

26 April 1984

PRIME MINISTER

THE BUS INDUSTRY

Mr Ridley's radical proposals deserve the warmest welcome.

The 1980 deregulation of long distance bus services was arguably this Government's greatest liberating move in the transport field. For thousands of travellers and holiday-makers it opened up visibly greater choice of travel modes and lower fares.

Mr Ridley is now proposing to extend deregulation and competition to stage carriage (short distance) services in cities, towns and the countryside. He is also proposing to make it easier for smaller operators and small vehicles to compete with the large subsidised operators of big buses. The gains will reach into many thousands more homes, to the benefit of travellers, ratepayers and taxpayers alike.

1. WHY CHANGE?

The growth of mainstream bus subsidy during the 1970s and 1980s makes appalling reading:

<u>£million</u>	<u>1969</u>	<u>1972</u>	<u>1979</u>	<u>1982</u>
Revenue Support	1	10	185	490
Concessionary Fares	1	12	137	235
Fuel Duty Rebate	c.7	21	60	93

And there are other smaller categories of expenditure. Within these bloated totals, the Mets have grossly overshot their provisions, which means that large parts of the total subsidy are effectively out of control. Yet because the money is widely scattered, the public probably does not appreciate that the bus industry costs the nation:

- nearly as much as coalmining;
- more than British Rail;
- more than BL, British Steel and British Shipbuilders put together.

Cutting back bus subsidy to White Paper levels without structural change in the industry will destroy many services, and the Government will take the blame. If

services are maintained, but without structural change, subsidy will continue to soar. So doing nothing is not an option.

2. WHY DEREGULATE?

Only the persistent frustration of market forces could have produced a situation such as we now have, and only the public sector could have kept it up for so long. For over 50 years local monopoly operators have suppressed competition by the rigid application of quantity licensing through the Traffic Commissioners and by 'coordination' of services with the railways. The bus industry is now very nearly all in the public sector, so it has been able to dip shamelessly into the public purse. Subsidy has not just leaked into inefficiency - it has flooded. While the volume of bus passenger journeys fell by 30% over the ten years to 1982, real fares rose by 30%, and the real value of revenue support 14 fold!

The only effective lever now available to Government is competition through deregulation. Because that is largely unmapped territory, Mr Ridley's working group looked at tentative forms of deregulation - for instance, by area, by vehicle type, or by operator type. But the boundaries between regulation and deregulation would be so absurdly unmanageable as to rule out partial remedies.

3. WHAT WILL THE RESULTS OF DEREGULATION BE?

In precise terms we do not know, because no-one under the age of about 75 will have adult recollections of a deregulated bus industry. But overseas experience, and the three UK Trial Areas for deregulation, confirm that the system does not fall apart the moment regulation is lifted.

Subsidy will certainly come down, probably very dramatically.

In conurbations, more competing services will arise, so road congestion and buccaneer driving are held up as adverse possibilities. The existing law, coupled with Mr Ridley's more stringent quality controls will take care of driving standards. As to congestion there will be a trade-off between more public service vehicles and fewer cars. We cannot predict where the new balance will lie; but cost is decisively influential in determining travel patterns, so reduced public transport costs arising from competition should persuade more motorists to leave their cars at home.

Rural areas are not going to be stripped of services. The rural bus market has been in retreat since the 1950s. In

deep rural areas, there can be little or no route cross-subsidy left to reduce through competition. In rural areas skirting conurbations, the loss of cross-subsidy could bite, but it remains open to local authorities to invite tenders for routes which they regard as socially important. The Shires will have, for deep rural and semi-rural areas alike, either more services for the same money or the same services for lower subsidy - or most probably a combination of the two. Above all, we should note that the Shires are not big spenders or overspenders. So they are not targets in the sense that the Mets are.

4. WHO WILL OPPOSE THE PROPOSALS?

Nearly everybody in sight. We will have a re-run of the 1980 opposition to long-distance bus deregulation - but look at the benefits.

