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PREM 19/1196

PART TEN

MT

174

CONFIDENTIAL FILING

Policy Towards:-

Privatisation

Disposal of Public Sector Assets

Contracting Out of Public Sector Functions

ECONOMIC

POLICY

PE1: JUNE 1979

PE10: JUNE 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>2.6.84</del>							
<del>16.6.84</del>							
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PREM 19/1196

MATERIAL USED BY OFFICIAL HISTORIAN  
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PART 10 ends:-

SS/Wales to CST 31/7/84

PART 11 begins:-

SS/Transport to SS/DTI 2/8/84



## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

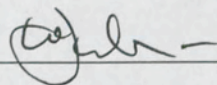
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House of Commons HANSARD, 11 July 1984, columns 1333 to 1340: Sealink UK Ltd

House of Commons HANSARD, 12 July 1984, columns 1381 to 1392: Bus Industry.

House of Commons HANSARD, 28 June 1984, columns 1167 to 1172: Enterprise Oil.

Signed



Date

13/09/2013

**PREM Records Team**

COL

pa



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GWYDYR HOUSE  
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Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

31 July 1984

*De Rees*

VAT AND CONTRACTING OUT : HIGHWAYS

I wrote to the Chancellor of the Exchequer on 23 July in support of Nicholas Ridley who had protested about the extension of VAT to highways improvement work. I have since seen a copy of your note of 18 July to the Prime Minister about the general relationship of VAT to contracting out, which covers this issue.

I am glad that you have been able to accept that the scope of Clause 11 should be widened so that roads departments can reclaim VAT in these circumstances. It is not quite clear how this is to be given immediate effect (it would be silly to have to pay VAT only in the current year) but no doubt you will find means of doing so.

Apart from that technical aspect, the thing which now concerns me is the proposition towards the end of your minute that the removal of this new VAT charge would be an "unintended benefit to the roads programme at a cost to the PSBR" which needs to be reflected in a deduction from the roads programme provision. This is nonsense. Provision for the roads programme was intended to pay for the building of roads. The totally unexpected imposition of VAT on that part of our construction work which we carry out through the private sector meant a cut in the work which could be done for the same amount of money. If you had been unable to agree to effectively lift the new VAT charge then you would have faced a demand for additional PES provision to cover this. Otherwise you are seeking to bring about cuts in departmental programmes through taxing central government spending instead of through the survey process, to say the least an odd way of going about things and not one which is acceptable. It would be quite wrong to make any off-setting deduction as you suggest.

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury

/I am ...



/ I am copying this letter to the other members of Cabinet  
and to Sir Robert Armstrong.

*J. C.*  
*Ned*

*ECOW P07*  
*Privatiz<sup>n</sup> A10*

CONFIDENTIAL

10

7573  
7574 (106)



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

CG NO

NBSBM

AT 218

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

30 July 1984

Dear Peter

VAT ON HIGHWAYS

18 July -  
at HAP

Thank you for your letter of 19 July amplifying your  
minute to the Prime Minister.

I am glad that you are prepared to remove the potential  
distortion between work placed through consultants and local  
authorities. However, as you expected, I do not find the  
proposals altogether satisfactory. I really cannot see any  
point in going through the motions of determining whether  
individual items of work are chargeable to VAT, collecting  
it and then refunding it. Setting up a procedure  
reminiscent of the selective employment tax is totally at  
odds with our drive for better financial management and  
savings in manpower and administrative costs. Moreover we  
shall have to hand over 1 per cent - soon 1.4 per cent - to  
Brussels. Could you have another look at this?

I believe it is vital that we should at least have  
clear and sensible rules for determining liability which  
do not involve trying to differentiate between the operations

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carried out within a single contract. Patrick Jenkin's suggestion that the approach should err on the side of generosity would of course help to reduce the amount of unnecessary work.

In any case, I cannot accept that my PES provision for future years should be reduced to reflect the VAT that would be paid on that amount of work on alterations which is already placed directly with the private sector. (I understand you do not propose to ask for a bigger reduction if the amount of VAT that has to be paid and refunded is increased in future.)

We cannot expect any benefit to the PSBR from levying a tax on a Government Department. Moreover the amount involved is quite fortuitous, depending on decisions which have been taken about the commissioning of particular contracts for quite different reasons, and uncertain in the absence of workable rules. In effect it amounts to a penalty for pursuing a policy of commissioning work through the private sector - the more successful I have been so far the harder my programme is hit. I am quite prepared to discuss the size of my programme with you, on merits, in our forthcoming bilateral. But I cannot agree to an arbitrary cut as a side effect of a tax decision which was taken without reference to its effect on the road programme.

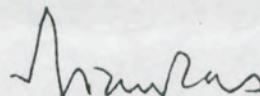
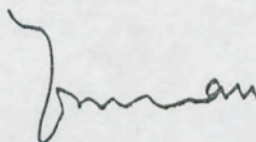
Finally I hope you will be able to agree that my programme should not have to bear the VAT liability in the current year, which we estimate to be up to £10m. Reductions in the cash limit in the middle of the year have a very disruptive effect on the programme. We had to hold up

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urgently needed work as the result of the July reduction last year. While I am prepared to accept difficult decisions when they are required in the interest of overall economic management, surely long term capital programmes should not be subject to turbulence of this kind?

Given the problems which the proposals create, I hope you will be prepared to reconsider your proposals. As I said in my letter of 3 July, the simplest and most straightforward solution would be to zero-rate all highways work. I believe that would be defensible in its own right and would not open the door to pressures on other fronts. I also hope that you will be prepared to consult colleagues in future if you are considering tax changes which directly affect their programmes.

I am copying this letter to George Younger, Nicholas Edwards and Patrick Jenkin.



NICHOLAS RIDLEY

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ECM PR PT10

Privatisasi

Prime Minister ①

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File ECOL

Agree a letter on these lines?

MR TURNBULL

AT 2817

No. 1 think it needs further discussion  
27 July 1984

CONTRACTING-OUT OF LOCAL GOVERNMENT SERVICES

Patrick Jenkin's officials have been working slowly but steadily on new proposals for contracting-out local government services. They now envisage a Bill in two parts:

- i. Part 1 would compel local authorities to establish fair competitive tendering for certain services such as refuse collection, where the value of contracting-out has already been established by authorities like Wandsworth and Birmingham.
- ii. Part 2 will instruct each local authority to report on the true costs of other in-house services which have not yet been contracted-out anywhere, and on the comparison between those costs and local private sector charges.

This would not be too far the next session when DoE has bigger fish to fry.

The Bill would give the Secretary of State power to inspect the reports made under Part 2, and to use that information as grounds for putting a given service or function on the list for compulsory tendering.

This plan seems perfectly sensible. It will immediately achieve the desired effect in the easy services, and will give government sufficient information and power to extend the principle of competition further in due course.

But at meetings of the interdepartmental group considering the proposals, officials from several departments have expressed strong reservations, and there is still a danger that the plans will be neutered before they reach Ministers. There is also a danger that the whole project will be ruined by vain efforts to produce watertight controls on tendering practices. It would therefore be helpful for the Prime Minister to express her strong support for the principle of competition, and her wish to see rapid, effective action.

We recommend that you should write to John Ballard in the following terms:

"The Prime Minister has seen a copy of your Secretary of State's letter to the Chancellor of the Exchequer about contracting-out in local government. She is glad to hear that work on draft proposals is under way.

She recognises that it will not be possible to introduce compulsory tendering for all local authority

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functions immediately; but she hopes that a regime of this sort will be applied to as many functions as possible. Like your Secretary of State, she attaches great importance to increasing the efficiency of local government, and she regards competitive tendering as much the most promising means of achieving this result.

She doubts whether it will ever be possible to produce a watertight Bill; but she is keen to see something reasonably effective, straightforward and wide-ranging on the statute book as soon as possible."

*O. Letwin.*

OLIVER LETWIN

Privatiz<sup>5</sup>

8.10





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*CE/NO*

*NBS/17*

*AT 26/7*

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H OET

26 July 1984

*Dear Norman,*

NATIONALISED INDUSTRY REFERENCES TO THE MMC: SCOTTISH BUS SERVICES

Thank you for your letters of 5 and 23 July. I was disappointed to hear that our officials were unable to reach agreement when they met last week.

*will request if required*

I should like to dispose first of a small point. This proposed bus reference, and the earlier proposal to refer an aspect of the Scottish airports, are quite unrelated. When we were discussing the proposed airports reference at the end of last year, we had already agreed that there should be a bus reference. I have never sought to argue in principle against a reasonable quota of Section 11 references being undertaken in Scotland. Caledonian MacBrayne was done in 1982; I myself proposed aspects of Scottish bus services for 1984; and the two Scottish electricity boards are to be done in 1985. I therefore see no grounds for implying, as you seem to do, that I am seeking to shelter Scotland from this programme of references.

I have however now proposed that the bus reference be dropped, because circumstances have changed. We must be prepared to adapt our ideas and plans when the ground shifts beneath us, particularly when we have caused that shift ourselves as a matter of deliberate policy. It may be helpful if I go over the ground again.

When I proposed this reference last autumn, we had not yet embarked on the study of the future of the bus industry, which has now given rise to the proposals set out in our recent White Paper. Implementation of these proposals will lead to significant gains in efficiency without benefit of an MCC study. In any case, in the period immediately ahead, management in the industry will be fully pre-occupied in preparing for the forthcoming changes. You have said that

the effects of new policy on public sector operators will not be felt before 1986. But I would be surprised and disappointed if that was so. The legislative changes may not take effect until then. But the real change in the operating environment for the bus industry has already come, with the publication of our proposals. Public sector operators must recognise that if they are to survive under the new regime, they must begin to adapt their working practices and improve their efficiency immediately. I think they understand this perfectly well. I cannot accept the argument that an MMC reference now would help them adapt to the new regime: we know very well that, however well focused these references might be, they invariably take up a great deal of management time which a company would not necessarily choose to spend in that way. There is in any case a curious inconsistency in making general policy changes intended to increase the industry's efficiency and market-responsiveness, and at the same time prescribing for them our own procedure for becoming more market-responsive.

You suggested that my proposal would cause Nicholas Ridley presentational difficulties. But, as I now realise, he had already written to you on 25 June confirming his view that the proposed reference is now inappropriate.

I do fully recognise that there is some presentational difficulty in abandoning a reference which we have already announced, and in falling short of the quota of references we had hoped to achieve each year (though I recall that our declared intention was only to have "up to" six references each year). In order to be as helpful as possible, we have looked at two possible ways out of the difficulty:

- (i) we have considered whether some very minor and low-key bus reference could be made. This has been discussed with your officials. Nothing could be found which overcomes the fundamental objections to having a reference at this time; and I cannot in any case believe that it would be right to embark on such a reference, without expectation of real or substantial benefit, simply to keep the MMC busy. The suggested terms of reference enclosed with your letter of 23 July are "low-key" in the sense that a study based on them would be unlikely to produce embarrassing or newsworthy conclusions; but the effort involved for those directly concerned would be far from low-key.
- (ii) I had hoped that our officials could discuss the possibility of finding another reference to substitute for that on buses, thus allowing you to maintain your announced target of references for 1984. Since the year is already well advanced, that would realistically have meant bringing forward one of the proposed 1985 references. However I understand that you are not interested in this possibility.



In all the circumstances I do not see what more I can do to help. I hope that, on reflection, you will feel able to accept my view that it would be inappropriate to proceed with this reference now. The reasons for abandoning it can, of course, be readily explained in the context of our broader policy changes and should be generally acceptable against the background of the strong programme of references which have been assembled for 1985 (and which, of course, includes the two Scottish electricity boards).

I am copying this letter to members of E(NI) and to Sir Robert Armstrong.

Yours wv,  
George.

Privatisator: Felon Pol R10.



26 JUL 1984

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*BIP with P4  
response 1 ans*

*CCPD*  
2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

*25/7*  
25 July 1984

*Dear Nigel,*

CONTRACTING OUT OF LOCAL GOVERNMENT SERVICES

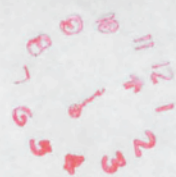
*P19*  
You will recall that at E(A) on 28 February I was asked to commission a report from officials on the legislative options for securing more contracting out of local government services to the private sector and to bring forward proposals before the Summer Recess. A considerable amount of work has been done but the range of functions/activities to be considered and the number of departments involved have meant that the exercise will take rather longer than we had hoped. Treasury officials have been kept in touch with developments but I thought it appropriate that I should bring colleagues generally up to date.

The starting point for the review, as E(A) recognised, has to be the compulsory tendering regime introduced for local authority Direct Labour Organisations (DLOs) in 1980. Whilst this is generally considered to have been successful in securing its primary objective of increasing the efficiency and accountability of DLOs there is less certainty about the extent to which it has actually resulted in work being won by the private sector. There is little doubt, however, that DLOs have been slimmed down as a result of the requirement to compete for the majority of their construction and maintenance work.

It is, perhaps, significant that the main pressure for legislation to secure greater contracting out by local authorities relates to other largely manual functions, eg refuse collection, cleaning, ground maintenance and perhaps catering. The provisional view of the interdepartmental group of officials which is looking at this issue is that there appears to be no reason in principle why we should not extend to such functions a compulsory tendering regime similar to that already in force for DLOs.

Clearly we would need to look more closely at this when final recommendations come forward, but it would seem to be a logical next step for us to take. It would also meet the primary recommendation in the recent CBI paper "Effectiveness in Public Service". Colleagues should be aware, however, that implementation of such an extension of the present regime would involve departments other than my own and we would

Privatisator: Felon Por P10.



26 JUL 1984

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*DIP with P4  
response 1 ans*

*copy*  
2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

*25/7*  
25 July 1984

*Dear Nigel,*

CONTRACTING OUT OF LOCAL GOVERNMENT SERVICES

*PT 9*  
You will recall that at E(A) on 28 February I was asked to commission a report from officials on the legislative options for securing more contracting out of local government services to the private sector and to bring forward proposals before the Summer Recess. A considerable amount of work has been done but the range of functions/activities to be considered and the number of departments involved have meant that the exercise will take rather longer than we had hoped. Treasury officials have been kept in touch with developments but I thought it appropriate that I should bring colleagues generally up to date.

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Clearly we would need to look more closely at this when final recommendations come forward, but it would seem to be a logical next step for us to take. It would also meet the primary recommendation in the recent CBI paper "Effectiveness in Public Service". Colleagues should be aware, however, that implementation of such an extension of the present regime would involve departments other than my own and we would

need full commitment and support if legislation was to be effective. Contracting out of school cleaning, for example, would be very much a matter for DEs to monitor and control.

Specific action on these particular functions is not, however, going to be sufficient to generate an attitude of mind which leads local authorities to assume that the private sector will be the normal supplier of many of its services. There is, as we have already recognised, a very wide range of activities currently carried out by in-house staff which could perfectly well be handled by the private sector.

On the other hand, there are limits to the extent to which Central Government can involve itself directly in the sort of detailed accounting, monitoring and, ultimately, enforcement provisions which experience suggests are essential if a compulsory tendering regime is not to be easily circumvented by an obstructive local authority. Officials' present view is that we may need to be selective in any immediate extension of a statutory compulsory tendering regime because:

- a. the detailed accounting and monitoring arrangements required in order to control the wide range of services, functions and activities which could be involved would add considerably to the bureaucracy at both Central and Local Government levels;
- b. compulsory tendering would not necessarily be the most appropriate way of securing contracting out for some services, for example professional services such as legal and architectural services;
- c. within a statutory regime different methods of costing and of financial targeting would be required for different areas of activity.

If one assumes for the moment that this view is accepted, and that we extend a compulsory tendering regime only to those blue collar functions referred to in paragraph 3, it may be argued that a relatively small proportion of local authority staff would be made immediately subject to competition. The table at Annex a shows the broad distribution of staff resources (full time equivalents) by department/function in English local authorities. It illustrates clearly the preponderance of staff engaged in activities (notably teaching) which would not be affected by legislation. Construction is, of course, already covered by the existing DLO legislation.

It needs to be borne in mind, however, that even functions with a relatively small proportion of total local government staff can involve very large programmes of expenditure. Refuse collection and disposal, for example, with less than 2½% of total staff, involves expenditure of the order of £6-£700m. Indeed, the total volume of work put out to tender if the functions referred to in paragraph 3 were subject to a compulsory tendering regime would be as great as the £2000m worth of construction and maintenance work opened up already.

Nevertheless, we need to guard against losing real opportunities through drawing criteria too closely, especially in the light of clear evidence that the general momentum of contracting out has declined. We would not need to take everything on board at once, indeed we might not wish to do so lest we laid ourselves open to charges of major additional burdens on local authorities. But any legislation would need to be drawn widely enough to allow subsequent extensions of the regime as necessary. Officials have these points very much in mind and I am sure that colleagues will wish to consider positively the opportunities within their own areas.

In order, however, to stimulate a more general recognition of the opportunities for contracting out, officials are also examining the implications of extending a second and different statutory regime to at least some of the functions not at present thought suitable for a full compulsory tendering approach. For activities subject to this regime authorities would be required:

- a. to assess and report the full costs of in-house provision; and
- b. to take appropriate steps to ascertain the availability and cost of alternative methods of provision.

