



CONFIDENTIAL

P.01286

PRIME MINISTER

The Bus Industry

E(A)(84)21, 25 and 26)

BACKGROUND

In its Election Manifesto the Government said that it would aim to introduce substantial private capital into the National Bus Company and to relax bus licensing further to permit a wider variety of services. The Cabinet have agreed (CC(84)8th Conclusions) to include a Public Transport Bill in the 1984/85 Session.

FLAG A

2. The Secretary of State for Transport's proposals, summarised in the Annex to E(A)(84)21, are intended as the basis for a White Paper in the Summer. To increase competition and bring costs ^{down,} he proposes:

FLAG B

(i) the removal in all parts of Great Britain except London of the requirement for road service licences for local bus services; and

(ii) progressive adoption of a system making all subsidies to local bus services overt and dependent on competitive tendering.

To enhance the effect on competition and mitigate possible unwelcome effects, he proposes:

(iii) replacement of the duties of county councils to plan and coordinate public passenger transport with a power to ensure provision of necessary transport not supplied by the market;

CONFIDENTIAL

(iv) accompanying the subsidy changes, breakdown of the Passenger Transport Executives (PTEs) and National Bus Company (NBC) into smaller, less market-dominant units prior to privatisation of the latter and at least some of the former; and a requirement on district councils to run their transport undertakings as separate companies;

(v) legislation to result in the dwindling away of quantity controls on taxis outside London; and to allow taxis to operate on a shared, fare-paying basis like buses;

(vi) retention and strengthening of quality controls;

(vii) 'pump-priming' grants for replacing lost services in rural areas and the easing of restrictions on running mini-buses for community services.

3. The proposals apply to Scotland and Wales, as well as to England. The Secretaries of State for Scotland and Wales have responsibility for local authority transport services in their areas and the Secretary of State for Scotland has responsibility for the Scottish Bus Group (SBG). Separate papers have been put in by the Secretary of State for Scotland (E(A)(84)25) and the Environment (E(A)(84)26). Their main worry is about the political implications in the rural areas.

FLAG C
FLAG D

MAIN ISSUES

4. These are, as the Secretary of State for Transport acknowledges, very radical proposals affecting a matter of interest to ordinary people throughout Great Britain, and they will be an important part of next Session's legislative programme. The political opportunities and risks will need to be weighed carefully. The main issues are:

CONFIDENTIAL

- i. is deregulation of local bus services outside London desirable, taking account of economic, social and political considerations?
- ii. do the proposals fit satisfactorily with the Government's other proposals relating to local government?
- iii. are the privatisation proposals adequate?
- iv. should there be special arrangements for Scotland and Wales?

Economic considerations

5. The economic arguments in favour of the proposals are clear. By removing the possibility of cross-subsidisation they are designed to eliminate unprofitable bus services except where the taxpayer or ratepayer is prepared explicitly to subsidise them. Free competition will also drive out inefficient operators and this should reduce the costs of services, both those which can be run commercially and those which have to be subsidised. It should however be kept in mind that a key resource for the operator - road space - is being provided free. This resource is particularly valuable in the conurbations. There is the possibility of over-provision of transport and increased costs of congestion in the conurbations. Should officials be asked to do further work on licensing systems based not on administrative criteria but on payments (eg auctioning systems or systems relating licence changes to estimates of congestion costs)?

6. The proposals do not apply to London. Critics of the proposals will ask why, if they bring economic benefits, these benefits are to be denied to London. There may well be explanations which could be given, for example that road space



CONFIDENTIAL

is so exceptionally valuable, and the cost of congestion so high, in central London that a greater degree of regulation is desirable there; or that the Government will achieve similar results in London by different means. It is however important to the political assessment of Mr Ridley's proposals to look now at this aspect of the argument. Unless the reasons for different treatment are convincing, the Sub-Committee may well wish to ask Mr Ridley to suggest how deregulation might be applied in London.

7. The outcome for public expenditure is difficult to judge. Mr Ridley acknowledges that in the short-term the removal of cross-subsidisation may increase expenditure on explicit subsidies to bus services. The introduction of new tendering procedures may also carry a manpower cost (estimated at 100-350 staff or £3-5 million). The costs of supporting rail services might increase by £10-20 million and the cost of social and health services in sparsely-populated areas by £10-30 million. The public expenditure benefits, which will arise from the effect of increased competition in reducing operating costs (and thus subsidies), will tend to emerge over a longer timescale and Mr Ridley accepts that it is not possible to quantify them.

