CABINET

REORGANISATION OF ROAD AND RAIL TRANSPORT

MEMORANDUM BY THE LORD PRESIDENT OF THE COUNCIL.

As a result of the Cabinet discussion on 28th December, 1951 (C. (51) 20th Conclusions, Minute 6) the Prime Minister appointed a Committee under my Chairmanship, consisting of the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for the Co-ordination of Transport, Fuel and Power, the President of the Board of Trade, the Minister of Transport and the Secretary of State for Economic Affairs. Our terms of reference are to examine proposals for the reorganisation of road and rail transport and to submit to the Cabinet proposals for legislation to be introduced in the early summer.

2. Before we embark on comprehensive proposals for legislation we think it desirable to ask the Cabinet to endorse or amend the lines on which we are proceeding, and to decide certain major points which require settlement before further progress can be made.

3. Throughout our considerations we have paid attention to the statements published in the Conservative Party Manifesto and to the speeches made by present Ministers when they were in Opposition. We believe that our proposals will deal with the major problem of making transport as a whole more efficient and, we hope, self-supporting.

4. The points which we wish to bring before the Cabinet are—

(1) We ask agreement to proposals for returning road haulage to private enterprise, and at the same time for saving the railway system from consequent financial embarrassment.

(2) We recognise the possibility of loss to the State as a result of the sale of road haulage equipment. We also recognise the probability of loss to the railway system as a result of the competition of private enterprise in road haulage.

We have failed to get a unanimous view on the financial steps that should be taken to deal with these two problems. The respective views are outlined in paragraphs 7–11 below and we ask the Cabinet to determine this issue.

(3) Subject to further consideration after hearing the discussion of the Cabinet, we ask permission to have legislative proposals framed on the general lines of these conclusions, which are summarised in paragraph 18 below.

Disposal of the Road Haulage Executive's Fleet

5. We propose that the British Transport Commission should be required to sell the whole of their road haulage assets and interests, except for the short-distance road collection and delivery services of the railways (which still remain almost entirely with the Railway Executive). This would be done under the supervision of an independent Disposal Board, in accordance with a scheme of which the following are the salient points:

(a) The Executive would parcel up their undertaking into operational units. The "parcels" of road vehicles could not be identical with individual

42015
businesses taken over since nationalisation, and now merged in the
Executive’s organisation. But they will be self-contained and workable
units such as should attract private interests wishing to enter road
haulage, and will be of such varied sizes as to give a fair chance of
re-entry to the small ex-haulier.

(b) The “ parcels ” will be disposed of by open competitive sale to the widest
possible field of purchasers. This provides a simple method of ascer­
taining their true market value and of getting the best possible prices
in the shortest possible time.

(c) Those who were in the road haulage business before nationalisation have
received compensation for the goodwill, based on past profits, as well
as for the assets, of their businesses. They will be given an opportunity
of getting back at a price which will reflect the right to operate without
restriction as to distance, but which will include no specific payment
in respect of future profits. It would be unworkable to give any of
them preference, as regards either price or priority and there is no
obligation to do so.

In presenting these proposals to my colleagues, I think it necessary to add that,
so far as I know, there is no means of judging the extent to which previous road
hauliers will come back into the business. Whilst they engaged in widespread
propaganda against nationalisation before the Act was passed, we cannot tell to
what extent these people now have either the will or the free resources to resume
their enterprise in this field of industry.

Removal of the 25-mile Limit

6. The “ parcels ” will carry the right to operate at once free of any mileage
limit. The private hauliers now in business are prohibited, except under permit
from the Commission, from exceeding a radius of 25 miles. They would remain
subject to that limit until the Road Haulage Executive had been almost disbanded.
Otherwise the Executive might find it impossible to meet competition with the
part of its business remaining unsold, and instead of orderly disposal we should
have unmanageable disintegration.

Road-Rail Finance

7. Our proposals would affect the finances of the Commission in three ways.
There would be—

(a) a capital loss on disposal of the Road Haulage Executive’s undertaking.
    Full return cannot be obtained for the amount paid for goodwill, which
    has been substantially destroyed; 

(b) by a loss of revenue due to the liquidation of this undertaking, which now
    shows a small operating surplus; 

(c) a loss of revenue by the railways if they are unable, by affecting economies,
    to off-set the loss of traffic which is likely to result from the greater
    competition which they will have to meet from road haulage in private
    hands.

We are agreed that there must be an attempt to make up such losses to the Com­
mission, either in some way by the State, or by means of a levy on road transport.
If the Commission are to balance their accounts without unduly raising the charges
on traffic which is tied to rail.