The thinking behind this proposal is that such additional provisions would be largely self-regulating through reports (the conclusions of which would be available to the public) and audit examination and would progressively generate in authorities management accounting systems which would provide a realistic basis against which to assess what the private sector can offer. Coupled with the value for money studies by the Audit Commission and the recent development of comparative statistical and financial profiles, such provisions should provide an overall framework for the development of general contracting out initiatives. Powers would be taken to add functions to either the compulsory tendering or the costing regimes as appropriate. As it happens, the CBI paper to which I have referred above, also supports some such "two-tier" approach.

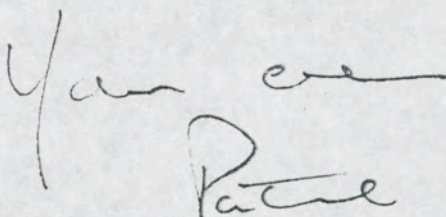
Apart from the issue of legislation, officials are also considering what other action might usefully be taken in order to advance the general cause of contracting out. The review has certainly shown that there is now a considerable body of experience of contracting out scattered among individual authorities but relatively little in the way of clear factual information available to authorities generally. Indeed, we ourselves would be assisted by the availability of more reliable information than the Press reports and third-hand anecdotes which are all that is currently available.

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The conclusion, therefore, is that consideration should be given to some selective case studies and possibility some sponsored experimental project in order to provide a basic store of knowledge. In addition, there may be scope for the production of some model standardized documentation which authorities can use or adapt as necessary. We have taken the first step in this general process of education with the publication on 20 July of the CIPFA Management Guide to Contracting Out in Local Government which was funded by my Department.

There is one further specific point which has been causing concern not only to my Department but also to Norman Tebbit and Tom King and that is the imposition by some local authorities of what are largely politically inspired conditions on either invitation to tender or contracts. Officials of our three Departments have been looking hard at this and they are hopeful that they will be able to include in their report suitable draft provisions to control this practice.

On timing I gather that preparation of the draft official paper is now well advanced and allowing for the intervention of the summer break I would hope to be able to bring a paper to E(A) by the end of September.

A handwritten signature in cursive script, appearing to read 'Patrick Jenkin', written in dark ink.

PATRICK JENKIN

PS: I am sending copies of this letter to the Prime Minister, members of E(CP) and E(A), Leon Brittan, Keith Joseph and Sir Robert Armstrong.



## ALL LOCAL AUTHORITIES (ENGLAND)

% DISTRIBUTION OF STAFF BY FUNCTION/DEPARTMENT  
(Excluding Law and Order staff)

	<u>Number</u>	<u>%</u>
Education (teaching)	513588	29.9
Education (non teaching)	361769	21.1
Social Services	207661	12.1
Construction	105862	6.2
Recreation - Parks and Baths	70027	4.6
Engineering Services	74111 (est)	4.3
Housing	54654	3.2
Refuse Collection & Disposal	39653	2.3
Fire Services	39063	2.3
Financial Services	41045 (est)	2.0
Secretarial Services	34849 (est)	2.0
Libraries & Museums	31597	1.8
Planning	19925	1.2
Architectural Services	20323 (est)	1.2
Environmental Health	19620	1.1
Transport Services	17787	1.0
Computing	9534 (est)	0.6
Miscellaneous Admin	8383 (est)	0.4
Estate Services	7070 (est)	0.4
Legal Services	5932 (est)	0.3
Personnel Management	4472 (est)	0.3
Management Services	4688 (est)	0.3
Consumer Protection	3535 (est)	0.2
Technical Services	3666 (est)	0.2
Miscellaneous	17517 (est)	1.0

TOTAL ..... 1716044

Note: Staff numbers include part-time staff expressed in terms of full-time equivalents.

Source: Joint Manpower Watch return March 1984.

Team for pt 10  
Privatization

23 JUL 1994

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JU847

Secretary of State for Trade and Industry

NBPM AT 24(1)

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
Telephone (Direct dialling) 01-215 5422  
GTN 215) .....  
(Switchboard) 215 7877

23 July 1984

The Rt Hon George Younger MP  
Secretary of State for Scotland  
Scottish Office  
Whitehall  
SW1A 2AU

NATIONALISED INDUSTRY REFERENCES TO THE MMC: SCOTTISH BUS SERVICES

Our officials have now discussed your wish to withdraw the planned Scottish bus reference from the 1983 programme of nationalised industry references to the MMC.

2 I mentioned the political reasons for demonstrating our commitment to the Section 11 programme in my letter of 5 July. If it were quite clear that a useful investigation of an organisation had become impossible, then I should be prepared to explain and defend a withdrawal. But in the present case, there does seem to me to be ample scope, and a strong case, for an investigation that will help prepare for the new competitive environment they face.

3 I have in mind the kind of low key managerial study by the MMC that has proved itself in relation to water authorities and area electricity boards. If bus undertakings are to shape up to their new circumstances, management will have to address themselves to issues such as the appropriateness of their structures, management information systems and working practices. I attach a draft of the kinds of question that might be asked. The MMC's skills and experience can guide management to the right conclusions and a report published in the spring could provide the right climate in which to accomplish change. I therefore see an October MMC reference, be it of the PTE or SBG or one of the municipal operators, as a timely complement to our objectives and not in any way a hindrance to them.



4 As I said in my letter of 5 July, I think it is relevant that none of the Scottish bus operators faces the prospect of privatisation and the particular stimulus to change that provides. Some external spur beyond the White Paper proposals seems to me justified in those circumstances.

5 I hope you will therefore reconsider your position and agree that the reference should proceed. If we cannot resolve the matter in correspondence we shall have to discuss it, although I gather that the agenda for E(NI) on 26 July is already very heavy and I would like to resolve the matter before the recess, as I am sure would you.

6 I am copying this letter to members of E(NI) and Sir Robert Armstrong.

*J. Norman*

NORMAN TEBBIT

DRAFT TERMS OF REFERENCE FOR MMC INVESTIGATION OF SCOTTISH  
BUS UNDERTAKING

The MMC shall investigate under Section 11(1)(a) of the Competition Act 1980 the questions set out below relating to the efficiency and costs of the Scottish Bus Group

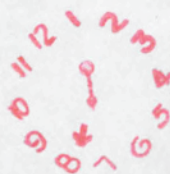
(i) whether the SBG could improve its efficiency and thereby reduce its costs without significantly affecting the quality of service provided, with particular reference to:

- (a) its management structure;
- (b) its management information and control systems, including the use of performance measurement;
- (c) its planning and appraisal of new investment and procurement;
- (d) its industrial relations and the flexibility of agreed working practices;
- (e) its procedures for maintenance of vehicles.

(ii) whether, in relation to any matter falling within question (i) above, the SBG is pursuing a course of conduct which operates against the public interest.

The Commission shall report on this reference within a period of six months beginning with the date hereof.

24 JUL 1954





10 DOWNING STREET

mb

From the Private Secretary

Prime Minister ②

I think John's judgement may be rather harsh. On gas, Mr Walker has broached the subject with Sir Denis Rooke but given the controversial nature of his proposals he needs to move carefully.

I doubt if a progress closing meeting will do more than irritate Ministers. Mr Walker feels that the references to BGC privatisation are unhelpful to him in the tricky task he is engaged upon.

No meeting at present  
mb.

AT

20/7

CONFIDENTIAL

PRIME MINISTER

19 July 1984

PRIVATISATION PROGRESS

John Moore's note is a good resumé of where we are.

In practically every case, there has been delay.

The Treasury should be given encouragement to keep up the pressure on reluctant departments. In particular, you should expect much more urgency from the Department of Energy in pursuing the ideas on British Gas following the complex series of meetings earlier this year to settle a policy. You could seek a more active programme of disposals by the National Coal Board, coupled with more private activity in open-cast mining, as part of the strategy for making the Coal Board more economic.

At the DTI, execution of the BL strategy is slow. There is no sense of urgency in pursuing E(A)'s recommendation to sell Leyland Truck and the bus business. We are now halfway through the 3-month period to sort out Land Rover. There is also delay in the restructuring of the British Steel Corporation's subsidiaries.

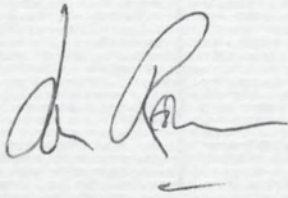
At Transport, there is disappointing progress with British Rail Engineering.

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I think it would be useful if colleagues, having seen the attached memorandum, were given 10 or 15 minutes to comment on progress at an E(A) meeting. You and the Chancellor could reiterate the need to progress these things quickly; and encourage Ministers to report sometimes that they had beaten deadlines. Delay over BL is particularly worrying.



JOHN REDWOOD

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CCNO

FROM: CHIEF SECRETARY  
DATE: 18 July 1984



BIF with Departmental responses

AF 20/7

PRIME MINISTER

### VAT AND CONTRACTING OUT

I was asked at Cabinet on 5 July to consider whether the incidence of VAT distorted appraisal of the merits of carrying out certain work "in house" in the public sector as against contracting it out.

#### Background

In December 1982, Cabinet agreed that departments and other public bodies should seek to contract out more services to the private sector. It was recognised that a possible disincentive, as far as government departments and health authorities were concerned, was that any service contracted out would attract VAT, whereas work carried out in house would not. To overcome this problem Customs and Excise have operated since 1 September 1983 an extra statutory concession whereby departments and health authorities can claim VAT refunds on specified services, which could be done in house but which are contracted out. This concession is now being given statutory authority by Clause 11 of the 1984 Finance Bill.

This concession gave some departments an unintended benefit in respect of services on the specified list which were already contracted out. Accordingly, for 1984-85 and later years, these departments were asked to surrender PES provision equivalent to this benefit.

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**VAT on Building Alterations**

The extension of VAT on building alterations, announced in the 1984 Budget, potentially created a new disincentive to contracting out. But building alterations required by Government are already in effect largely contracted out to the private sector, and there is little likelihood of departments seeking to carry them out in house as a result of the VAT change. In the case of Government departments, therefore, there is no advantage for our contracting out policies in adding building alterations to the list of services covered by the VAT refund provision in Clause 11.

The risk of health authorities reverting to in house work as a result of the VAT change is judged to be greater because they have direct works organisations. The Treasury therefore added building alterations to the list of services for which health authorities are able to reclaim VAT under Clause 11. This approach is consistent with the earlier treatment of repairs and maintenance. Repairs and maintenance have always attracted VAT, and health authorities have been allowed to reclaim that VAT since September 1983.

**VAT on Civil Engineering Works - Highways**

The extension of VAT to <sup>alterations including</sup> civil engineering works creates a different distortion for the central government roads programme, and one for which Clause 11 was initially not designed. Clause 11 was intended to remove an incentive to departments to continue carry out work in house and to ensure that comparative costing of in house and contracted out work was not distorted by the application of VAT to the latter. The VAT extension will, however, encourage the roads departments to place work with local authorities (who do not charge VAT for work on roads) rather than to the private sector.

I recognise the need to eliminate this distortion. I have considered the possibility of requiring local authorities

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to charge VAT when carrying out road alteration schemes on behalf of central government. But this solution would probably require primary legislation and would have the practical effect of squeezing highways expenditure done through local authorities.

An alternative approach would be to include road alterations in the specified list of services on which the roads departments could claim VAT refunds under Clause 11. Although their inclusion would represent a widening of the role of Clause 11, it would be fully consistent with its intended purpose. In view of the importance of pressing ahead with our contracting out programme, I am prepared to agree, with effect from 1 April 1985, this widening of Clause 11.

The extension of Clause 11 to roads would remove the distortion concerning contracting out to which attention was drawn at Cabinet. However, it would mean an unintended benefit to the roads programme, at a cost to the PSBR, to the extent of the VAT which would have been paid on work placed directly with the private sector. This sum needs to be deducted from the roads programme and I shall be taking this up in my discussions with the departments concerned in the public expenditure survey.

If you are content with this approach, I will discuss with Ministerial colleagues concerned the necessary details.

I am copying this letter to other members of Cabinet and to Sir Robert Armstrong.



**PETER REES**

CONFIDENTIAL

CCNO.



FROM: FINANCIAL SECRETARY  
DATE: 18 JULY 1984

PRIME MINISTER

**PRIVATISATION PROGRESS REPORT: JULY 1984**

It is six months since E(A)(84)2nd Meeting agreed a privatisation programme. You may like to know where we now stand. I attach to this minute summary notes on the present position of individual privatisation candidates, a chart which updates the January action plan, and a table providing details of sales and receipts since 1979.

My overall impression is that we have made fair progress. There have been three major disposals in the last few months - sale of our entire residual shareholding in Associated British Ports, completion of the Wytch Farm disposal, and privatisation of Enterprise Oil. The sale of Jaguar is scheduled to take place at the end of July, BT is being prepared for a November launch, and British Airways for early in 1985.

But some slippages have also become apparent. Collective decisions still remain to be taken on gas and electricity. Legislation, if necessary, to allow the privatisation of airports is not now forecast until 1985-86 and options still have to be settled. Possible delays in the passage of the Ordnance Factories and Military Services Bill could postpone by several months eventual privatisation of the Royal Ordnance Factories. In several other cases such as BNFL, Unipart and CAA Scottish Airports, progress has not been as rapid as we hoped.

More detail is given in the attached summary. Whilst, in sum, we can be reasonably satisfied with developments over the last six months, the need is to maintain - and in a few cases recover - the momentum of the programme.

I have agreed with the Chancellor that, unless you or colleagues wish otherwise, there is no need for an immediate E(A) discussion of the attached report. Nevertheless, I hope that you find it a helpful stock-taking of the present situation. If you agree, I will continue to monitor progress and report again later this year.

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

JOHN MOORE

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## PRIVATISATION PROGRAMME 1983-84 TO 1987-88

## PROGRESS REPORT - JULY 1984

Note by the Treasury

## 1. ROYAL ORDNANCE FACTORIES

The Bill to incorporate the ROFs and to allow subsequent sale has passed its Commons Third Reading. The Lord President can give no assurance that the Bill will pass through the Lords before the Summer Recess or even before the end of October. But alternative ways of minimising any slippage are being explored. If the Act comes into force immediately it is passed, there is the option of a November incorporation date. Privatisation might then be possible by the beginning of 1986, a slippage from Autumn 1985.

## 2. BRITISH GAS CORPORATION

The Department of Energy is continuing to examine options for privatising and re-structuring the gas industry. Proposals are expected later in the year. Privatisation of BGC appliance retailing, including showrooms, is now being considered in this wider context.

## 3. WYTCH FARM

Corporation Tax changes introduced in the 1984 Budget made it impossible to complete the sale of BGC's 50 per cent interest in Wytch Farm by end 1983-84. The Dorset Group were persuaded to increase their bid substantially to reflect Budget changes, and disposal took place in May. An initial payment of £85 million will be followed by a second payment of £130 million when specified production levels are reached, probably in 1987-88.

## 4. BRITISH NUCLEAR FUELS

Officials in the Department of Energy continue to consider the balance sheet issue in consultation with the Treasury. Original intentions were to submit a paper to E(DL) in mid-1984 to allow a considered view of the privatisation options. This is not now likely until September by which time Ministers should have decided on the options for reducing Sellafield discharges.

/ 5. ELECTRICITY

## 5. ELECTRICITY

The Department of Energy and Scottish Office are examining options for privatisation and restructuring. Reports, which were due to be submitted to E(A) during the first part of the year, are awaited.

## 6. ENTERPRISE OIL

The whole of Enterprise's ordinary share capital was offered for sale by tender on 19 June 1984 at a minimum tender price of 185 pence per share. The application list closed on 27 June, and the offer was 66 per cent subscribed. Applications for 49 per cent of the shares on offer were made by the Rio Tinto-Zinc Corporation PLC through a number of nominee companies. In line with the Government's wish to maintain the independence of the company RTZ were allocated only 10 per cent of the offer. This left 73 per cent with the underwriters. The striking price was set at the minimum tender price, giving gross proceeds of £392.2 million (about £380 million net). In the early after-market the shares traded at or around their offer price of £1.00 partly paid.

## 7. NATIONAL COAL BOARD: NON MINING SUBSIDIARIES

Since E(A)2nd Meeting the sale of the holding in Associated Heating Services has been completed. The sale of Sankeys has been agreed and is proceeding with completion expected around end-August. Other disposals remain feasible in future months.

## 8. BRITISH LEYLAND

The Jaguar privatisation date has slipped from May to July. The sale of Unipart is also likely to slip from the first into the second quarter of 1985 because of the need to reorganise the company before disposal. BL have proposed privatisation of Land Rover and Leyland Vehicles as a single entity in 1986-87 if the problems of Leyland Trucks can be overcome. Otherwise, they have suggested that separate disposal of Land Rover in 1985 or 1986 should be possible (the E(A) target is early 1985-86). The Government has told BL that it doubts whether Leyland Vehicles/Land Rover is saleable as a single entity and has asked for a study of the prospect of disposing of Leyland Vehicles to another manufacturer. Failing that, studies will be undertaken of the prospects for early separate sales of Land Rover, and the viable parts of Leyland Vehicles. BL have been asked to submit proposals for the privatisation of Austin Rover to a target date of 1987.

