



MINISTRY OF TRANSPORT

# Reorganisation of the Nationalised Transport Undertakings

*Presented to Parliament by the Minister of Transport  
by Command of Her Majesty  
December 1960*

LONDON  
HER MAJESTY'S STATIONERY OFFICE  
ONE SHILLING NET



## 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 the future structure, working and financial reorganisation of these undertakings. In reaching their conclusions, the Government have been assisted by the 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. By the end of 1960 the deficits of the British Transport Commission will have reached a total of about £500m.; the rate of annual deficit is now about £100m.

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 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 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 £1,600m., which is growing by more than £100m. each year. A railway system of the right size is an essential element in our transport net-work and will remain so for as long as can be foreseen. The development of other forms of transport and new techniques have faced British 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 (by about £60m. a year) of covering even their running costs. This

\* Throughout this Paper the expression "nationalised transport undertakings" excludes the statutory Air Corporations.

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 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.

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 structure and 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 it is virtually impossible to run them effectively as a single undertaking. 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. This has been particularly apparent in financial and commercial matters, in the consideration of which there has been a 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".

10. The commercial capability of the railways is circumscribed by out-moded statutory obligations and restrictions on their trading operations.

11. Mounting deficits, the size of capital debt in relation to the earning capacity of the assets and the increasing burden of interest as modernisation proceeds, present a situation detrimental to the morale of management and workers, to financial control, and to hopes of recovery.

12. 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 undertakings the maximum practicable freedom of operation in their commercial affairs.

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\* 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, arising from the other activities of the Commission.

# THE GOVERNMENT'S PROPOSALS

## A NEW STRUCTURE

13. 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 and to 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 British Railways, Ports, Waterways, and London Transport, 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 14.

### **British Railways**

#### *The British Railways Board*

14. 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 (including the railway workshops) and the responsibility for the capital debt of the railways as a whole. The Board 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 16 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.

15. The Railways Board will be composed as follows :

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

#### *Regional Railway Boards*

16. 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. Each Regional Railway Board will maintain a regional trading account as a means of assisting it

to secure the highest level of efficiency and economy of operation. (The Commission's consultants have suggested possible bases for such accounts and their report is under consideration.)

17. The members of the Boards will be few in number and there will be a strong element of full time members. The post of Regional General Manager will carry a seat on the Regional Board.

18. To secure co-ordination between national railway policy and regional railway operation one representative from each of the Regional Railway Boards will, as stated in paragraph 15 (b) above, be a member of the British Railways Board.

#### *Packet Ports and Shipping Services*

19. 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**

20. The London Transport Executive will be called the London 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**

21. 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, including finance, which require to be dealt with centrally. The management of the more important of its ports will be represented on the Board.

#### **Inland Waterways**

22. 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**

23. British Road Services, the Tilling (Buses) Group, the Scottish Omnibuses 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.

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\* Railway catering services will be the responsibility of the railways.

24. All these undertakings (except the Hotels) are already in company form. They 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.

25. The Commission's present minority shareholdings in certain transport concerns will be transferred to the Holding Company. 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 British Railways Board.

### **Freehold and Leasehold Property**

26. The development of the valuable properties at present held by the Commission is a matter requiring special attention (see also paragraph 58 below). It is proposed to set up one or more organisations specially equipped to advise the Statutory Boards and the Companies and act for them as necessary, with the object of obtaining the best possible return, in connection with the development of their property, and the transfer or disposal, from time to time, of such of it as is no longer required for operational purposes.

### **Co-ordination**

27. Co-ordination 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 (see paragraph 29). Suitable arrangements will also be established for co-ordinating the day-to-day activities of individual undertakings, including the co-ordination of road and rail services.

28. The new organisation is intended to provide for direct contact between the Minister and the main component parts of the nationalised transport industry. Nevertheless 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 co-ordination and for securing the general efficiency of the undertakings 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**

29. The Nationalised Transport Advisory Council's main responsibility will be to advise the Minister on questions relating to the co-ordination of the nationalised transport undertakings and on questions of policy. The Council will have no executive functions.

30. The Nationalised Transport Advisory Council will consist of the Chairmen of the Boards of British Railways, London Transport, British

Transport Docks, the 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**

31. The Chairmen of the five major Boards will be appointed by the Minister of Transport. The members of each of these Boards will be appointed by the Minister after consultation with the Chairman. Certain other appointments will be subject to the Minister's approval.

32. 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 particularly important to use this experience in the management of these undertakings, where manpower plays so large a part.