Within E(A)

Patrick Jenkin is vehemently opposed to Nicholas Ridley's proposals on the grounds (a) that we risk decimating rural services; and (b) that abolition of the Mets will be needlessly complicated. On the latter point, we believe that Patrick needs bus deregulation to help him win the local authority spending battle. Abolition and rate-capping will not by themselves put matters right. Furthermore, he must also see that deregulation must precede abolition. If it is done the other way about, transport precepts will have to be contained with a severity which will drastically raise fares and/or destroy services.

Mr Younger has come to a pragmatic view which we find entirely acceptable.

We hope that Employment could take the long view. There must be an initial shake-out of labour - current inefficiencies make that inevitable - but other services will arise, especially in conurbations. And downward pressure on fares can only help the greater labour mobility we need so badly.

We would expect Treasury and DTI to weigh in heavily on Mr Ridley's behalf. Subsidy reduction on the scale suggested is a glittering prize, and so is the opening up of competition into this over-regulated, moribund market.

Outside Cabinet

Our own MPs will be nervous, especially those in rural areas, but careful presentation of the facts and thinking could reassure them. Mr Ridley has already taken steps to safeguard the provision of concessionary bus travel in London, and he has the benefits of the 1980 deregulation

to point to. He is very obviously no butcher of bus services.

Consumer bodies will probably display the same nervousness as MPs, but the same counter arguments apply.

Resistance from the management of the National Bus Company (and especially from Alfred Sherman, who is advising them) could be bitter. They are keen to see NBC privatised whole - with an annual subsidy of nearly £150 million before deregulation and a dominant position afterwards. We must stand firm on our principles of competition and subsidy reduction.

Finally, bus and rail unions will react with Luddite arguments, since new, more efficient bus services will challenge existing bus and rail operations, where there is vast scope for efficiency gains. Self-evidently, the interests of travellers, ratepayers and taxpayers should take priority.

5. RECOMMENDATIONS

We strongly support:

i. the three main measures to stimulate competition:

- deregulation across the nation (ie outside London where separate legislation is now going through the House);
- transparency of subsidy, and tendering as a condition of subsidy;
- the breakdown of PTEs into smaller units, the conversion of Municipal Operators into limited companies and break-up of NBC in conjunction with privatisation.

ii. two measures which will encourage alternative forms of public road transport, especially in less populated areas:

- the creation of shared taxis and the abandonment of quantity controls on taxis outside London;
- the even-handed treatment of minibuses and traditional buses.

iii. The reassurance of undiminished safety standards:

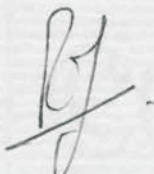
- bringing London hire cars under quality licensing

We urge E(A) and the eventual White Paper, to emphasise that deregulation should improve rural services, not threaten them.

We recommend that Mr Ridley should make his mind up on Fuel Duty Rebate. This concession is worth nearly £100 million

to bus operators. It would be a sizeable distortion in a deregulated market. We could not afford to extend the rebate, even if it had any underlying logic about it, so it should be phased out.

This radical package of measures is not one which should be taken to pieces so that the easy bits can be enacted and the difficult ones left to gather dust. Successive Transport Ministers have acquiesced for decades in 'protecting' consumers from a competitive market in bus transport; bus usage and services have declined nevertheless; and subsidy has gone from nearly nothing to nearly a billion in 15 years. The time has come to say, 'Enough is enough'.



ROBERT YOUNG

1) Fewer fewer people want to
travel by bus.

? withdrawn

2) Fares held down in Del.

People kept on whole passenger
falling.

Easiest way of reducing subsidies
is to put fares up

3) Rural areas - bus services will continue
to decline.

Cost per passenger mile - rising.

Post-buses - community buses

How much extra subsidy may be
required in rural areas

T.B. - much more flexible
systems required

4) Innovative grant,

Can't do nothing.

Operator's licence

Driver's licence

Vehicle test.

Conduct of interview standing.