/ 9. BRITISH SHIPBUILDERS

## 9. BRITISH SHIPBUILDERS

The Secretary of State for Trade and Industry has put his proposals on privatisation of Warshipbuilding yards to E(A) Committee. Outcome awaits consideration of prospects for merchant shipbuilding capacity, decisions on placing of MOD orders, and future of Cammell Laird.

## 10. BRITISH STEEL CORPORATION

Disposal of peripheral activities continues. PED Ltd has now been sold, and Stanton and Staveley Ltd and RGC Offshore Ltd are to be sold later this year. Two seamless tubes joint ventures have been established and the aim remains flotation in 2-3 years time. Little progress has so far been made in investigating the possibility of creating separate Companies Act companies in the main business sector (strip and general steels) as a means of assisting restructuring/privatisation.

## 11. BRITISH TECHNOLOGY GROUP HOLDINGS

Wholesale Vehicle Finance (WVF) - one of BTG's largest shareholdings - has been disposed of in the last six months for £14.5 million. Agreement in principle has also been reached for a management buy-out of a majority of the equity of Data Recording Instruments (DRI) followed by disposal of the remainder of the BTG holding by 1986. INMOS disposal was tentatively programmed for the first half of this year; agreement in principle has now been reached with Thorn-EMI for sale of the entire BTG holding for £95 million. The sale should be completed very shortly. Plans are at present being considered for the disposal of BTG's shareholding in British Underwater Engineering. The overall aim remains completion of the entire BTG disposal programme by end 1986-87.

## 12. BRITISH TELECOM

Decisions on capital structure and the price regulation formula were completed on time. The BT Bill received Royal Assent in April and the licence defining BT's duties was published on 26 June. Vesting is expected in early August. The aim is flotation in November.

## 13. NATIONAL GIROBANK

A paper on National Girobank privatisation will shortly be put to DTI Ministers. Original expectations were that privatisation might be possible in 1986-87. Prospects, if anything, have improved. Legislation to allow privatisation is now considered unnecessary.

/ 14. ROLLS ROYCE



## 14. ROLLS ROYCE

No developments since January; the earliest date for privatisation on present forecasts remains some time in 1987-88.

## 15. BRITISH AIRPORTS AUTHORITY

A progress report was made to E(DL) in March. Further options are now being considered by the Secretary of State for Transport who will report back to colleagues in the Autumn. If specific legislation is necessary, this cannot be introduced until the 1985-86 Session.

## 16. BRITISH AIRWAYS

BA plc was vested on 1 April 1984 with the aim of privatisation early in 1985. The likely success of the BA sale has been increased by improvements to the balance sheet from asset revaluations (aircraft and property) of £130 million and the effect the continuing growth in profits (from £88.6 million in 1982-83 to £214.5 million in 1983-84) has had, both on the balance sheet (via debt repayment) and on the general attraction of the company.

## 17. BRITISH RAIL (BREL)

The BR Chairman's review of British Rail Engineering Ltd's (BREL) future is expected very shortly and will lead to E(DL) discussion. Any disposals not likely before 1986-87.

## 18. CIVIL AVIATION AUTHORITY - SCOTTISH AIRPORTS

Disposal in early 1984-85 has slipped because of complications over asset valuation and related subsidies, although sale before the end of the financial year may yet be possible. Department of Transport Ministers intend shortly to write to the CAA setting guidelines for a sale.

## 19. NATIONAL BUS COMPANY

A White Paper on bus policy and deregulation has now been published as a preliminary to introduction of legislation in the 1984-85 Session. It is intended that NBC should be split into operating subsidies for disposal Autumn 1985 onwards.

## 20. SEALINK UK LTD

The sale of Sealink to a trade buyer should be completed by end-July. Slippage from the earlier targetted spring date has resulted from delays by British Rail in making the necessary preparations for the sale. A number of conditional bids for Sealink

/ have,

have, however, now been received from trade buyers, and one of these bids is acceptable subject to final negotiations. A further bid within the deadline of 20 July is an outside possibility.

#### 21. SHORTS LTD

Ministers have now agreed (in correspondence) Short's Corporate Plan for 1984-85 which contains proposals for the development of the company's future business. The Secretary of State for Northern Ireland has recently written to colleagues proposing that Shorts should be confirmed as a candidate for privatisation and that specialist advisers should be retained to examine the method and timing.

#### 22. SCOTTISH TRANSPORT GROUP

The White Paper on bus policy and deregulation also covers Scottish interests. Legislation next session will allow deregulation of stage carriage services in Great Britain. Privatisation of the Scottish Bus Group to be considered further in light of action on the National Bus Company. The Secretary of State for Scotland has written to STG proposing the sale of MacBrayne Haulage Ltd by the autumn.

#### (B) RESIDUAL SHAREHOLDINGS

##### 1B. ASSOCIATED BRITISH PORTS

The Government's residual holding of 48.5 per cent of the issued ordinary share capital was sold by tender on 17 April at a striking price of 270 pence per share. Receipts were £52.4 billion gross (£50 million net).

##### 2B. BRITISH AEROSPACE

Settlement of A320 launch aid has cleared the way for disposal of the Government's residual shareholding of 48.4 per cent in one or two tranches. But talks on a possible merger with GEC have intervened and could result in disposal of the Government's entire holding and its replacement by a Special Share. If merger talks are successful, and there is no MMC reference (this would introduce a 6-12 month delay), disposal could be organised by the autumn. If merger talks are unsuccessful, the present plan to reduce the Government holding to 25 per cent by end 1984-85, would not necessarily need to be revised. A further disposal could follow subsequently once adequate notice of the Government's intention had been given and a Special Share created. Alternatively, given a Special Share, the residual shareholding could be sold in a single operation.

/ 3B. BP

3B. BP

No developments since January: no further sale (Government holding 31.7 per cent) is possible before September 1985.

4B. BRITTOIL

The Government's holding of 48.8 per cent of the company is valued at around £550 million and there are no restrictions on timing of future sales. The possibility of a further sale is being investigated.

5B. CABLE AND WIRELESS

No developments since January: no further sale is possible before December 1985. Government residual holding 23.1 per cent.

(C) MISCELLANEOUS CANDIDATES

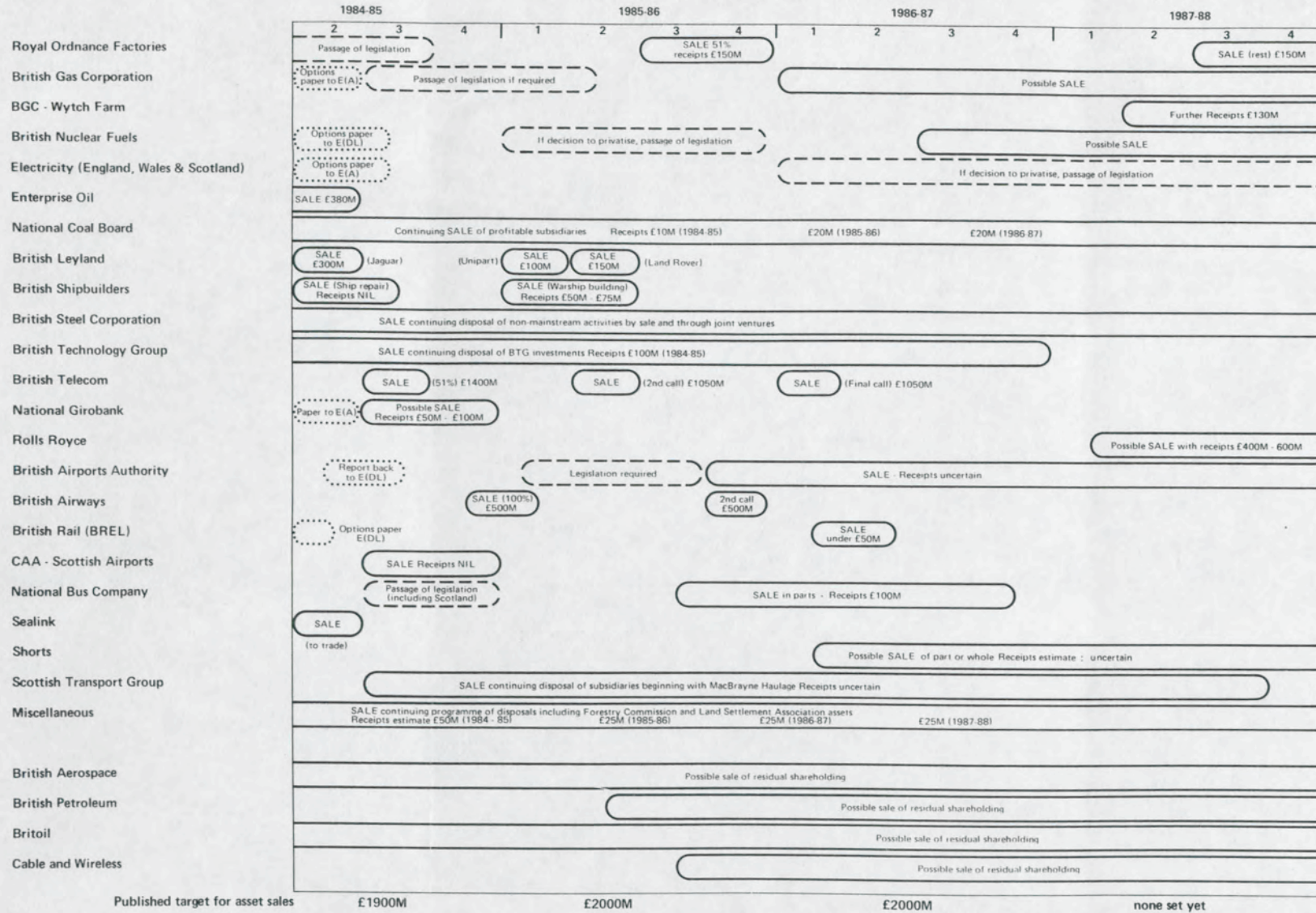
Ministers have decided that Crown Agents should be reorganised with a view to privatisation in due course. The possible timing and method of privatisation remain uncertain. Ministers have accepted that the Horserace Totalisator Board (the Tote) should not be privatised. Further consideration of the possible privatisation of BBC Publications will have to await the outcome of the Office of Fair Trading's current enquiry into broadcasting authorities' practice of refusing licences to others to use copyright over programme schedules.

PE2

HM Treasury

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PRIVATISATION PROGRAMME TO 1987-88



Note  
This table shows the best current estimates but in some cases the details are uncertain.  
The information should be used with caution

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SPECIAL SALES OF ASSETS1979-80 TO DATE

	£ million					
	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u> <u>to date</u>
AMERSHAM INTERNATIONAL	-	-	64	-	-	-
ASSOCIATED BRITISH PORTS	-	-	-	46	-	50
BRITISH AEROSPACE	-	43	-	-	-	-
BRITISH PETROLEUM	276	-	-	-	543	-
GOVTS NIL-PAID BP RIGHTS	-	-	8	-	-	-
BRITISH SUGAR CORPORATION	-	-	44	-	-	-
BRITOIL	-	-	-	334	293	-
ENTERPRISE OIL	-	-	-	-	-	380
CABLE & WIRELESS	-	-	182	-	263	-
CROWN AGENTS	-	-	7	16	2	-
CWMBRAN DEVT CORPORATION	-	-	-	1	-	-
DRAKE & SCULL HOLDINGS	1	-	-	-	-	-
FORESTRY COMMISSION	-	-	7	14	23	-
LAND SETTLEMENT ASSOC	-	-	-	-	2	-
MOTORWAY LEASES	-	28	19	4	1	-
BRITISH TECHNOLOGY GROUP	37	83	2	-	-	-
NATIONAL FREIGHT COMPANY	-	-	5	-	-	-
NEW TOWN DEVT AGENCY	26	52	73	-	-	-
NORTH SEA OIL LICENCES	-	195	-	33	19	-
PROPERTY SERVICES AGENCY	5	4	1	-	-	-
REGIONAL WATER AUTHORITIES	3	-	-	-	-	-
SALE OF OIL STOCKPILES	-	-	63	33	4	-
SALE OF COMMODITY STOCKS	-	-	19	7	11	-
SUEZ FINANCE COMPANY	22	-	-	-	-	-
<b>SPECIAL SALES OF ASSETS TOTAL</b>	<b>370</b>	<b>405</b>	<b>494</b>	<b>488</b>	<b>1161</b>	<b>430</b>
ADVANCE OIL PAYMENTS	622	-49	-573	-	-	-
STAMP DUTY AND VAT	7	-	-	-	-	-
<b>GRAND TOTAL</b>	<b>999</b>	<b>356</b>	<b>-79</b>	<b>488</b>	<b>1161</b>	<b>430</b>
BGC WYTCH FARM - NON SSA	-	-	-	-	-	82
NCB SUBSIDIARIES	-	-	-	-	7	-
BR SUBSIDIARIES	-	-	-	40	17	-
INTERNATIONAL AERADIO LTD	-	-	-	60	-	-
HMSO GATESHEAD PRESS	-	-	-	-	2	-
<b>TOTAL PRIVATISATION RECEIPTS</b>	<b>999</b>	<b>356</b>	<b>-79</b>	<b>588</b>	<b>1187</b>	<b>512</b>

Notes

1. All figures to the nearest £ million.

2. Figures for the final year are provisional.

198 JUL 1984



ADVANCE COPY OF A LETTER FROM THE SECRETARY OF STATE FOR TRANSPORT

I am writing to inform colleagues that BR have reached agreement to sell Sealink (UK) to a subsidiary of Sea Containers Ltd. (See notes attached), and I have given my statutory consent to the sale.

The offer - of about £66m was the highest tender obtained. The two parties have agreed upon contracts for the continued operation of rail-connected passenger services: this will ensure that services will be protected against any sudden change, and will be helpful in meeting the worries expressed by members in a number of parts of the country that privatisation would result in the withdrawal of local ferry services. In particular, too, it will meet the concerns expressed to Government by the Channel Islands who rely heavily on Sealink and would need time to make alternative arrangements, if Sealink wished at any time to withdraw. The purchaser said that their offer was based on the belief that Sealink profits and essential services to the nation should not be broken up; he intends to reinforce that message by establishing the holding company in the name "British Ferries".

BR received advice from their merchant bankers (Morgan Grenfell), supported by my own advisers (Hill Samuel), that the price fairly reflects the value of the business. Although it is well below book-value the company has a record of losses and after a temporary upturn to £4m profits last year is again predicting a small loss this year. The process of sale was by open and competitive tender. The two major potential bidders went deeply into the affairs of the company before ultimately declining to bid at all. This demonstrates that Sealink has problems which will require skilled management, and probably a substantial injection of funds, to sort out. If we do decide to wait for a sustained profit record to allow a flotation, we would have had to wait for a very long time.

The availability of Sealink ships for defence purposes will be safeguarded by a special share which I will hold. The purchaser and I will exchange undertakings to make it clear that Government will not intervene in the commercial affairs of the company except on grounds of national defence.

/ Sea Containers

Sea Containers have declared an intention to float Sealink in due course, and to give employees an opportunity to purchase shares for favourable terms. Meanwhile they expect to offer a profit-sharing scheme.

This sale represents a very satisfactory outcome to the policy for privatisation of Sealink which we agreed with BR in 1981. It achieves a fair price; Sealink will continue as a major British ferry company on existing routes and services; it makes good industrial logic; and it will not reduce competition in the ferry market.

BR and Sea Containers intend to announce the sale later today, when contracts have been signed, and I will then answer a written PQ. I understand that John Biffen does not wish an oral statement to be made today, but will promise one tomorrow if there is pressure in the House. A draft of the written PQ is attached.

I am copying this letter to all Cabinet colleagues and to Sir Robert Armstrong.



- Q. Mr Richard Ottaway (Nottingham North): To ask the Secretary of State for Transport whether he will make a statement about the sale of Sealink.
- Q. Mr Keith Best (Ynys Mon): To ask the Secretary of State for Transport if he is now in a position to announce the name of the successful bidder in Sealink (UK) Ltd.

SALE OF SEALINK: DRAFT WRITTEN PQ ANSWER

I have today given my consent under Section 1(2) of the Transport Act 1981 to the sale of Sealink (UK) by British Rail to a subsidiary of Sea Containers Ltd.

The British Railways Board invited tenders, through their adviser Morgan Grenfell and Co Ltd, for the purchase of the whole of the Board's interest in Sealink (UK). Three proposals were received, all with conditions attached.

The chosen purchaser submitted the bid with the highest value, of some £66 million. Sea Containers is an international sea-freight company with its headquarters in London. They have made a number of constructive proposals for improving Sealink's business. They have agreed on contractual commitments to maintain rail-link passenger services and so will ensure that none could be withdrawn without reasonable notice. The parties also aim to negotiate new long-term freight contracts for train-ferry and Freightliner services.