Social considerations: urban and rural

8. In the conurbations the main effects of the proposals are likely to be: greater frequency and wider choice on the high-flow routes possibly offset by some delays resulting from congestion; disappearance of services on some low-flow routes, offset by the appearance of new, more flexible, if perhaps less predictable, services by taxi and mini-bus operators; and in general a less integrated and coordinated transport network. As the public become accustomed to the new arrangements and the benefits of low fares on high-flow routes become apparent, the social effect in the conurbations might be viewed as one of swings and roundabouts.

CONFIDENTIAL

9. There is however more difficulty about the rural areas. Services are declining there already and it may be that deregulation would have little real effect in accelerating the decline. It would however be argued that any further decline was the result of the Government measures. The Secretary of State for the Environment therefore proposes that officials should be instructed to consider whether rural areas could be excluded from the scope of deregulation, or the option of a progressive staged approach. But these suggestions do not seem likely to achieve the objective of protecting rural communities. Deregulation in the urban areas will lead to greater competition and a reduction in the profits made on routes in those areas. It is those profits which are at present a main source of the cross-subsidy to routes in rural areas. Deregulation in urban areas alone would therefore reduce the resources which are available for cross-subsidy of rural areas, while withholding the benefits of competition from rural areas.

10. These arguments suggest that if Ministers wished to protect rural areas it might be better to confine deregulation precisely to those areas. However, Mr Ridley argues against this on the grounds that it is in the conurbations that the greatest gains from deregulation can be secured. (Certainly it is in the conurbations that the largest subsidies are paid from public funds, and where the greatest opportunities for reducing public expenditure exist). The Secretary of State for Scotland's conclusion, though with misgivings, is that, if there is deregulation, it ought to be complete (E(A)(84)25 paragraph 4).

Local government aspects

11. In the wake of the abolition of the Metropolitan County Councils and the introduction of rate-capping, the changes will be controversial with local government. Some authorities which favour privatisation and contracting-out could be expected to welcome the proposals. Others would oppose on political

CONFIDENTIAL

principle wider competition in local bus services and the pressures it might impose on fares and services. There might be more general criticism if there were no undertaking by the Government to match any initial increase in demand for subsidy with additional resources. The complexity and cost of the tender-linked subsidy system, and even its practicality, might be criticised by some authorities.

12. The proposed restriction of the local authority role in public transport is the focus of a disagreement between the Secretaries of State for Transport and for Wales which Mr Edwards is likely to raise. Mr Ridley has argued that it would be wrong in present circumstances to give local authorities more transport responsibilities or to transfer to them subsidies presently distributed through the central Public Service Obligation grant for railways. Mr Edwards wishes to raise in his proposed consultation paper on 'Local Choice in Public Transport' the possibility of transferring control of rail services to the County Councils, along with some resources from the PSO grant. You will not wish the Sub-Committee to digress into the substance of this proposal at the present meeting, but it will be necessary to ensure that the Welsh consultation paper reflects the decisions of the Sub-Committee on buses.

13. The Secretary of State for the Environment raises (E(A)(84)26 paragraphs 9-11) the question of how Mr Ridley's proposal for the break-up of PTE operators into smaller units squares with the procedure outlined in paragraph 2.24 of 'Streamlining the Cities':

"The Government..... will be prepared to consider on their merits any proposals by individual districts to provide separate services and to enter into contractual arrangements with other operators


CONFIDENTIAL

14. Mr Ridley is likely to argue that secession by individual districts would not be prevented by his proposals provided that the municipal operators were run as separate companies subject to the proposed competitive subsidy regime. You will wish to establish whether this is acceptable to Mr Jenkin. Any exemption from the company structure requirement for the metropolitan districts would be an important departure from Mr Ridley's proposals.

Privatisation

15. Mr Ridley proposes that PTE and municipal operators of bus services should be turned into companies and that this can be achieved by 1987/88. He also proposes that the National Bus Company should be broken down into a number of units and privatised over a period of time.

16. The Sub-Committee will wish to consider whether this is the right approach, particularly as regards the NBC. Privatisation of the NBC as a whole would secure a higher price and an earlier and more certain return to the Exchequer; but it would run contrary to the thrust of the deregulation strategy, by inhibiting the growth of competitive bus services. On the other hand, waiting for such services to develop on a sound basis before individual parts of the NBC can be sold may mean little if any Exchequer proceeds from the privatisation of NBC within this Parliament. Are the Sub-Committee content for the interests of competition to be given priority?

17. You will probably wish to invite the Ministerial Sub-Committee on Disposal of Public Sector Assets (E(DL)) to consider the details of privatisation.