33. 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.



## FINANCE AND RELATED MATTERS

### Financial Reconstruction

34. A far-reaching financial reconstruction is necessary to deal with the grave financial state of the railways and because of the changes proposed in the organisation.

35. The financial situation of the Commission and the railways 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.

36. 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.

37. 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 31st December, 1959, 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 of the action proposed.

### Capital Liabilities

38. The net capital liabilities of the Commission at 31st December, 1959, amounted to approximately £2,000m., of which £1,400m. 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.

39. Some £400m. of the £2,000m. capital liabilities is 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.

40. The balance, some £1,600m., relates to the railways. Of this, about £400m. is attributable to losses which have accumulated in recent years 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.

41. After this £400m. of accumulated losses has been written off, £1,200m. of capital liabilities is left. The Government propose that of this sum, about £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.

42. The remainder (£800m.) will be placed to suspense account and 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 an examination 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.

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

	Railways	Other Activities	Total
	£m.	£m.	£m.
EXISTING CAPITAL LIABILITIES (after deducting Capital Redemption Fund investments) ... .. (paragraphs 38 and 39)	1,600	400	2,000
<b>PROPOSALS</b>			
Debt to be written off on account of revenue losses ... (paragraph 40)	400	—	400
Interest-bearing capital liabilities to be retained ... (paragraph 41)	400	400	800
Debt to be carried in suspense ... .. (paragraph 42)	800	—	800
<b>TOTAL</b> ... ..	<b>1,600</b>	<b>400</b>	<b>2,000</b>

#### *Effect on British Transport Stock and other capital liabilities*

44. 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*

45. The effect of these proposals is that the railways would be given immediate relief in respect of obligations to the extent of £1,200m., of which £400m. 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 railways (a) the whole burden of accumulated losses and (b) the greater part of the liability relating to their 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 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.

## **Railway Revenue Prospects and Objectives**

46. The capital reorganisation outlined above will, by the writing off of £400m. and the carrying of £800m. to suspense account, provide an immediate relief to the railways of over £40m. annual interest. They will, however, have to pay interest on :

- (a) The reduced capital liability of £400m. (paragraph 41) ;
- (b) Certain other liabilities, viz., superannuation funds and savings bank deposits (paragraph 53) ;
- (c) New borrowings for capital expenditure.

At the end of the next five years the total charge under these three heads may amount to some £60-70m. a year, depending on the level of new borrowings and the rate of interest.

47. The Government recognise that the task before the railways is a very formidable one. The railways must try to eliminate their operating loss, now running at about £60m. a year, and to move over the next five years into a position in which they can meet out of their own revenues the interest charges referred to in the preceding paragraph. The Government 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.

48. 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 including interest ; and the Government will seek the necessary powers. But increases in railway fares and charges must, where and when appropriate, make their due contribution towards meeting railway costs.

## **Productivity and Manpower**

49. 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. 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 both sides of the industry, for co-operation by all concerned.

## **Uneconomic Services**

50. The Select Committee on Nationalised Industries (in paragraphs 421 to 427 of their Report) suggested that uneconomic services which the railways were required to provide on grounds of the national interest or of social needs should be met by specific grant from public funds. This question also affects other nationalised undertakings, and the Government will consider it in that general context and in the light of the Select Committee's comments. For the time being, railway losses on any such services will in practice be covered by the contributions proposed from public funds.

## **Financial Duties of other Boards**

51. 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, to balance their accounts, taking one year with another. Special aid may, however, have to be given in the initial years to the Inland Waterways Authority.

52. 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**

53. There are certain other liabilities not mentioned in the Table in paragraph 43. Important among these are liabilities in respect of superannuation funds and savings bank deposits which, at 31st December, 1959, amounted in total to about £280m., mainly attributable 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 paragraphs 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.

54. Consideration is also being given to the scale of depreciation and obsolescence provisions which should be made by the various undertakings.

## COMMERCIAL FREEDOM

55. In the new circumstances it would not be reasonable to leave the railways subject to out-of-date restrictions on their commercial activities.

### Fares and Charges

56. 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.

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

### Freehold and Leasehold Property

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

### Pipelines

59. 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 the railways, powers to lease, provide and operate pipelines on their property.

### Coastal Shipping

60. 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

61. 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

62. 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 country and best for the undertakings. They put these proposals forward as providing the best opportunity for the various undertakings, and especially the railways, to become efficient and soundly based.

# THE NEW STRUCTURE