The British Railways Board have been advised by Morgan Grenfell and Co Ltd that the price fairly reflects the value of the business and this view is supported by my own advisers Hill Samuel and Co Ltd.

Sea Containers have said that they expect to maintain the existing business and to safeguard the rights of employees, including their pension entitlements. Sea Containers believe that they can

expand the business and increase its profitability.

They have also stated that it is their intention to obtain a listing for the company on the Stock Exchange in due course, and that they would expect at that time to give employees an opportunity to purchase shares on favourable terms. Meanwhile they intend to provide a share option scheme for management, and will consider a profit-sharing scheme for employees.

Arrangements have been made to ensure that the contribution of the Sealink fleet to national defence will not be prejudiced by the sale.

This sale is a successful end to the policy of transferring Sealink to the private sector which we agreed with the British Railways Board in 1980, and debated in the House in 1981. The price is good, and the sale makes good industrial logic. Customers and passengers of Sealink will benefit from the continuation of competition in the ferry market. It will be good for those who work in Sealink, by freeing them from the constraints of the public sector, and good for the railways in allowing them to concentrate on their main activity.



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Tim Flesher Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

18 July 1984

*Dear Tim*

SEALINK: STATEMENT BY THE SECRETARY OF STATE FOR TRANSPORT  
WEDNESDAY, 18 JULY

It was agreed at E(A) this morning that my Secretary of State should make a statement in the House at 3.30 pm today on the sale of Sealink.

I attach a copy of the draft prepared jointly by my Secretary of State and the Secretary of State for Employment at a meeting following E(A). You are being sent separately copies of the supplementary question and answer briefing.

I am sending copies of this letter and of the draft statement to the Private Secretaries to all members of E(A), and to Murdo Maclean at the Chief Whip's Office.

*Yours sincerely,*

*Henry Derwent*

H C S DERWENT  
Private Secretary

## SEALINK: STATEMENT BY SECRETARY OF STATE FOR TRANSPORT

With permission, Mr Speaker, I should like to make a statement about Sealink.

I have today given my consent under Section 1(2) of the Transport Act, 1981, to the sale of Sealink (UK) by BR to a subsidiary of Sea Containers Ltd - "British Ferries".

The British Railways Board invited tenders, through their advisers Morgan Grenfell and Co Ltd, for the purchase of the whole of the Board's interest in Sealink (UK). Three proposals were received with conditions attached.

The chosen purchaser submitted the bid with the highest value, of some £66m. The British Railways Board have been advised by Morgan Grenfell & Co Ltd that the price fairly reflects the value of the business, and this view is supported by my own advisers Hill Samuel & Co Ltd.

Sea Containers, an international seafreight company with its headquarters in London, have wide experience in freight shipping. They have made a number of constructive proposals for improving Sealink's business. They have agreed on firm contractual commitments to maintain rail-linked passenger services. The parties are already in negotiation on new long-term freight contracts for train-ferry and Freightliner services.

Sea Containers have said firstly that they intend to maintain the existing business and to safeguard the rights of employees, including their pension entitlements which will be protected. They further plan additional capital expenditure to expand the business and increase its profitability. I know that the company will be seeking early discussions with Sealink's trades unions.

Sea Containers have stated their intention to obtain a listing for the company on the Stock Exchange in due course, and that they would expect at that time to give employees an opportunity to purchase shares on favourable terms. Meanwhile they are planning profit-sharing schemes for all employees.

Arrangements have been made to ensure that the contribution of the Sealink fleet to national defence will not be prejudiced by the sale.

This sale is a successful end to the policy transferring Sealink to the private sector which we agreed with the British Railways Board in 1980, and debated in this House in 1981. The price is good, and the sale makes good industrial logic. Customers and passengers of Sealink will benefit from the continuation of competition in the ferry market. Above all it will be good for those who work in Sealink, who will now join a progressive and expanding group with the substantial resources necessary to make a real success of this important enterprise.

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NMPM CC NO  
AF 17/7



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Andrew Turnbull Esq  
10 Downing Street  
LONDON SW1

15<sup>th</sup> July 1984

Dear Andrew,

AIRPORTS POLICY

Thank you for your letter of 26 June.

As requested by E(DL), the case for selling the London airports as one unit is being reviewed, in particular to assess how a private sector London airports company might be constituted, and what safeguards would be needed to prevent abuse of monopoly power. Work is also continuing on the possibility of introducing private capital into BAA by other means such as extending the existing franchising arrangements.

The Secretary of State intends to put to E(DL) proposals regarding the privatisation of BAA's London or Scottish airports in the Autumn, by when he will have been able to consider the outcome of the CAA's licensing policy review and of the review of Scottish lowland airports policy. He will also have completed consultations on the Air Transport Movement limit at Heathrow, and received the Inspector's report on the Stansted/Heathrow Terminal 5 inquiries. Decisions will be required by about the end of this year if there is to be legislation on BAA's airports in the 1985/86 session.

Yours,

Dinah

MISS D A NICHOLS  
Private Secretary

CONFIDENTIAL



cc N.O.



NBM

AT 1317

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP  
Secretary of State for Scotland  
Scottish Office  
Dover House  
Whitehall  
LONDON  
SW1A 2AU

13 July 1984

*Stan Gray*

You wrote to the Secretary of State for Energy on 5 July about the proposed sale of the Portavadie oil platform construction yard to Linn Products Limited.

Provided you are fully satisfied that the offer of £50,000 is the highest obtainable I am content for the sale to go ahead.

I am copying this letter to the Prime Minister, Norman Tebbit, Peter Walker and Sir Robert Armstrong.

*Norman Tebbit*

*Peter Rees*

PETER REES



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Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

*Oddi wrth Ysgrifennydd Gwladol Cymru*

The Rt Hon Nicholas Edwards MP

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

*From The Secretary of State for Wales*

11 July 1984

CONFIDENTIAL

*Dea Secretary of State*

LOCAL CHOICE IN PUBLIC TRANSPORT

At the meeting of E(A) on 28 June I was asked to agree with you the text of and publication arrangements for the consultation paper on Local Choice in Public Transport.

I am enclosing a copy of the revised version of the text which incorporates all the amendments agreed by our officials, and with which I am content. I am proposing to publish this simultaneously with your White Paper on 12 July. The document will be a Welsh Office publication - not a White Paper. It will be announced by a Written Question and Answer, a copy of which is attached.

I am copying this letter and enclosures to the Prime Minister's Office, Peter Rees and the Cabinet Secretary.

*Yours sincerely,*

*Chris Toon*

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport

*(Approved by the Secretary of State and signed in his absence).*



CONFIDENTIAL

DRAFT INSPIRED PARLIAMENTARY QUESTION

Draft Question

Mr

MP

"To ask the Secretary of State for Wales when he expects to publish the Consultation Document on Local Choice in Public Transport which he has promised?"

Draft Answer

The Consultation Paper has been published today. Copies are being sent to all Welsh Members, Local Authorities in Wales and other interested organisations. Further copies are available in the Library of the House.

Comments are invited by 31 October.

LOCAL CHOICE IN PUBLIC TRANSPORT - A CONSULTATION PAPER

CONSULTATION PAPER

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## BACKGROUND

1. A modern public transport system complements the economic and industrial development measures now being taken in Wales by Government. The purpose of these measures is to make the main industrial areas of South and North East Wales attractive localities in which modern industry can stay and grow. In rural areas the aim is to promote the growth of a healthy economy with an increasing diversity of employment opportunities so as to stem depopulation. The promotion of the tourist industry is important throughout Wales as is the aim of fostering the services sector. An effective public passenger transport system is also important for the social fabric of the Principality. In sparsely populated areas in particular, some communities would face difficulties if there were no public passenger transport facilities.

2. Since the early 1950's inland passenger travel in Great Britain (measured in passenger miles) has increased by over 2½ times while bus and coach travel has fallen by a half and rail travel by about a sixth. Travel by private road transport (largely cars) has increased almost sevenfold. The future of public transport in Wales must, therefore, be seen in the context of the fundamental changes which have occurred in people's travelling habits which have been away from public transport towards the private car. This trend has continued for the last 30 years with public transport carrying a steadily declining percentage of the total expanding travel market. In the period 1958 to 1982 the number of cars licenced in Wales rose from 221,000 to 773,000. By 1982 the number of households in Wales with access to a car had reached 70.5%. If the current rate of increase is sustained then it is estimated that by 1992 this figure would increase to 79%.

3. In recognition of the problems that people dependent on public transport are experiencing the Government promised in its Manifesto for Wales 1983 to 'issue a consultation paper about possible changes in the organisation and responsibilities for transport services in Wales which would include the option that more decisions about transport, including local railways, might be taken within Wales possibly by the County Councils which are closest to the needs of their own districts, with suitable financial arrangements'.

4. This consultation paper fulfils this commitment. It focuses, in particular, on local public transport services. These can be defined, very broadly, as those services that meet everyday needs - journey to work, journey to shop, journey to school etc. Typically, these needs are met by stage carriage bus services and by railways. With the decline in bus services, however, there has been an increased use of alternative modes of transport in recent years - taxis, minibuses and car sharing, for example. In the rural areas there has also been the development of social car schemes, though these can only meet a very small proportion of total transport needs.

5. Local public transport services have both a social and economic role. Some people are particularly dependent on public transport. They include the elderly, children, young people, students and housewives without access to cars. The elderly in particular are significant users and can be expected to make greater calls upon public transport services as their numbers continue to increase. Moreover the elderly are now leading much more active lives than they have done in the past, in many cases supported by better incomes, thus creating a demand for greater mobility for which public transport services are likely to be the major provider. The degree of dependence on public transport will vary as between different parts of Wales depending on the degree of access to private cars.

#### **THE BUS INDUSTRY**

6. As in other parts of Great Britain, in Wales the bus industry is caught up in a spiral of decline with a fall in patronage leading to higher fares leading to further falls in patronage. Bus operators have responded to this situation by reducing fleet sizes, closing depots, pruning routes and reducing the number of employees in an effort to bring operating costs and revenue receipts from fares more into balance. Local authorities in their turn have responded by increasing substantially the amount of revenue support that is used to maintain existing services.

#### **The Government's Proposals**

7. The Government has decided that the present system for regulating bus services is no longer appropriate. It has therefore announced major proposals for the re-organisation of the industry in Great Britain as a whole. These are set out in the White Paper 'Buses' (Cmd 9300).

8. The proposals in the White Paper are designed to stem the continuing decline in the local bus industry by removing the constraints of the present quantity licensing system - road service licensing. The system has protected the status quo and inhibited innovation over many years. Operators have been discouraged from adapting services to meet people's needs. In future all operators will be able to offer the services they want and compete with each other for custom provided they meet the essential safety standards. Those standards are to be fully maintained and additional resources made available for enforcement.

9. Changes are also proposed affecting the structure of public sector bus operators and the way in which subsidy is paid. These changes are essential if all operators (both public and private) are to be able to compete fairly. In particular:

- County and district councils will retain their present powers to provide revenue support for local bus services but will in future be required to go out to competitive tender to find the operators who can provide the best value for money. Their role will be to provide support not for whole networks but for those socially necessary services which the market has not provided.
- The powers to provide concessionary fare schemes will also continue but all operators of local services will be enabled to participate in the schemes.
- Municipal operations are to be reconstituted as separate companies, at arms-length from their parent district councils, competing for subsidy with other operators.
- The National Bus Company will be reorganised into smaller free-standing units which will then be transferred to the private sector.

10. Competition is expected to bring lower costs but this will not happen overnight. To ensure that rural services are properly safeguarded during the transition to the new system, there is to be a new rural bus grant, paid directly to operators for a period of 4 years. The value of the grant in the first year will be up to £20m for Great Britain as a whole. There



will also be an innovation grant to assist in the creation of specific innovatory public transport schemes in rural areas.

### Implications for Wales

11. Currently stage carriage bus services in Wales are provided by the National Bus Company, municipal operators and private operators. The National Bus Company provides a network of stage carriage services throughout most of Wales through its three operating subsidiaries. Crosville Motor Services operate in North and Mid Wales, National Welsh in South-East Wales and South Wales Transport in South Dyfed and West Glamorgan.

12. The municipal operators with the exception of Aberconwy and Colwyn Borough Councils are restricted to South-East Wales. Newport, Islwyn, Rhymney Valley, Merthyr, Taff Ely, Cynon Valley and Cardiff all run bus undertakings largely within their own district boundaries, although there are also some services connecting the Valleys to Newport and Cardiff.

13. There are some 600 private bus operators in Wales operating over 3,000 public service vehicles which is twice the number of the National Bus Company's and municipal operators' public service vehicles combined. The private sector is, of course, particularly strong in the contract and private hire market but it also plays a significant role in the provision of stage carriage services, often in rural areas or the small towns and villages where the National Bus Company's presence is less strong or non-existent.

14. The effect of the Government's proposals will be to transform the organisation of the bus industry in Wales and the nature of the services available. In particular:

\*The NBC subsidiaries will be affected by the reorganisation of the Company into smaller units and will be transferred to the private sector.

\*The nine municipal bus undertakings will be re-established as separate companies though still remaining in local authority ownership.

\*There will be a reduction in fares on many services in urban areas as the benefits of increased competition are realised. There will be a more flexible and responsive pattern of services in rural areas.

\*The new tendering system will mean that local authorities will get better value for money for the subsidies they provide.

\*New types of service will be introduced (minibuses, shared taxis etc) - especially in those areas where the big bus is no longer viable. Wales, like the rest of Great Britain, will benefit from the availability of the innovation and rural bus grants.

15. In summary the overall effect of the proposals will be to introduce a much greater element of choice into local public transport, to encourage innovation and to ensure that the services provided are much more closely in tune with passengers' requirements. County Councils will have a much clearer indication than at present of the cost of supporting a particular service, and will thus be able to weigh up much more clearly the costs and benefits of doing so. Furthermore where a service is withdrawn through a combination of lack of demand and lack of subsidy the opportunities for promoting a different type of service to fill the gap will be greater.

#### **THE RAILWAYS**

16. The main decline in the rail network in Wales took place between 1951 and 1970. During this time the passenger route mileage fell from just under 1,400 miles to 631 miles with a reduction in the number of stations from 725 to 184. Since 1970 the rail passenger network has been stable. By the end of the 1970s the carriage of passengers by British Rail in Great Britain as measured in passenger miles was around the same as that prior to the radical reduction in the network in the 1960s. But this largely reflected an increase in the long distance carryings on the Inter City Services. The total number of passenger journeys has in fact fallen considerably especially on some local lines.

17. The rail passenger services still operating in Wales fulfil an important role. Some services link major towns and cities or provide travel corridors into England. They thus serve the requirements of

industry and commerce while at the same time allowing tourists to reach the holiday attractions of coastal and rural Wales. No changes in the present policies for providing these services are being suggested.

18. Other services have a more local role - providing for commuters/shoppers, feeding into main line services and in some cases acting as a tourist attraction. The lines concerned are:-

the Whitland - Pembroke Dock Service;

the Cardiff Valleys - Barry/Penarth Service;

the Central Wales Service;

the Conwy Valley Service; and

the Cambrian Coast Service.

#### Bus for Rail Substitution

19. The Secretary of State for Transport has recently confirmed that it is not the Government's intention that British Rail should embark on a programme of major route closures. He has announced, however, proposals to enable the introduction of some guaranteed and subsidised substitute bus for rail services where they would be appropriate on local transport and value for money grounds. Legislation is to be introduced to give effect to these proposals which will apply in Wales as in other parts of Great Britain. The essential features of the proposals are as follows:

- (1) No substitute bus service could be introduced before the existing statutory procedure governing the closure of the rail service concerned had been completed.
- (2) Where British Rail consider that a substitute bus service would offer a practical alternative to the existing rail service and provide better value for money, it would make clear in its closure proposals the intention to seek provision of a bus service. Consent to the closure would be dependent upon the Secretary of State for Transport being convinced that the substitution of a bus service for the rail service was justified. Provision of such a service would be a condition of the closure.

- (3) the bus services would be planned and provided as an integral part of the BR network.
- (4) the substitute bus service would be protected by a procedure similar to that for railway passenger services so as to provide the safeguard for continuity that is essential. If the bus service could not be self-financing it would be subsidised by the Government through the grant to British Rail for the public service obligation.

#### An Enhanced Role for Local Authorities in Wales?

20. The Government's proposals for bus substitution have been designed to ensure that where appropriate the existing transport link is maintained but at a lower cost.

21. As indicated in paragraph 18 a particularly striking feature of the rail network in Wales is that a number of lines primarily serve local needs and in some cases too are an important tourist attraction. In its Welsh Manifesto the Government indicated that in the case of these lines additional options may be worth considering for the Principality. In particular, the Government seeks views on the scope for county councils in Wales taking more responsibility for, or becoming more closely involved in, decisions about local rail services and possible alternatives to them.

22. Local authorities already make an important contribution to the provision of local public transport services. For example, County Councils give and will continue to be able to give revenue support to bus operators. In addition they help to promote where appropriate innovative modes of transport which serve the needs of remote areas in the most economical way.