8. We recommend (the Minister of State for Economic Affairs dissenting) a
    levy on road goods transport, including the “ C ” licensee (who is licensed to carry
    his own goods only), and also on long-distance road passenger transport. Without
    the levy, it appears to us that disposal of the Road Haulage Executive’s undertaking
    would do little more than re-establish the unsatisfactory pre-war position in cir­
    cumstances which are much more difficult for the railways, and that the value of
    our proposals would be destroyed.

9. The burden of the levy on road goods transport would not become unduly
    onerous. It would not be levied on small “ C ” licensed vehicles (which are engaged
    mainly on local deliveries) and loss of traffic from rail to road which would attract
    the levy would be reflected in the increased earnings of road goods transport. The
    Transport Act, 1947, embodied the principle that the Commission’s undertaking
    should be self-supporting. This appears to us to be sound, but the road goods
vehicles belonging to the Commission constitute only a fraction of the total number of road goods vehicles in the country, whereas under our proposals the principle would be applied over the much wider field of goods transport as a whole. As for long-distance road passenger transport, it does not seem right to impose the levy on lorries because they compete with the railways, and not on coaches which are the most obvious form of road competition with rail.

10. The levy would be at a rate to be determined at regular intervals, e.g., every three years, by the Minister of Transport, who would consult the Transport Tribunal before coming to a decision. The proceeds would be held in a special fund, and payments to the Commission would be made annually on the authorisation of the Minister.

11. The Minister of State for Economic Affairs feels unable to accept the levy for the above purposes, especially for that of meeting future railway losses resulting from diversion of traffic from rail to road. It is, he considers, objectionable as hypothecating a tax, the more so as it would continue for an indefinite future, would be extremely difficult (and increasingly difficult as time went on) to assess, and would relieve the railway authorities of their direct responsibility to make the railways pay their way. He agrees that some relief must be given to the finances of the Commission to meet the initial loss of the transition (paragraph 7 (a) and (b)); whether by levy or a grant for this temporary and terminating loss is comparatively unimportant. If no means can be found of avoiding further loss of revenue to the railways through loss of traffic due to the new freedom given to road transport, and some further relief to the Commission is therefore necessary, this might, he considers, be better given in the form of the acceptance by the State of the direct responsibility for an appropriate fraction of the Commission's capital obligations. This would in his view be preferable to providing a subsidy, direct or indirect, to cover an operating deficit.

Efficiency of the Railways and Road-Rail "Integration"

12. Our proposals are designed indirectly to promote the efficiency of the railways by subjecting them to greater competition from the roads. This alone should provide a stimulus. At the same time, road transport would, subject to the licensing system, be free to develop, and to provide its maximum service to trade and industry. But because of the levy there would be less need artificially to protect the railways against road competition; and this would justify a more liberal attitude on the part of the licensing authorities for goods vehicles, in cases where road offered a better service than rail. There would then be free users' choice, without extra cost to the taxpayer. This, the Committee think, will be more effective than any form of planned and imposed "integration."

13. Other and more direct ways of promoting the efficiency of the railways must be adopted. These include splitting up the railway management into regional groups—including a Scottish group—with a large measure of autonomy; widening the scope of management to include not only railwaymen but also representatives of trade and industry and of road haulage; and possibly also subjecting the railways to closer control by the Minister of Transport. These are mentioned in order that the Cabinet may know what the Committee have in mind, but we shall need to examine them further before we can make recommendations.

Future of the British Transport Commission

14. We have considered whether the Commission itself need be retained, and have come to the conclusion that this is essential. But, if our proposals are accepted, the Road Haulage and Road Passenger Executives will disappear, and the functions of the Docks and Inland Waterways Executive will be so reduced that its work could, if necessary, be undertaken by a group, as could the work now done by the Hotels Executive. The Railway Executive would no longer be necessary. London Transport would be maintained as a separate Executive responsible to the Commission.

Railway Interests in Road Transport

15. By means of shareholding, the former railway companies had a large interest (now vested in the British Transport Commission) in road passenger transport—an interest which has been expanded by the Commission and is now almost complete in Scotland except for the municipal undertakings. The railways
also had certain shareholding interests in road haulage besides and apart from their short-distance collection and delivery services. We think there is no reason why the Commission should not retain their interests in road passenger transport or be permitted to buy shares in road haulage businesses. Such holdings would give the Commission a profitable source of revenue, and would also enable them, when obliged to close unremunerative sections of line, to provide alternative road services from their own resources—a possibility which might act as a positive encouragement to the railways to make necessary economies. But, to prevent abuse, the Minister of Transport should have a reserve power to require the Commission to divest themselves of majority holdings in road transport if at any time he thinks that to be in the public interest.