Scotland and Wales

18. The Secretary of State for Wales will wish to indicate whether he dissents from the proposal that the changes in the Annex to


CONFIDENTIAL

E(A)(84)21 should apply in Wales. In E(A)(84)25 the Secretary of State for Scotland says that:

- a. he is content to adopt in Scotland the subsidy system proposed, provided he has flexibility on the timing of introduction;
- b. action in Scotland on the structure of the industry should be confined to a reserve power for the break-up of the PTE and imposition of a company structure for the three municipal operators; and
- c. he agrees broadly with proposals for liberalising taxi operations.

The Sub-Committee, and the Secretary of State for Transport in particular, will wish to say whether they are content with this; and with Mr Younger's proposal that the Scottish Bus Group should not for the time being be privatised.

Taxis

19. The Home Secretary will not attend but has said that he is content with the proposals in E(A)(84)21 as they affect taxis.

HANDLING

20. You will wish to invite the Secretaries of State for Transport, the Environment and Scotland to present their papers and the Secretary of State for Wales to give his views. The Chief Secretary, Treasury will wish to comment on the economic and public expenditure implications. Most members of the Sub-Committee are likely to have views on the political reaction to the proposals in Parliament and elsewhere.

CONFIDENTIAL

CONCLUSIONS

21. You will wish the Sub-Committee to reach conclusions on the proposals summarised in the Annex to E(A)(84)21, and in particular on the following:

- i. Should the provision of local bus services be completely deregulated outside London?
- ii. Should any further work be done on ways of protecting rural areas?
- iii. Should the powers of local authorities be restricted:
 - a. by replacing the duty of county councils to plan and coordinate public transport by a power to secure transport beyond what the market would provide;
 - b. by making their powers to pay subsidies to bus undertakings dependent on competitive tendering?
- iv. Should the Board of the National Bus Company be told to break the company up into smaller units and to transfer them to the private sector?
- v. To what extent should the changes approved by the Sub-Committee extend to Scotland and Wales?

Pg
P L GREGSON

14 May 1984



10 DOWNING STREET

From the Private Secretary

Prime Minister

I think you have already looked at
Mr Ridley's papers and the Policy Unit note.
You will also want to see the Cabinet
Office brief, plus papers by the
Secretaries of State for Scotland^(C) and for
the Environment^(D), plus minutes from^(F)
Lord Pym Seal^(E), Secretary of State for Wales^(F)
and Ministers of Agriculture^(G).

AT

15/5



PRIME MINISTER

THE BUS INDUSTRY

1. I am afraid that I shall be unable to attend the meeting of E(A) on 16 May as I have to give evidence to the Select Committee on European Legislation on that day. However, I thought it might be useful if I were to give you my views about the three papers which will be discussed by the Committee.

2. As Nicholas Ridley so rightly recognises, what he is proposing is a very radical change in the system of public transport. I very much hope that the results he expects will be achieved, but I know that they must be some time in coming and the intervening period will be very difficult. My main doubt is basically that suggested by Patrick Jenkin; whether we should not in some way attempt to protect the rural areas. On the whole, however, I feel that this will not be achieved by exempting them from deregulation. What is required in rural areas is a much more flexible system of public transport, which will enable the relatively small numbers of people involved to be carried to their destination with the minimum of overheads. In my view, therefore, any question of helping the rural areas should concentrate much more on stimulating the supply of this sort of small scale transport.

3. I should in addition like to make two small technical points. The timetable for this Bill assumed that it will be introduced in October/November of next year and that as a result instructions will be sent to Parliamentary Counsel by the end of June. This is looking somewhat unlikely in the light of the slippage of the policy timetable. I hope therefore that every attempt will be made to publish the White Paper as soon as possible and for the necessary decisions

to enable Parliamentary Counsel to be instructed to be taken as soon as possible thereafter. One other small point on timing; paragraph 1 of the Annex to Nicholas Ridley's paper refers to the deregulation provisions taking effect in July 1985. I suspect that is somewhat optimistic, in view of what we shall be faced with next Session. I think therefore that at this stage it would make more sense for the Department of Transport to base their plans on the assumption that Royal Assent might be delayed until as late as October 1985.