23. The counties do not, however, exercise the same degree of influence and choice when it comes to local railway services. County Councils can, of course, engage in planning studies which involve consideration of the role to be played by rail services in their areas. For example Mid and South Glamorgan County Councils are currently preparing a joint study on the potential for bus and rail coordination within their administrative areas. And some Counties are supporting BR by way of revenue payments for enhanced services and by way of capital contributions towards improved

facilities. But the crucial decisions about the overall level of local passenger rail services and the financial support they shall receive from the public purse are not within the responsibility of the county councils. So they are not able to determine whether the public subsidy for the local rail services would be better spent in providing alternative methods of meeting the transport needs of their areas. Yet it can be argued that such judgements are no different in character to the judgements about the level of support to bus operators which local authorities are already making. They both concern decisions on how available public sector resources can be distributed so as best to meet the welfare of the inhabitants of their areas.

24. Some proposals about ways in which the local authorities might be involved more closely in local rail services were made in the report "Review of Rural Railways" by a Joint Working Party of the Association of County Councils and BR, published in July 1984. For example, the report contains suggestions about the involvement of local authorities in the formulation of proposals for rail closures and bus substitution. How might this work without detracting from the guaranteed nature of substitute bus services? For example, should local authorities be empowered to "top up" substitute bus services by providing extra financial support? If so, would those additional services be subject to the guarantee?

#### Local Financial Support for local rail services

25. Another option might be for the counties to be more directly involved in financing local rail services. For example, initially the Counties concerned might receive a new specific rail related grant in respect of particular local passenger services to enable them to complete contracts with British Rail to provide the revenue support necessary to maintain services at an agreed level. After a transitional period the County Council would be in a position to decide on whether to continue to support the train service or a modified or a reduced one; or to spend the money instead on road improvements or a bus/coach service or other arrangements, according to their assessment of the best ways of meeting local requirements and obtaining best value for money. After an initial period of years, the specific rail grant arrangements might be phased out and the Authorities' financial responsibility for maintaining the local rail passenger services or a replacement service could be taken into account when assessing their grant related expenditure for block grant purposes.

26. It is expected that in most cases the Counties would wish to continue to use the available subsidies to support existing rail services. This would not, of course, preclude them from seeking with BR to cut costs, improve efficiency and generally obtain better value for money. It would be for the County Council, or a group of County Councils acting as a joint board, to enter into an agreement with British Rail and to agree the details of the service and its cost to them. The length of time that such agreements might run would have to be determined having regard to BR's need to plan future capital investments.

27. Alternatively County Councils might decide to use the subsidy not to support a particular rail service but to finance alternative transport services. These might be bus services or some other more innovatory arrangements.

28. The Government seeks views on the options described in paras 25-27. There would be a number of important issues for resolution, including:

(1) many local services run across county boundaries. For example, the Cardiff-Valleys services span Mid and South Glamorgan while the Central Wales line starts in Dyfed and travels through West Glamorgan and Powys to Shropshire. There would almost certainly have to be joint committees or joint boards empowered to take decisions for these services. Is it desirable to establish new joint bodies for this purpose? How would disputes between the constituent authorities be settled?

(2) for how long would the counties be funded to take on new responsibilities for local rail passenger services in the initial stage? How would support for local rail services be integrated into the RSG system when any specific grants were phased out?

(3) if the county councils were to be made responsible for the financing of local rail services, should they also have responsibility for any closure decisions? [Under the existing statutory procedures the Railways Board cannot withdraw a passenger service from any line or close a station against users' objections without the consent of the Secretary of State for Transport. If objections to a withdrawal or closure proposals are lodged, then a Public Hearing is held by the

relevant Transport Users Consultative Committee (TUCC) to look into what hardship might be caused to users of the service. The TUCC Chairman reports to the Secretary of State for Transport and after weighing all the evidence the Secretary of State makes his decision.]

(4) if county councils were not to be responsible for closure decisions, how could a rail service be maintained and financed - without increasing the burden on the taxpayer - if the county councils decided not to support that service but to use the funds on alternative transport elsewhere in their area?

(5) if financial responsibility were transferred to the county councils, what would be the role of the TUCC for Wales not only in respect of any closure proposal but also as regards their general role of dealing with complaints, time-tabling matters, station facilities, etc? Would the county councils be better placed to deal with such issues themselves?

(6) how would the arrangements outlined in paras 25-27 relate to the Government's policy on bus substitution?

#### Invitation to Comment

29. Comments are now invited particularly on paras 20-28 and should be sent by 31 October 1984 to the Secretary, Welsh Office, Transport Policy Division, Government Buildings, Ty Glas Road, Llanishen, Cardiff CF4 5PL. Following the consultation process the Secretary of State will consider what, if any, changes to introduce.

*Subject a master**Rice ✓  
ce Nick Owen*

## 10 DOWNING STREET

*From the Private Secretary*

11 July 1984

Sealink

The Prime Minister held a meeting today at the House of Commons to discuss the bids which had been received for Sealink. Present were your Secretary of State, the Chancellor of the Exchequer, and the Secretary of State for Transport.

Your Secretary of State said that Trafalgar House and Ellerman Lines had decided not to bid and the Sealink consortium had submitted a low and heavily qualified bid. Two bids remained to be considered. The first was from Sea Containers Limited who had bid £66m. subject to some conditions. The second bid, as yet not fully evaluated was from Common Brothers but this was subject to much more stringent conditions. He believed the bid from Sea Containers Limited which contained satisfactory undertakings about the future of the business and the treatment of staff, should be accepted.

The Chancellor of the Exchequer felt that the Sea Containers' bid was better than expected and should be accepted provided merchant bank advisers were prepared to state that it was better than the Common Brothers' bid and that the purchase price was acceptable. He did not think current difficulties with the National Dock Labour Scheme justified any delay.

The Secretary of State for Trade and Industry said the sale of Sealink at this price would be difficult to present. The two largest bidders had been prevented from acquiring Sealink. European Ferries had been ordered by MMC not to make a bid and no time had been allowed for consideration of a bid on a different basis i.e. purchase of the harbours alone. The Director General of Fair Trading had ruled that a bid by P&O would be referable but again no time had been allowed for the reference to take place. As a result bids



received from a very restricted field. The price of £66m. compared with the value on BR's balance sheet of £128m.

Against this it was argued that acquisition by European Ferries would have given 60 per cent of the cross channel market to one operator and acquisition by P&O 40 per cent. It would not be consistent with the Government's intention to increase competition to allow the sale of Sealink to produce such concentration. Although it was true that BR would have to write off a considerable sum the assets should be looked at in terms of their earnings capacity. The company had made substantial losses over the past four years.

Summing up, the Prime Minister said that the bid from Sea Containers limited should be accepted but care should be taken to present the advantages of this deal.

I am copying this letter to David Peretz (HM Treasury), Callum McCarthy (Department of Trade and Industry), Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss D.A. Nichols  
Department of Transport.

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10 DOWNING STREET

*From the Private Secretary*

11 July, 1984.

Bus Industry: Draft Statement

The Prime Minister has seen the draft statement which your Secretary of State proposes to make on Thursday, 12 July. She is content, but suggests it will read better if the sentence "We have decided to act." is deleted from paragraph 2.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury), John Graham (Scottish Office), Colin Jones (Welsh Office), David Morris (Lord Privy Seal's Office), Callum McCarthy (Department of Trade and Industry), Murdo Maclean (Chief Whip's Office), and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss D.A. Nichols,  
Department of Transport.

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AT

BUS POLICY

Members may find this briefing useful in considering the New Bus White Paper.

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## BUS POLICY

### 1. The Manifesto Pledge

The Conservative Manifesto pledged

"We shall further relax bus licensing to permit a wider variety of services. We shall encourage the creation of smaller units in place of the monolithic public transport organisations which we have inherited from the socialist past, and encourage more flexible forms of public transport. City buses and underground railways will still need reasonable levels of subsidy. But greater efficiency and more public enterprise will help keep costs down."

The Bus White Paper, published on 12 July 1984, proposes measures to honour this pledge. There will be considerable potential benefits for rural areas.

### 2. The proposals

The proposals are for

- \* A complete removal of all road service licensing controls in Great Britain (except for London). Providing safety requirements are satisfied, any operator will be able to run a bus on any route, charging any fare.
- \* Where a county council wishes to provide support for a service which can only operate with subsidy, that service will be put out to tender on a competitive basis. Fuel duty rebate will continue.
- \* Regulation of public service vehicles and operators for safety will be maintained. Further resources will be provided for enforcement.
- \* Concessionary fares schemes will continue and all operators will be enabled to participate on an equitable basis.
- \* Additional resources will be available for four years (£20m in year one) to further public transport in rural areas. There will be in addition a special innovative grant (of £1m a year in England) for rural services.

Wider use of services run by education, health and social services authorities, the Post Office and others will be explored.

\* The National Bus Company will be reorganised into smaller free-standing parts which will be transferred to the private sector. PTEs will be required to break down their operations into smaller units which will be formed into companies. Municipal bus operators will be reorganised in company form wholly owned by their district councils. Councils will be free to privatise them if they so wish.

\* Taxis and hire cars will be allowed to carry passengers at separate fares in certain circumstances. The restrictions on the number of taxis and hire cars in certain areas will gradually be relaxed.

### 3. The case for deregulation

#### (i) Consumer choice

The Conservative Party believes that consumers should be free to choose the sort of transport they want and therefore existing producers should not be protected from competition from those who believe that they can offer better value for money to consumers.

#### (ii) Innovation and market responsiveness

In the stage service bus market, the effect of the bus licensing rules has been to protect high cost operators from challenge by cheaper operators. Regulation discourages innovation and market responsiveness by its very nature. It has contributed to the need for growing levels of subsidy to maintain unprofitable services. The established operator has very little incentive to pioneer innovative cheap services; but the conventional bus is only one of the ways in which the demand for personal travel can be met. Deregulation will encourage experimentation and innovation. Prosperity and the demand for personal travel is bound to continue growing. This will mainly take the form of higher car ownership. But the public transport industry, so long as it offers new and attractive services can also tap this growing market. It will do so in an environment in which bus operators look keenly to see where and when people want to travel.

Competition will stimulate bus operators to provide a greater variety of services. For example, competing minibuses may offer fast and frequent services in city centres. Shared taxis may provide transport for people in villages. New services may link residential areas with out of town shopping centres.

(iii) Cheaper services and value for money

Competition will reduce non-commercial cross subsidy (ie subsidy within a bus company from profitable routes to unprofitable routes), because competition on profitable routes will inevitably bring high fares down. But this is not a bad thing. Cross subsidy between services means that fares on profitable services are unreasonably high. This deters would-be passengers and leads to a spiral of lost patronage, leading to lower fares. Cross subsidy has actually increased the rate of decline. In the National Bus Company's latest Annual Report, Lord Shepherd - Chairman of the NBC, stated -

"In many areas cross subsidy is being taken to the point where the benefits obtained by meeting certain social objectives have been outweighed by the long term damage being inflicted on the future performance of routes now suffering from over pricing and going into premature decline."

Lower fares on profitable routes will attract people back onto those buses. There is a case in equity as well. People who travel by bus are generally the less well off, and there is no reason why the many who travel on heavily patronised services should be expected to subsidise the few who travel on unprofitable services. There is also no reason why people in poorer parts of the country, where car ownership is low and bus patronage is high should subsidise those in richer areas where car ownership is higher.

Deregulation will enable the local authority to obtain better value for money. By itself loss of cross subsidy would lead to an increased requirement for direct subsidy from the local authority to maintain the same level of service. But the scope for cost reductions from competition is so great that many routes which are now unprofitable will become profitable when deregulated. Where routes are still unprofitable and the local authority puts the service out to tender, competition to win the contract will enable the local authority to obtain the best value for money.

(iv) Benefits to rural areas

Rural areas stand to benefit particularly from this policy. Firstly a free market will help make bus services in rural areas more economic to run, but secondly the Government recognises the need for extra help to these areas, where transport is often already inadequate. First it will encourage innovation by creating a new grant of £1m a year in England to encourage new schemes for transport in rural areas. This will be administered by the Development Commission in England. Tendering will help local authorities achieve better value for money over the longer terms, but the Government will provide additional help to maintain vital services in the first few years. The total value of the extra rural grant will be £20m in the first full year. It will be available for four years and phased out in even steps. Low cost alternatives to the bus are often the answer to the needs of rural areas. So the Government intends in certain circumstances to allow the shared use of taxis and hire cars at separate fares. It will be consulting with local authorities and others on the scope for stimulating the better use of services run on behalf of education, health, and social services authorities, the Post Office, private firms and others.

In Summary deregulation will bring considerable benefits. On many services passengers will pay lower fares. The costs of services will go down. There will be more variety in the kinds of services offered. New operators will be prepared to come in providing new jobs. Overall, patronage should increase and the industry will be ready and able to respond in the future to changing patterns of living, working and leisure.

4. The evidence

a. The effect of a regulated market on costs

The bus licensing laws regulating stage carriage services were introduced over 50 years ago (in the Road Traffic Act 1930) to regulate an instable and indisciplined bus market in circumstances very different from today's. While there have been benefits from the strict controls which were imposed on the quality and safety of bus services, the evidence shows that restrictions on quantity of services

have led to inflated costs and have contributed to a growing subsidy requirement, much of which appears to have "leaked" into inefficient working practices. As Mr Nicholas Ridley, Secretary of State for Transport said in a speech to the Bow Group on 12 June 1984 -

"Presented with the instability and indiscipline which characterised the bus industry of the early '30s today, we would have been right to bring in strict regulations on the quality aspect, safety, bus stops, parking, road behaviour. But we would not have brought in regulations on the quantity of services."

The effect of regulation on costs and the scope for savings can be seen in the following figures.

- \* Subsidies to the bus industry (including the cost of concessionary fares) have risen from £71m in 1972 to nearly £1bn in 1983/84. The Met Counties and London account for over 80% of this subsidy.
- \* Costs of operating buses have risen by 20-30% above inflation over the last 10 years; bus fares have risen on average by more than 30% in real terms and demand has fallen by 30%. This has occurred at a time when the demand for travel has increased substantially overall. In contrast, taxi and hire car fares have risen only 10% in real terms and demand has increased significantly.
- \* If costs were to fall by 15% - the saving would be over £200m a year to the taxpayer on services outside London, against a total revenue support (outside London) of £350m.
- \* Comparisons of PTEs and NBC operations show that NBC's average costs per vehicle mile are more than 20% below average costs per vehicle mile in the PTEs.
- \* The costs of private operators are between 30-40% below those of public sector operators. The potential exists for cost reductions of up to 30% of the total costs of public operators.

b. Evidence from practical experience

The need for reform of the bus licensing laws has been clear for some time. Even the last Labour Government admitted that "There is already



a case ..... for some general modification in the licensing law", (Transport Policy White Paper Cmnd 6836), but they did little to change it. It was left to the Conservative Government to act.

The 1980 Transport Act deregulated long distance express coach services excursions and tours. The results were dramatic. Between 1980 and 1983 fares on these services dropped on average by 40% in real terms and 700 new services were introduced. The Act modified the law for local services - removing fares control, but it was still not easy for new operators to move in and compete. The Act also enabled the establishment of Trial Areas within which road services licensing was abolished on application of the County Council. Three such areas have been established in Devon, Norfolk and Hereford and Worcester. The result in all cases has been that there has been no massive decline in services, and no increase in subsidy to offset the loss of cross subsidy. In Hereford and Worcester, the County Council is paying 38% less subsidy, but services in Hereford town have increased and fares have gone down. Fares have fallen in some cases by as much as 40%.

#### Summary

The evidence is overwhelming that the licensing system has contributed to the decline of public transport. It has protected inefficiency, discouraged innovation and has contributed to the escalating need for public transport subsidies. There is substantial evidence from the effects of the 1980 Transport Act that competition benefits consumers and provides better value for money.

#### 5. Questions and Answers

##### Q. Will more competition jeopardise safety?

A: No. To protect the safety of passengers and others on the road, the bus industry is supervised by the independent Traffic Commissioners. Every operator must have a licence from the Commissioners and they take into account maintenance arrangements, financial standing, professional competence and repute. Since 1982, PSVs have been subject to annual mechanical inspection. Drivers have to pass a special driving test and demonstrate medical fitness. The hours they work are restricted by EEC regulations. Vehicles are subject to spot checks. This system of supervision

will be fully retained. More resources will be made available for vehicle inspection and enforcement.

It has been alleged that competition will lead to the growth of unacceptable practices such as speeding and racing to bus stops. In order to deal with this, the Government will be giving the licensing authorities new powers to stop operators who behave foolishly on the road from operating local services at all. Furthermore all operators wishing to run local bus services will be required to register the route and timing of their service with the licensing authority and give adequate notice of withdrawal. Failure to provide registered services will be a further matter which the licensing authority will weigh in considering whether an operator should continue to be allowed to run local services.

Q: Will competition cause congestion?

A: Better and cheaper bus services should ease congestion in many cases by attracting people from their cars. However, there may be a problem in a small number of places like city centres where traffic conditions are already difficult. To deal with any problems, the licensing authority will have reserve powers to impose rules about routes and stopping places in consultation with the police and local authorities.