Miscellaneous Proposals

16. We have agreed—

(i) that all the road services of the British Transport Commission (except those of the London Transport Executive) should be subject to the control of the licensing authorities;

(ii) that the British Transport Commission should in their charges schemes be given greater latitude so as to improve the railways' ability to compete with other forms of transport; and should also be empowered within prescribed limits to make immediate increases in charges, subject to subsequent approval by the Transport Tribunal;

(iii) that those provisions of Part IV of the Transport Act, 1947, which provide for area road passenger schemes and schemes for trade harbours should be repealed;

(iv) that provision should be made in principle for compensation in necessary cases to employees suffering loss as a result of the disposal of the Road Haulage Executive.

Disclosure of Government Intentions

17. The Minister of Transport is being hard pressed, both by Parliament and by organised representatives of road haulage, to make an early announcement of Government intentions. The knowledge that the Road Haulage Executive was to be liquidated would damage its current operations and would unsettle its staff, but these things must happen some time. Even if the Bill is introduced in the early summer, the interval between now and its introduction will be fairly long, and it will become increasingly difficult to maintain silence. A public announcement ought to be made soon, but it may perhaps have to be delayed for a little. Meanwhile, the Chairman of the British Transport Commission, who knows nothing of these proposals, ought to be informed, in confidence, as soon as the Cabinet have come to a decision on them.

Summary of Conclusions

18. Our main conclusion is for the total abolition of the Road Haulage Executive, followed by total removal of the 25-mile limit. If taken alone, these steps would revive the old road-rail problem, and we therefore propose a scheme which includes a suggestion for a financial adjustment to save the railways from the financial embarrassment which would otherwise follow. Its main features are:

(1) The road haulage assets and interests of the British Transport Commission, except the railway collection and delivery services, should be offered for open competitive purchase, without preference to any particular class of purchaser. The parcels offered for sale will be self-contained workable units of varying sizes.  (Paragraph 5.)

(2) The 25-mile limit should not apply to the parcels sold, but should continue to apply to existing private hauliers until the liquidation process is almost complete, when it would be removed entirely. (Paragraph 6.)

(3) The country's transport as a whole should be self-supporting, and the British Transport Commission should be compensated—

(a) for the losses incurred in selling their road transport assets and interests; and

(b) for subsequent unavoidable losses due to transfer of traffic from rail to road.
This should be done either—

(i) by a direct levy on road goods transport and on long-distance road passenger transport, the proceeds being held in a special fund administered by the Minister of Transport, or

(ii) by the Exchequer, which would make a grant to the Commission in respect of the losses at (a) above and which would, if necessary, assist with the losses at (b) above by assuming once for all direct responsibility for an appropriate fraction of the Commission's capital obligations. (Paragraphs 7–12.)

(4) The British Transport Commission should be retained, but the present Executives, apart from London Transport, would either disappear or be replaced, in the case of the Railway Executive by Regional Railway Boards, otherwise by groups. (Paragraph 14.)

(5) The British Transport Commission should be permitted to retain their present shareholding interests in road passenger transport; and to buy shares in road haulage businesses; subject in either case to the Minister of Transport having a reserve power to require them to sell majority holdings if at any time he thinks such sale to be in the public interest. (Paragraph 15.)

(6) All the British Transport Commission's road services (except those of the London Transport Executive) should be subject to the control of the Licensing Authorities. (Paragraph 16 (i).)

(7) The British Transport Commission should, within charges schemes, be given greater latitude so as to improve the railways' ability to compete with other forms of transport; and should also be empowered within prescribed limits to make immediate increases in charges, subject to subsequent approval by the Transport Tribunal. (Paragraph 16 (ii).)

(8) Those provisions of Part IV of the Transport Act, 1947, which provide for area road passenger schemes and schemes for trade harbours, should be repealed. (Paragraph 16 (iii).)

(9) Provision should be made in principle for compensation in necessary cases to employees suffering loss as a result of the disposal of the Road Haulage Executive. (Paragraph 16 (iv).)

(10) As soon as the Cabinet have reached a decision on our proposals so far, the Chairman of the British Transport Commission should be informed, in confidence, of the Government's intentions. A public statement cannot long be delayed. (Paragraph 17.)

Privy Council Office, S.W. 1,
20th March, 1952.