits and superannuation funds - which amounted to about £400m. at 31st December 1959 and are attributable mainly to the railways. The Government do not propose any relief from these liabilities for the undertakings. The Government have noted the observations of the Select Committee on Nationalised Industries (in paras.150 to 154 of their Report) on the investment of savings bank deposits and superannuation funds in the British Transport Commission's undertaking. They are considering with the Commission what changes might be made in the present arrangements. This consideration, of course, in no way affects the security of the deposits and the rights of the beneficiaries, which will continue unimpaired. Consideration is also being given to the scale of depreciation and obsolescence provisions which should be made by the various new undertakings.
56. In this reorganisation and financial reconstruction it would not be reasonable to leave the railways subject to out-of-date restrictions on their commercial activities.

Fares and Charges

57. The present restrictions on the ability of the railways to adjust quickly and adequately their freight charges and passenger fares are, in the Government's view, no longer justified in present competitive conditions.

58. The railways will therefore be freed from statutory control over their charges except rail and bus fares in the London Passenger Transport Area where the London Transport Executive and British Railways have a virtual monopoly of public transport. This change will substantially reduce the functions of the Transport Tribunal.

Freehold and Leasehold Property

59. The present statutory restrictions on the development of property by the nationalised transport undertakings will be suitably relaxed.

Pipelines

60. The Commission already have power to accommodate, by way of leases, pipelines on their property. Subject to any general legislation on pipelines which the Government may wish to promote, it is proposed to give certain of the new undertakings, particularly Railways, powers to lease, provide and operate pipelines on their property.

Coastal Shipping

61. The Road and Rail Traffic Act, 1933, and the Transport Acts of 1947 and 1953 contain provisions protecting coastal shipping from competition from inland transport. The Government are at present examining these provisions in the light of the need to give greater commercial freedom to the railways and of the interest of the coastal shipping industry.
LEGISLATION

62. The Government's proposals for the new structure, for financial reconstruction, and for freedom of commercial operation will require major legislation. Consultations and preparation will take some time to complete. The Government propose to introduce the necessary Bill in the next Session of Parliament. Should interim legislation be required, it will be introduced.

CONCLUSION

63. Her Majesty's Government have, throughout their consideration of these problems, sought to find practical answers to the difficulties with which the nationalised transport undertakings are confronted. The Government have been guided solely by their concern to establish what is best for the industry and best for the country. They put these proposals forward as providing the best opportunity for the various undertakings and especially the railways, to become efficient and soundly based.
REORGANISATION OF THE NATIONALISED TRANSPORT UNDERTAKINGS

THE NEW STRUCTURE

MINISTER

NATIONALISED TRANSPORT ADVISORY COUNCIL

RAILWAYS BOARD

LONDON PASSENGER TRANSPORT BOARD

BRITISH TRANSPORT DOCKS

INLAND WATERWAYS AUTHORITY

HOLDING COMPANY

Regional Railway Boards

British Road Services

Tilling Bus Group

Scottish Bus Group

Hotels

Road Freight Shipping Services

Thomas Cook Ltd.

Other Holdings