Q: Will competition lead to the breakdown of co-ordinated bus networks?

A: It is argued that with several independent operators, and without regulations to ensure provision for co-ordination and interchange, sensible arrangements could prove harder to make. But do the planners really know best? Can they really be responsive enough to changing passenger needs? Competition and deregulation will create commercial incentives for operators to cater to the needs of passengers and provide the convenience and facilities they want. Operators will co-operate to ensure their services connect, and through ticketing will still be possible to arrange as it is clearly in the operators interest to arrange services which passengers find convenient.

It is also argued that networks will break down because loss of cross subsidy will lead to withdrawal of unprofitable services. But the effects of withdrawal of cross subsidy will be counter-balanced by the considerable scope for reduced costs and improved efficiency from more competition (as described on page 3).

Q: Won't competition lead to 'wasteful' use of resources and unreliable services?

A: Some people argue that without regulation, the provision of services will be unduly volatile. In part this reflects a distrust of small operators. But given the retention and enhancement of controls over competence and financial standing of operators, such fears are exaggerated. Operators out to make a profit will not hazard the goodwill of travellers, or their reputation with licensing authorities by unreliability or frequent changes in routes, timings or fares. Socialists often argue that competition is 'wasteful' - but the market will provide an effective check on additional services for which there is inadequate customer demand.

Substitution of one operator for another will not be frequent once markets have settled down after deregulation. The actual degree of competition, and therefore the volatility of the market will be much less significant than the potential degree of competition which will exert a downward pressure on costs.

Q: How will the local authorities provide concessionary fares with competing operators?

A: The Government believes that it should be up to local authorities to decide the best way of catering for the transport needs of the elderly and disabled - whether it be by concessionary fares or other means. The Government supports sensible concessionary fares schemes and the White Paper proposes to improve the present arrangements. At present concessionary fares subsidies are sometimes conferred by local authorities to services provided by one operator. The Government proposes to ensure that all operators of local services have the right to participate in concessionary fares schemes where they are provided by the council. The reimbursement by authorities to operators who carry people at concessionary fares should reflect any net loss of fares revenue together with any extra costs of carrying the additional passengers. Existing arrangements are often expensive to the local authority, as they may contain a hidden subsidy to bus operators.

Q: Why do these proposals not apply to London?

A: The London Regional Transport Act transfers the responsibility for the London Transport Executive from the GLC to the Secretary of State, and reconstitutes it as London Regional Transport, with new powers and duties. The legislation requires changes in the way London's buses and tubes are run, requires LRT to contract out work wherever suitable and provides for greater involvement by the private sector in the provision of services both as contractors to LRT and in competition with them. These are major changes and it would not be sensible to subject the organisation of public transport in London to a second wave of change within such a short period. In these special circumstances, the Government has concluded that regulation should remain in London for the time being.

Q: How will the proposals stop anti-competitive practices and unfair competition from larger operators?

A: At present agreements between bus operators are exempted from the application of the Restrictive Trades Practices Act 1976. The Government intends to remove this exemption. Agreements between operators will have to be furnished to the Director General of Fair Trading and will be scrutinised by the Restrictive Practices Court if they contain significant restrictions on competition. If the Court decides restrictions are against the public interest, they will be void.

In order to restrict the ability of large operators to thwart competition because of their size and financial strength, the Government is proposing changes to the structure of publicly owned bus companies. Municipal companies will become companies and after a short period of adjustment, the district councils will be prohibited from providing further funding to subsidise the company. Instead the company will derive revenues either from fares or from local authorities following open tender. The bus operations of Passenger Transport Executives will be broken down into smaller units and turned into companies as soon as possible: as with municipal companies, restrictions will be imposed on funding after a period of adjustment. The NBC Board will have a brief to reorganise the company into parts which can be disposed of as free-standing companies.

Q: Will the break up of NBC result in the loss of express coach services?

A: There is no reason why it should. 'National Express' is the marketing name for express services provided by the individual NBC subsidiaries. It has been a great commercial success. It will be in the commercial interests of the separate companies to work together to continue to provide and market express coach services.

Q: Do the 'Trial Area' experiments prove that safety is jeopardised and passengers get a worse service from competition?

A: It has been alleged that the experience of the Trial Area in Hereford and Worcester has led to unsafe vehicles being used, dangerous driving practices and worse service. The position is as follows:

Competition has led to many services changing hands, a lower request for subsidy and lower costs. The greatest competition has occurred in Hereford town itself. Since the Trial Area, four independent operators have competed with Midland Red (the NBC subsidiary), and three are still doing so: Midland Red responded by making substantial fare reductions, introducing more buses (times to run just in front of those of their competitors) and on one occasion free buses! There have been questions about the quality standards of operators; one lost his operator's licence and another secured licence renewal on a limited basis subject to a review. The Government believes that the need for strict enforcement of safety rules is of paramount importance. The licensing authority will have new powers to stop people behaving foolishly. New registration requirements will ensure that operators provide timetabled services and give adequate notice of withdrawal. New reserve powers will be brought in to enable conditions to be imposed about routes and stopping places. More resources will be given for enforcement.

THE TIMES

## Ferdinand Mount

# Let's make buses more omni 10

Lovers of R. S. Surtees will remember the inimitable beginning of *Mr Sponge's Sporting Tour*. Our hero is seen "mizzling" along Oxford Street, pausing at the "bus-perplexed" Circus, and fetching up at the Edgware Road end, eyeing the many-coloured buses with a wanting-a-ride-like air: "Red, green, blue, drab, cinnamon-colour passed and crossed, and jostled, and stopped". In this riotous confusion of conveyances, Mr Sponge is, as always, master of the situation: "Quietly awaiting the evaporation of the steam, and the disentanglement of the vehicles, by the smallest possible sign in the world, the bus is obliged either to come to or lose the fare, and he steps quietly in."

How unlike our own dear request stops. It is a vanished world; the huge variety of buses, all competing frenetically for custom, seems a far cry from the dignified monopoly of London Transport. Today it is only in remote places such as Hongkong, and Istanbul, and Buenos Aires, that you find buses in profusion and hungry for passengers.

The side-effects of this rationing were masked so long as there was, for most people, little alternative to bus travel. But with the rise of the private car, the effect became visible and dramatic. Since 1955, the number of bus passengers has halved, and subsidies have risen from £71m in 1972 to nearly £1,000m a year today. It is a vicious circle. The longer people have to wait for a bus, the fewer people will be prepared to wait; hence the steeper the losses, and the higher the fares and the subsidies.

This decline is not inevitable. Since the long-distance coaches were de-rationed in 1980, fares have come down on average by 40 per cent in real terms, and 700 new services have been introduced. Yet journeys of more than 30 miles are just the ones for which the private car is most suitable. Millions of people still do not have cars and would love to see cheaper and more frequent

bus services running over any distance from one mile to 800 miles.

Next month, Nicholas Ridley, the Transport Secretary, is to publish his White Paper on Buses. And already the vested interests are limbering up to resist change: the National Bus Company, London Transport, the transport unions, and the great groups of nationalizers, co-ordinators and integrators who have before their eyes the vision of a pure and seamless "transport policy".

Many of the objections raised are already crumbling under the pressure of experience. It is not simply the example of the long-distance coaches with their videos and "in-flight service". (Why do other

forms of transport, such as hovercraft, feel bound to borrow the language of the airways, notoriously the most disagreeable form of travel?). For the past couple of years, there have been three trial areas - in Devon, Norfolk and Hereford-and-Worcester - in which all bus licensing has been abolished for town and country buses alike. The results on these mainly rural services are encouraging if not spectacular. One can hardly blame private operators for entering rather gingerly a field from which they have been excluded for half a century. But, despite the dire predictions of chaos, there are undoubtedly more buses running and costing less, either in fares or in subsidies.

These results are not so very surprising. In parts of Australia, one of the few countries where it is possible to make a direct comparison between state buses and private buses on scheduled services, the running costs of the state buses are reckoned to be up to 50 per cent higher. Private firms can run buses profitably on routes where state operators could not.

This brings up the "bald-tyre cowboys" argument - that private bus firms tend to cut their costs by lowering standards of safety and maintenance. If this objection,

already being voiced by the *New Statesman*, were valid, it would of course be an equally valid objection to the private ownership of taxi cabs (where in fact the inspectors keep up remarkably high standards). Safety licensing, which is vital and should probably be strengthened, is not to be confused with quantity licensing, which is not and should be abolished.

But will there not be traffic chaos and dangerous touting for custom, just as described in *Mr Sponge's Sporting Tour*? Again, there is not with privately owned taxis: fear of losing one's operator's licence is a powerful deterrent to cowboy behaviour. And as for congestion, if every extra bus contains only two people who might otherwise have been driving their cars, congestion would actually be reduced. The unions' fears about unemployment are understandable, but if there are more buses running, there will be more, not fewer, jobs for bus drivers (although not necessarily with London Transport or the National Bus Company).

The best argument of all - and one which ought to appeal to this government as much as it would have to Soapy Sponge - is, simply, liberty: if someone wants to run a bus service, he ought to be allowed to, unless there is an overwhelming reason for stopping him - and there is not.

PASSENGER TRANSPORT BY MODE 1953 - 1983

GREAT BRITAIN

	1953		1963		1973		1983	
	bn Pass km	% of total	bn Pass km	% of total	bn Pass km	% of total	bn Pass km	% of total
Private motor <sup>1</sup>	58	30	158	60	309	77	414	83
Bus and Coach	82	42	64	24	53	13	40	8
Rail	39	20	36	14	35	9	35	7
Air <sup>2</sup>	0.2	0.1	1.3	0.5	2.4	0.6	3.0	0.6
Pedal Cycle	17	9	6	2	4	1	5	1
TOTAL <sup>3</sup>	196	100	265	100	403	100	497	100

<sup>1</sup> car, van, taxi and motorcycle.

<sup>2</sup> includes Northern Ireland and the Channel Islands.

<sup>3</sup> totals may not add due to rounding.

Source: Department of Transport

# CHART 9 TRENDS IN STAGE SERVICE PATRONAGE AND LEVELS OF SERVICE: GB

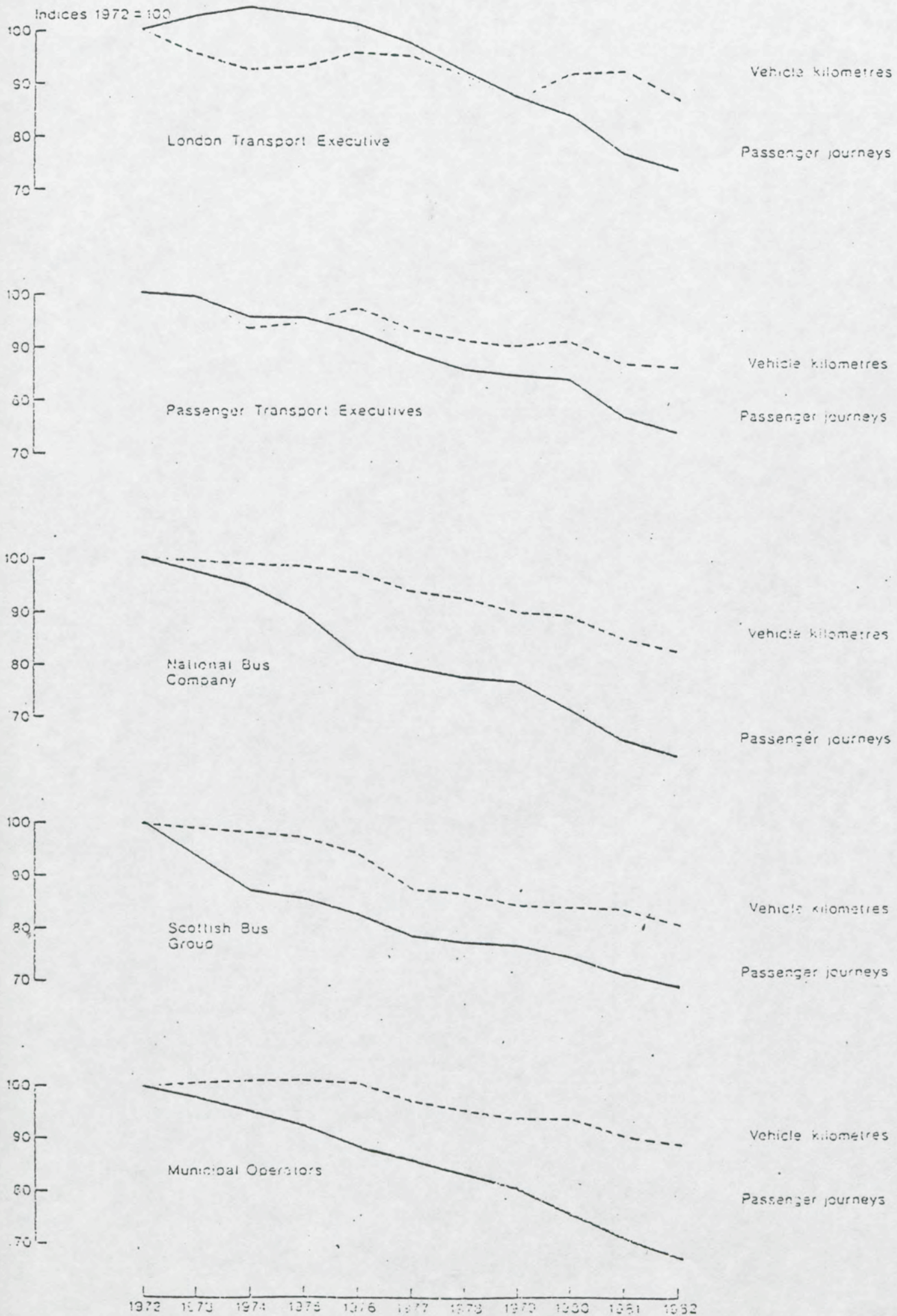




TABLE 17: EXPENDITURE ON SUBSIDIES AND GRANTS: 1972 - 1982 : GB

£ Million

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Fuel duty rebate	21	20	32	38	45	57	59	60	78	93	93
New bus grant <sup>1</sup>	18	21	23	31	39	43	52	62	80	56	40
Price restraint (National Bus Company)	7	-	-	-	-	-	-	-	-	-	-
Payment to operators in respect of concessionary fares	12	20	37	79	95	109	124	137	162	190	235
Infrastructure <sup>1</sup>	1	1	2	2	2	1	1	1	-	-	-
Revenue support from local authorities	10	14	76	185	191	166	165	185	250	400	490
Depreciation and renewal from GLC	-	6	7	8	10	13	14	25	23	27	39 <sup>2</sup>
Capital grants from GLC <sup>1</sup>	2	-	-	-	7	-	-	-	1	14	-
All Grants	71	82	177	345	389	389	415	470	599	780	897

Source Transport Statistics Great Britain 1972-1982

<sup>1</sup> Capital grant<sup>2</sup> Change in accounting procedure

TABLE 19: TRENDS IN REVENUE SUPPORT BY TYPE OF AUTHORITY: 1978/79 TO 1984/85: GB

£ million

	1978/79	1979/80	1980/81	1981/82	Provisional 1982/83	Estimated Outturn 1983/84	Budgeted Expenditure 1984/5
Bus, underground, metro and ferries <sup>1</sup>							
England: GLC <sup>2</sup>	58.0	52.0	94.0	86.0	162.6 <sup>3</sup>	193	190
Metropolitan counties	58.9	79.4	124.6	188.6	227.6	207	206
Shire counties and districts	51.0	66.0	61.3	89.6	88.0	91	96
Wales:	6.0	7.7	8.5	9.5	9.6	11	11
Scotland: <sup>4</sup>	13.3	18.9	40.2	38.7	38.6	34	39
GB Total	187.2	224.0	328.6	412.4	526.5	536	542

Source: Department of Transport, Welsh Office, Scottish Office

1 Revenue support for underground, metro and ferries is relatively small (less than £10m).

2 Excludes depreciation and renewal payments from GLC to LTE.

3 Includes the cost of the "Fares Fair" policy incurred in 1981/2.

4 Buses and ferries only

18: REVENUE SUPPORT AND RECEIPTS PER PASSENGER JOURNEY 1972-1982: GB

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Revenue Support (£m)	10	20	83	193	201	179	179	210	278	427	529
RII (1980 = 100)	32.5	35.5	41.1	51.1	59.6	69.0	74.7	84.8	100.0	111.9	121.
Revenue Support at 1980 prices (£m)	31	56	202	378	337	259	240	248	278	382	435
Stage Receipts (including discretionary fare contributions) (£m)	440.3	464.0	509.0	667.9	813.3	895.7	983.9	1069.9	1266.4	1320.9	1438.
Stage Receipts at 1980 prices (£m)	1354.8	1307.0	1238.4	1307.0	1364.6	1298.1	1317.1	1261.7	1266.4	1180.4	1183.
Stage Passenger Journeys (million)	7873	7839	7682	7498	7112	6833	6596	6443	6200	5685	5490
Revenue support (p) per stage passenger journey at 1980 prices	0.4	0.7	2.6	5.0	4.7	3.8	3.6	3.8	4.5	6.7	7.
Receipts (p) per stage passenger journey at 1980 prices	17.2	16.7	16.1	17.4	19.2	19.0	20.0	19.6	20.4	20.8	21

Source: Transport Statistics Great Britain 1972-1982

Note: Fuel duty rebate is excluded, but revenue support includes depreciation and renewal payments from GLC to LTF.