4. I am copying this minute to the Lord President, other members of E(A), the Chief Whip and Sir Robert Armstrong.

WJB

J.B.
14 May 1984



From the Minister

CONFIDENTIAL

PRIME MINISTER

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

15 May 1984

THE BUS INDUSTRY

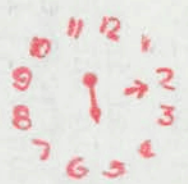
I have seen Nicholas Ridley's Memorandum on the bus industry (E(A)(84)21) and the subsequent Memorandums by Patrick Jenkin and George Younger commenting upon the proposals for the deregulation of local bus services and the resultant impact on rural areas.

Agriculture is of course the principal industry in many rural areas, and its ability to attract and retain the skilled labour required for its efficient operation is to a large extent dependent on the maintenance of a viable rural community. I therefore view with concern the possible effects of the proposals contained in E(A)(84)21, and I very much share the views of Patrick Jenkin as set out in E(A)(84)26. I am also very concerned at the political implications of deregulation in rural areas, and on this point I fully support the arguments George Younger puts forward in E(A)(84)25. There can be no doubt that the introduction of the supplementary levy on milk has been deeply unpopular among the farming community, and the continuing growth of surpluses in other sectors, combined with the current restraints in the community budget, mean that further cutbacks in agricultural production are likely. These developments have had, and are likely to continue to have, adverse effects on our traditional support in rural areas, and I do not feel that it would be wise to take a step that would strengthen the impression that we are insensitive to the problems of those who live and work in the country. I hope therefore it will indeed be possible for officials to examine the possibility of excluding rural areas from the scope of deregulation.

I am copying this minute to the members of E(A) Committee and to Sir Robert Armstrong.

MICHAEL JOPLING

15 MAY 1984



REPRODUCTION OF THIS DOCUMENT IS PROHIBITED BY THE NATIONAL ARCHIVES

cc NO.

F

Prime Minister

I have not so far troubled
you with the correspondence
at X.



mt

AT 15 15

CONFIDENTIAL

THE PRIME MINISTER

THE BUS INDUSTRY

I have read the Memorandum by the Secretaries of State for Transport, Scotland and the Environment which are to be discussed at the meeting of E(A) on Wednesday. I think it might be useful to colleagues if I give some comments of my own beforehand.

Nicholas Ridley recognises that his proposals are radical and controversial and I sympathise with the view that major changes may be needed in this field. However I have noted what Patrick Jenkin and George Younger have said about the need for caution and I share their concern. If colleagues decide to endorse the proposals we shall need to ensure that the subsequent consultations are handled with care and sensitivity. It is important to recognise that the proposals (whatever their intrinsic merits) will be seen by both our supporters and critics not in isolation but in the wider context of what else is happening especially in rural areas. We can expect a further hostile reaction from local government and Welsh authorities will point out that their subsidy to the bus industry is currently close to planned provision. Certainly local authorities in Wales are not overspending in the same way as certain Metropolitan authorities. Moreover the counties are supporters and users of bus services eg for school transport purposes, and they are bound, for this reason as well, to be very concerned at changes which will affect those services. I am particularly anxious about the reaction of the rural areas who on the face of it stand to lose if the NBC network is truncated: our opponents will be quick to claim the proposals as proof of a supposed indifference on our part to the future of these areas. The reaction in Wales, as elsewhere to the recent milk settlement has been hostile, and it will not be happy if the bus industry proposals aggravate this.

X

Two specific points concern me. First, we need to resolve the question of my proposed consultative paper on Local Choice in Public Transport. Colleagues will have seen the correspondence between Nicholas Ridley and myself. I have to emphasise again that the proposed paper is a Manifesto commitment and E(NI) agreed last September that the commitment should be met. I have tried to help Nicholas Ridley by deferring publication (in spite of considerable pressure within Wales) until we had his proposals for the Bus Industry. I do not think I should delay any longer. I see no contradiction between my proposed paper and his proposals. On the contrary they can be regarded as complementary. We are both talking about choice. My paper extends this element of choice to local rail services which in some cases might face direct competition from new services which could emerge as a result of Nicholas's proposals. I see no reason therefore why its publication should cause difficulty and I shall be asking colleagues to agree to my issuing it.

/Secondly



Secondly, Nicholas's paper proposes an innovation grant for services in rural areas and he suggests the Development Commission might administer this grant. The Commission's functions are undertaken in Wales by the Welsh Development Agency and the Development Board for Rural Wales and we shall need to have separate arrangements to cover the Principality: it may be that I should assume the necessary powers in Wales if the proposals are accepted.

/ I am copying this minute to Nicholas Ridley, George Younger, Patrick Jenkin, the other members of E(A); and to Sir Robrt Armstrong.

L.D.

15.v.84.

Approved by the Secretary of State
and signed in his absence