TABLE 19: TRENDS IN REVENUE SUPPORT BY TYPE OF AUTHORITY: 1978/79 TO 1984/85: GB

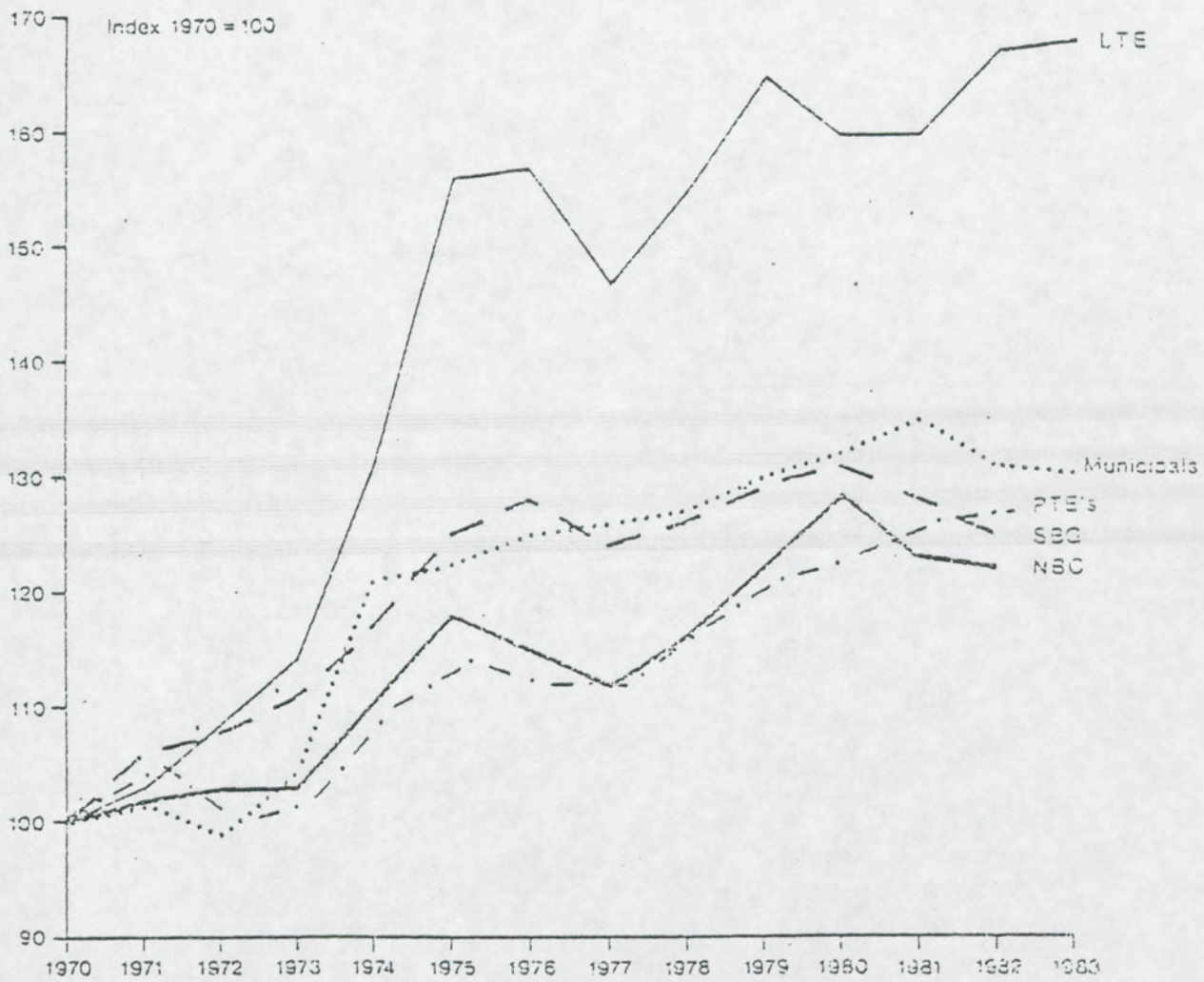
£ million

	1978/79	1979/80	1980/81	1981/82	Provisional 1982/83	Estimated Outturn 1983/84	Budgeted Expenditure 1984/5
Bus, underground, metro and ferries <sup>1</sup>							
England: GLC <sup>2</sup>	58.0	52.0	94.0	86.0	162.6 <sup>3</sup>	193	190
Metropolitan counties	58.9	79.4	124.6	188.6	227.6	207	206
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Scotland: <sup>4</sup>	13.3	18.9	40.2	38.7	38.6	34	39
GB Total	187.2	224.0	328.6	412.4	526.5	536	542

Source: Department of Transport, Welsh Office, Scottish Office

- 1 Revenue support for underground, metro and ferries is relatively small (less than £10m).
- 2 Excludes depreciation and renewal payments from GLC to LTE.
- 3 Includes the cost of the "Fares Fair" policy incurred in 1981/2.
- 4 Buses and ferries only

CHART 23 TRENDS IN REAL COSTS PER  
VEHICLE-KILOMETRE GB



Source: Department of Transport

1983 figure is provisional.

FARES IN THE TRIAL AREA BEFORE AND AFTER THE CONTRACT PROCEDURE

From	To	Former Operator	New Operator	Former Fare (p)		New Fare (p)	
				S	DR	S	DR
Ledbury	Hereford	Midland Red	Morris	110	175	75	150
Tarrington	Hereford	" "	"	90	145	50	100
Lugwardine	Hereford	" "	"	55	90	40	80
Tillington Common	Hereford	" "	Flashes	80	-	30	-
Widemarsh Common	Hereford	" "	"	20	-	10	-
Much Marcle	Ledbury	" "	Smiths	65	105	36	72



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Covering Confidential  
Prime Minister ①  
Content?

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
LONDON  
SW1

10 July 1984

Yes - delete  
one  
unnecessary  
statement  
not

Dear Andrew,

I enclose a draft of the statement on bus policy which my Secretary of State proposes to make in the House on Thursday 12 July. He would be grateful for any comments by 6pm on Wednesday 11 July.

Copies go also to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Lord Privy Seal, the Secretary of State for Trade and Industry and to the Chief Whip and Sir Robert Armstrong.

Yours,  
Dinah

MISS D A NICHOLS  
Private Secretary

CONFIDENTIAL

DRAFT STATEMENT

THE BUS INDUSTRY

1. With permission, Mr Speaker, I would like to make a statement about the bus industry.

2. The Government has now completed the review of the bus industry of which I informed the House on February 14. Bus passengers and taxpayers are not being well served. Over ten years, the cost of local bus services have risen by up to 30% in real terms. Fares have gone up by over 30% in real terms.

Subsidies have risen while services and useage have declined.

Rural bus services are causing serious concern. [We have decided

to act.] <sup>N.P.</sup> The discipline of competition in the market place can bring great increases in efficiency, and cuts in fares. This has been shown by the deregulation of coach services in 1980. If new ideas and new services are allowed to flourish, then the total public transport market can expand, with advantage to operators, workers, and above all passengers. It is the users of buses who should come first, and they are the less-well off members of our society. The Government's proposals are set out in a White Paper published today and copies of which are now available in the Vote Office.

*This will trip long later 1 year*



**CONFIDENTIAL**

3. We propose to introduce legislation at the earliest opportunity to remove restrictions on competition in local bus services. We shall abolish road service licensing throughout Great Britain, except for the time being in London where new arrangements have just been introduced. We attach the highest priority to maintaining standards of safety, and quality supervision of operators will continue and be tightened, with more resources devoted to the purpose.

4. Local authorities will be responsible for providing subsidy to socially necessary services which are not otherwise viable in a free system. They will let contracts on the basis of competitive tenders. Support for these services will thus be made specific and transparent. Concessionary fare schemes for the elderly and disabled will continue but must be open to all operators on an equitable basis of costing.

5. These policies will benefit rural communities, for whom public transport links are vital. Rural passengers will benefit from competition, more flexibility and new ideas. In addition we shall take two special measures to aid rural transport. The first is a transitional grant, paid to operators of rural services. This will last 4 years reducing in equal steps from a starting level of up to £20m. The second is a special fund of up to £1m to finance innovation in rural transport. I am glad to say that this will be

**CONFIDENTIAL**

administered by the Development Commission. We shall explore ways for wider use of services run by education, health and social service authorities and the Post Office, and simplify the law on voluntary operation of minibuses.

6. The structure of the bus industry must be changed to remove the dominance of very large public sector operators and to allow competitors an opportunity to enter the market. Passenger transport executives will be required to break down their operations into smaller units as separate companies. The National Bus Company will be reorganised into smaller free-standing parts which can be transferred to the private sector. District Councils which own bus operations will be required to put them at arm's length into companies, which they will still own, but to which subsidy will be provided only through tenders and made transparent. Agreements between bus operators will be made subject to the Restrictive Practices Court. We will widen the opportunities for taxis and licensed hire cars, by introducing new rules enabling them to carry several passengers at separate fares in certain circumstances.

7. We shall issue consultation papers on the detailed implementation of a number of these proposals.

**CONFIDENTIAL**

8. These changes reverse a policy of protection which has lasted for over 50 years. This strait jacket is now producing high cost and inadequate services. The Government's proposals will give the opportunity for the many able managers in the bus industry and for others, with enterprise and initiative, to offer better services to the public, at less cost.

SECRET

10 July 1984

PRIME MINISTER

SEALINK

The Department of Transport gave me the following verbal resumé prior to tomorrow's meeting on Sealink.

Trafalgar House and Ellerman Lines (now owned by a holding company chaired by Lord Matthews, Deputy Chairman of Trafalgars) have both decided not to bid. After extensive study, including an accountant's report, they have decided that the losses being incurred and the need for substantial redundancies rule out their interest in making any reasonable bid. I have recently seen Nigel Broackes, who has confirmed that he made this clear to the Secretary of State and will reaffirm it again publicly if necessary.

The consortium involving Charterhouse, J Rothschild, Globe Investment Trust, National Freight Company and James Fisher, produced a heavily conditional bid in the range of £25-35 million.

Common Brothers and a Mr Cardy (a would-be entrepreneur who does not seem to have a great deal of substance behind him) stated by 6 July - the deadline for bids - that they did wish to bid, but it would take them a few more days to mount their offer.

SECRET

SECRET

This leaves the Department of Transport with the Sea Container bid which was in time and amounts to some £66 million.

The Conditions of the Sea Container Bid

£34 million is payable on completion, £6 million by the end of 1984, and £26 million in the form of repayment of loan stock over a period to be negotiated.

Sea Container are seeking 5-year British Rail contracts on five loss-making services. If they do not receive satisfactory BR contracts, up to £17 million would have to be deducted from their bid for closure of these services.

They are seeking the indexing of preserved pensions in the BR scheme to wages, not prices.

They wish BR to fund the cash loss for calendar 1984 - well over half this loss is down to the BR account anyway: this would amount to some £5 million.

They would like all passenger traffic through Kent to be routed to Dover, and all freight traffic to be routed to Folkestone. This would entail the closure of Folkestone Dock station, and some other consequential adjustments: the Secretary of State for Transport has made it clear to them

SECRET

that he has to act in a judicial capacity and he cannot guarantee this.

On the good side of their bid, they have signed the defence undertaking; they will offer a share option scheme for the management; and they intend to float the company later, having made it profitable, and at that stage will offer employees preferential share terms. Morgan Grenfell and Hill Samuel, BR and the Department of Transport's advisers respectively, recommend accepting the Sea Container bid; and the BR Board is in favour of it, subject to resolving the outstanding issues.

Possible Problems with the Sea Container Bid

1. We should determine promptly whether Common Bros. and/or Mr Cardy do want to buy, and at what price. They are already out of time, but they should be given the opportunity to bid in the next day or two to avoid them using contacts with the PAC to allege that the competition was unfair. Although everybody had an opportunity to bid by 6 July, BR were late in producing some of the documentation.
2. The Sea Container bid is generous on an earnings basis. The company is currently loss-making and has been loss-making after interest in 4 of the 5 years 1980-84. However, it represents a substantial discount to the

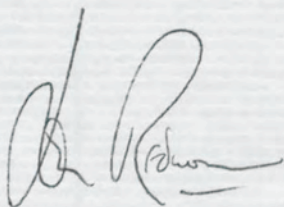
SECRET

asset value of £128 million. It will have to be explained to the press and public that assets are not worth their book value if they are loss-making and badly managed. The company has required £50 million of public cash in the last 4 years.

3. We are told that Sea Container does wish to run the main parts of the business and make them profitable, and is not interested in asset-stripping. It will be important to get this across as well.

#### Conclusion

We should welcome the Sea Container bid as our only hope. BR and Sealink between them have delayed for far too long, and have failed to deliver on their promises of improved performance and profitability, leading to a better sale price. The existing management has demonstrated its incompetence over the last 5 years, and should now be relieved of its task. Nicholas Ridley should be encouraged to get an early signature on a piece of paper committing both parties to this deal.



JOHN REDWOOD

SECRET



WBP 1 2 pps.  
9/7  
DEPARTMENT OF TRANSPORT  
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01-212 3434

ceho.

Colin Jones Esq  
Private Secretary  
The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales  
Welsh Office  
Gwydyr House  
Whitehall  
LONDON SW1A 2ER

JUL 9 1984  
9 July 1984

Dear Colin

BUS WHITE PAPER

Thank you for sending Chris Butler's comments on the Annexes to the White Paper to Dinah Nichols here. Officials of this Department have discussed these with him and as a result we have made a number of very useful amendments. My Secretary of State does not, however, share his view that the Annexes should avoid dealing with material which could be used by the policy's opponents. Their purpose is precisely to demonstrate that the Government has fully considered the issues and to put the arguments of those who oppose competition in proper perspective.

Copies of this letter go to the Private Secretaries of all members of E(A).

yours sincerely,

Henry Derwent

H C S DERWENT  
Private Secretary



Privatisaten: Econ. Pol. Pt 10.

• 9 JUL 1984





NDPM 9/7  
Clerk (letter only)

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

RETURN  
TO CF

Richard Hatfield Esq  
Private Secretary  
Sir Robert Armstrong GCB CVO  
Secretary of the Cabinet  
Cabinet Office  
70 Whitehall  
LONDON SW1A 2AS

9 July 1984

Dear Mr Hatfield

The meeting of E(A) on 28 June (E(A)(84)16th) approved the main text of the White Paper on Buses, subject to changes agreed at that meeting and to minor and drafting amendments and invited my Secretary of State to agree with members of the Sub-Committee the text of the three annexes which are to be published as part of the White Paper. This has now been done.

I now attach the final version of the whole White Paper, which is now called "Buses", for information. It is intended to publish it on 12 July.

Copies of this letter go to the Private Secretaries of all members of the Cabinet.

Yours sincerely

Henry Derwent

H C S DERWENT  
Private Secretary

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No 1314

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CHAPTER 1  
THE OPPORTUNITY

1.1. Britain needs good bus services. Over 10 per cent of all journeys are made by bus and three quarters of those journeys are for essential purposes - work, school, business, shopping. Most of the people who take the bus are in less well paid jobs or unemployed, women, pensioners or schoolchildren. Most of them come from the 39 per cent of households in this country who do not have the regular use of a car.

1.2. Since the great majority of the population live in towns, the biggest use of public transport is also in the towns, where buses carry large numbers of people to and from work and school in the peak hours. Indeed in our biggest cities, the high level of service throughout the day means that people can get to all the facilities the city offers without needing a car and so can enjoy all the benefits of city life. But policies for public transport must also take care of the interests of country dwellers. People who live in the country without a car depend on the bus for access to the local towns and for their social activities; maintaining these links is vital for the future of rural communities.

1.3. But despite the need for public transport, and the substantial financial support provided by central and local government, local bus services have been contracting for years. Since 1953 bus and coach passenger kilometres have halved and the bus share of total travel has gone down from 42 per cent to 8 per cent. Rural transport has become costly and sparse. In some of our major cities the cost of subsidising public transport is now unacceptable. Over the country as a whole revenue support has gone up from £10m in 1972 to £520m in 1982 a thirteenfold increase in real terms. The big rise in car ownership since the

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early 1950s has changed patterns of personal travel and made it more difficult to provide good public transport. But the framework of regulation has also stopped the industry making changes to meet today's travel needs.

1.4. For 50 years from 1930 to 1980 local bus services were subject to a highly restrictive licensing system. Within this system the belief grew up that the way to provide comprehensive public transport is to protect the existing operators so that their profits from popular routes can cross-subsidise services for which there is less demand. The result of these worthy intentions has been to maintain a pattern of services developed for a different age and to neglect the best parts of the market. There has been too little incentive to develop markets, to woo the customer. Operators have been hampered by a philosophy that is defensive and inward-looking. For too long they have been placed in the highly discouraging position of having to argue with the traffic commissioners about every new service which might affect some part of the existing network. In 1980 Parliament began to remove the barriers to competition by making it easier for operators to run new services. The last four years have shown that the industry has able and energetic managers who are ready to take advantage of new opportunities and that there is life in the bus market where operators have been prepared to try new ventures. It is now time to go further.

1.5. There is good evidence that services could be improved and costs reduced if we went about it in a different way. Without the dead hand of restrictive regulation fares could be reduced now on many bus routes and the operator would still make a profit. New and better services would be provided. More people would travel. This is not idle speculation. In 1980 the Government removed regulation from the long distance coach services. As a result fares have come down, new services have

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been provided, the number of people travelling has gone up, new vehicles with greater comfort compete for custom. Competition has done all this - and the customer is the beneficiary.

1.6. If the customer has the final say, bus operators will look keenly to see where and when people want to travel. If one operator fails to provide a service that is wanted, another will. They will be stimulated to provide a greater variety of services, using different types of vehicles running on different routes or frequencies, offering more choices to meet peoples' needs. Competing minibuses may offer a fast and frequent service in city centres. Shared taxis may provide transport for people in villages. New services may link residential areas with out-of-town shopping centres. Operators will not be slow to find out what passengers want.

1.7. Competition also brings continuing pressure to keep costs down. In the 10 years from 1972 to 1982 the cost of operating buses went up by 15-30 per cent over and above inflation and bus fares by more than 30 per cent. Yet motoring costs have hardly risen over the same period. Of course the advent of the private car has put pressure on operators but that is not a reason why the costs should have risen so fast. It has not happened in the taxi and hire car industries which are even more labour intensive. They too have faced competition from private cars but their markets have grown. In contrast to the increases in bus fares and the 30 per cent fall in demand for bus services in the same decade taxi fares rose by only 10 per cent in real terms and demand increased significantly.

1.8. The way in which the bus industry is organised, the protection it works within and the way in which subsidy has been paid have conspired to keep costs higher than they need be. Leaving London aside, if costs were to fall by 15 per cent -

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which is less than the increase since 1970 in the unit costs of public sector operators - the saving would be over £200 million a year, against the total cost of revenue support of about £350 million.

1.9. There will always be many socially necessary but unprofitable services which local authorities will want to support. Here again the Government believes that competition must help to ensure that the community sees better value for money from subsidised services. This is just what has happened in the "trial areas", set up at the request of county councils under the Transport Act 1980, in which road service licensing has been removed from local services. In each of the areas the county has been able to obtain better value for subsidy payments and in none has deregulation brought the loss of services which some predicted. The pattern has changed and services are now more in line with travellers' real needs. Annex 3 describes more fully what has happened in the trial areas.

1.10. This shows that with imagination it is possible to obtain better value for money for services in rural areas. The financial problem is in the urban areas. The big subsidies are being paid in London and the metropolitan counties. In England those areas, with 40 per cent of the population, account for over 80 per cent of revenue support to bus services and the bill has been rising rapidly from £117 million in 1978-9 to a budget figure of nearly £400 million in 1984-5. In the shire counties, in contrast, total revenue support payments have not increased dramatically and remain below £100 million.

1.11. The Government does not regard such big metropolitan subsidies as necessary or unavoidable. Steps can and must be taken to bring them back to a more reasonable level, in line with the Government's overall public expenditure plans. In some cases

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fares have been held down to artificially low levels or services maintained where there is little demand for them and that will have to change. But it is too easy at present for local authorities and operators to claim that the only alternative to high subsidies is massive fare increases and drastic service cuts. There is another way - to improve efficiency and reduce costs. The present licensing and subsidy arrangements, without the spur of competition, protect the operators rather than their customers. That balance must be changed.

1.12. The total travel market is expanding. New measures are needed urgently to break out of the cycle of rising costs, rising fares, reducing services, so that public transport can win a bigger share of this market. We must get away from the idea that the only future for bus services is to contract painfully at large cost to taxpayers and ratepayers as well as travellers. Competition provides the opportunity for lower fares, new services, more passengers. For these great gains, half measures will not be enough. Within the essential framework of safety regulation and provision for social needs, the obstacles to enterprise, initiative and efficiency must be removed. The need to act is urgent.

1.13. The Government therefore proposes to introduce legislation at the earliest opportunity. The legislation will make major changes to arrangements for the bus industry, so that it is set free to give a better service to the passenger at less cost to the ratepayer and taxpayer.



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CHAPTER 2

THE GOVERNMENT'S PROPOSALS

2.1. The Government's proposals concern all aspects of public road transport in Great Britain. They are set out in the following chapters. While broadly the same problems and opportunities exist throughout the country, the position in and proposals for Scotland differ in some respects and are described in chapter 7. The annexes bring together factual material and technical analysis on the major issues. The proposals, in summary, are as follows:-

2.2. - Bus services will be freed from restriction on competition by abolishing road service licensing throughout Great Britain (except for the framework of controls in London which will be retained for the time being). (Chapter 4)

2.3. - Supervision of the quality and safety standards of public service vehicles and operators will be maintained and tightened. Further resources will be provided for this. (Paragraphs 3.1-2 and 4.15)

2.4. - Many essential bus routes are not and never will be viable, and local authorities will be able to continue to subsidise services that would cease in the free market. But they will be required to seek competitive tenders for contracts to run bus services which they wish to subsidise. (Paragraphs 3.4-3.8)

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- 2.5. - Concessionary fare schemes will continue and all operators will be enabled to participate in them on an equitable basis. (Paragraphs 3.9-3.10)
- 2.6. - The Government is determined to foster public transport in rural areas. Additional resources will be made available to help with problems in these areas. There will be a special innovation grant and a transitional grant for rural services. Wider use of services run by education, health and social services authorities, the Post Office and others will be explored. (Paragraphs 3.11-3.13)
- 2.7. - The structure of the bus industry must be allowed to change to meet market needs. The National Bus Company will be reorganised into smaller free-standing parts which will then be transferred to the private sector. The Government will welcome bids from the employees. Passenger Transport Executives (PTEs) will be required to break down their operations into smaller units, which will become independent companies. Municipal bus operations will be incorporated into companies still owned by their district councils. After a suitable transitional period, both PTE and municipal companies will stand on their own feet. They will compete with other operators for passengers and for contracts to run subsidised services. (Chapter 5)

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- 2.8. - Taxis and licensed hire cars will be allowed to carry passengers at separate fares in certain circumstances. It is also intended to begin a gradual relaxation of the restrictions on numbers of taxis which apply in some areas. The Government will be consulting the parties concerned on each of these proposals. (Chapter 6)
- 2.9. - In Scotland, as elsewhere, quantity restrictions will be scrapped and quality controls strengthened. Special measures will be taken to improve services in rural areas. Subsidy will be subject to open tender and the structure of the municipal and PTE operations will be changed to improve efficiency and reduce costs. (Chapter 7)
- 2.10. - The Government intends to bring a Bill before Parliament at the earliest opportunity and, subject to Parliamentary approval, to bring in the proposed changes without further delay.

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CHAPTER 3

THE ESSENTIAL FRAMEWORK - SAFETY AND SOCIAL NEED

Safety

3.1. To protect the safety of passengers and of others on the road, the bus industry is supervised by the independent traffic commissioners. Every operator of a public service vehicle must have a licence from them. Maintenance arrangements, financial standing, professional competence and repute are subject to scrutiny. Public service vehicles have since 1982 been subject to annual mechanical inspection. Drivers have to pass a special driving test and demonstrate medical fitness, for a separate licence. Drivers' hours are restricted by EEC regulations or under the Transport Act 1968. Vehicles are subject to spot checks. This system of supervision will be fully retained, and reinforced.

3.2. Satisfactory quality control does not require quantity restriction. This is shown by the non-stage carriage parts of the bus industry, by road haulage and by the London taxi system which everyone recognises is of very high quality although there is no limit on the number of cabs. Nonetheless, competition in local bus services will call for particularly careful supervision of the behaviour of operators and their safety standards. For this reason it is proposed to strengthen the law to allow new conditions to be attached to licences of operators of local services. This will be linked with a requirement described in 4.15-4.16 for registration of services. A high priority will also be given to checks of maintenance facilities and mechanical condition. Additional resources will be provided for that. There will be offsetting savings from the abolition of road service licensing.

3.3. At present there are three traffic commissioners in each traffic area, responsible for licensing local bus services and

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operators of public service vehicles. By contrast, licensing operators of goods vehicles is the responsibility of a single person, the "licensing authority" in each traffic area. Once road service licensing is abolished, it will no longer be appropriate to retain the traffic commissioners. It is therefore proposed to unify the authority for licensing operators of goods and of passenger vehicles. Appeals of road haulage operators against decisions of the existing licensing authorities lie to the independent Transport Tribunal. The Government intends that the Tribunal should in the same way hear appeals by bus operators which at present come to the Secretary of State.

### Social Need

3.4. County councils and certain district councils are now accustomed to deciding which services are socially necessary and should be kept going by subsidy. The Government intends to build upon this vital function. But it is for the local authorities to decide which services to support and how much of the resources available to them to allocate to this purpose. Deregulation will enable councils to see clearly which services can be sustained by the market and which need to be met by subsidy. New arrangements should help them obtain better value for money - even, better services for less money. This means changes in the powers and duties of local authorities and in the way the level of subsidy is decided for particular services.

### County Council Duties

3.5. At present county councils have duties to co-ordinate public transport set out in Section 9 of the Transport Act 1968 (for metropolitan counties) and Section 1 of the Transport Act 1978 (for non-metropolitan counties). Operators and district councils are also required to co-operate with counties and with each other for this purpose. The Government does not believe that such comprehensive planning is appropriate for those

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services which can be provided commercially. It is for passengers to demonstrate what they want and for operators to respond. The Government therefore intends to change the present duties of county councils (or in metropolitan areas their successors) to one requiring them to secure the efficient provision of such transport services as they believe necessary, after due consultation, but which are not provided by a free market. Authorities will also need to co-operate with each other to secure the most cost-effective provision of subsidised services which run across boundaries.

### Revenue Support

3.6. At present, bus operators often negotiate with the responsible local authority a blanket subsidy to run a large bus network. Typical agreements provide for local authorities to meet the actual net costs incurred, within a ceiling. This means that once the arrangement is settled the incentive for operators to improve their performance is blunted because the benefit will accrue mainly to the local authority, not to them. For its part the local authority has little choice of operator and for that reason cannot fully judge whether the services it buys are being provided efficiently and at the lowest cost. Some authorities have developed systems for monitoring and evaluating operators' use of subsidy but that can only determine relative performance within the existing framework of regulation and network subsidy.

3.7. This method of paying subsidy for networks also conceals from those who have to pay - the ratepayer and the taxpayer - the true cost of the individual services being provided. Subsidy can be used more efficiently if there has been a competitive bid for it, and the purpose for which it is paid and amount provided are made clear. Some authorities are already moving in this direction but the licensing system limits the extent to which

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competition for contracts can develop. The removal of licensing will provide the opportunity for genuine competitive tendering. So, to help obtain the best value for money the Government will require local authorities to invite operators to tender for contracts to run subsidised services. Such tendering, as it is progressively introduced, will bring cost reductions as more competitors emerge. Authorities will need to adopt forms of tendering which do not inhibit competition but it should not be necessary to impose detailed provisions by statute. Some additional staff effort may be required to administer the new arrangements.

3.8. The Government will be consulting representatives of all those concerned about the arrangements for tendering and about how quickly they can be universally applied. The power in the Transport Act 1978 for shire district councils, as well as county councils to subsidise unprofitable services will remain.

### Concessionary Fares

3.9. Many local authorities have exercised their powers to provide for concessionary fares for disabled people and the elderly. The origin of the concessions was that such people could travel less expensively in off-peak times when seats would otherwise be empty. The Government supports such sensible schemes although it considers that it is local authorities who should decide whether to have one. They should not be confined, as is sometimes the case, to services provided by one operator. The Government proposes to ensure that in future all operators can participate in the local concessionary fares scheme and will consult those concerned about the practicalities of running schemes where there are several operators.

3.10. The reimbursement by authorities to operators who carry people at concessionary fares should reflect any net loss of

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fares revenue together with any extra costs of carrying the additional passengers. In other words, the operator should be left no better and no worse off than he would otherwise have been. This is not always the case with existing arrangements which can provide a hidden subsidy to bus operators. In some cases this is a major distortion and must be removed. The Government will therefore consult on arrangements to secure that payments to operators more truly reflect the cost of providing these concessions.

### Rural Areas

3.11. In the more sparsely populated parts of the countryside the decline of bus services causes special concern. Local authorities have to ensure that transport is available for rural communities even though the number of potential passengers is small. A free market will help but cannot on its own solve this. The Government proposes supplementary measures to help county councils to modernise and improve rural transport services and will be monitoring their effect in the context of deregulation. First, innovation must be encouraged. A new grant will be created to encourage new transport schemes for communities in rural areas. In England the grant will be for up to £1 million a year administered by the Development Commission. Similar arrangements will be made for Scotland and Wales. Second, competitive tendering will help authorities to achieve much better value for money for the services they decide to support. But the full benefits of tendering will not be felt immediately. So, third, the Government will make available additional help to maintain vital rural services in this transitional period. This will take the form of a special grant available for four years and paid direct to operators of eligible services in rural areas. The total value of the grant will be up to £20 million in the first full year phased out in even steps in subsequent years.



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Community Provision

3.12. In addition, the Government wants to see the best use being made of transport already provided for special purposes and of community and voluntary effort. The Government has encouraged the provision of community buses, post buses and the use of school buses to help serve the general public. There are undoubtedly opportunities for the use of vehicles operated by other bodies - public and private - for providing wider public transport. The Government will consider, in consultation with those concerned, how to stimulate the better use, particularly in rural areas, of services run on behalf of education, health and social services authorities, the Post Office, private firms and others.

3.13. There is another important transport resource which can be drawn upon. Nationally there are more minibuses on the roads than larger buses and coaches. About one-third are already in use as public service vehicles or by various statutory bodies but the remainder belong to firms, voluntary and charitable organisations and private individuals. The Government wishes to see these vehicles used to the widest possible extent. Successive Acts of Parliament have worked towards this, but have now led to complexity in the regulations governing minibuses, and standards of construction and equipment which vary according to the use to which they are put. The Government proposes to clarify and simplify the law governing minibus operation and to unify the different standards of construction and equipment into a single set of regulations. The Government will consult widely about these proposals.

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CHAPTER 4

THE BENEFITS OF CHANGE

Road Service Licensing

4.1. The operator of a local bus service outside London<sup>1</sup> needs a road service licence for the service before he can start operating. The arrangements for licensing were introduced in the Road Traffic Act 1930. The circumstances then were very different from today. There were no national safety provisions to protect the public, no minimum standards for vehicles and their maintenance, no need to pass a driving test or demonstrate fitness to operate bus services. Traffic regulation was in its infancy. There was understandably widespread concern about the effects of competition on the roads. Operators under pressure from Government to improve standards - at their own expense - felt justified in seeking quantity regulation to protect their investment. And the prevailing wisdom at that time, that 'wasteful' competition was a bad thing and should be outlawed, fitted the operators' case.

4.2. The licensing system introduced in 1930 was from the start very restrictive. Operators had to demonstrate a need for their services. The aim was not only to avoid wasteful competition but to keep the number of services to a minimum in the interests of public safety. This entrenched established operators and made it virtually impossible for a newcomer to start up a bus service without their consent. In due course the effect was to institutionalise a system of cross-subsidy and standard fares.

<sup>1</sup>Within Greater London, London Regional Transport (LRT) and its subsidiaries or any operator providing a service under an agreement with LRT may operate bus services without a road service licence. Other operators must obtain a road service licence from the traffic commissioners as elsewhere.

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4.3. For a long time the disadvantages of such a system were largely hidden. The market grew steadily, services expanded, fares remained stable and operators made money. In the mid-50s all that began to change very rapidly. More people began to buy cars. Profits dried up and operators were left struggling to try to keep their large networks going. They tried to put fares up. To the extent that the traffic commissioners allowed that, the effect was to drive passengers away faster. At that time differential pricing to protect markets was strongly discouraged. In their anxiety to maintain existing services, operators neglected the good routes and were slow to adjust their operating methods to the changed conditions.

4.4. In the early 1970s the Conservative Government recognised that licensing had become a hindrance to tackling the bus problem. An attempt was made in 1974, just before the General Election, to deregulate services provided by small buses. The first major steps of relaxation came in 1977 and 1978 when the Labour Government altered the criteria for granting licences, gave new prominence to the role of county councils and public transport policies, and brought in provisions to encourage new services in rural areas (the "experimental areas" and community buses). The move was very cautious. After nearly 50 years of licensing, that was hardly surprising.

### The Results of the Transport Act 1980

4.5. In 1980 the Government felt the time was long overdue to test the underlying opportunities for developing the bus and coach market. The Transport Act 1980 abolished road service licensing for long distance coach services, on which passengers travelled at least 30 miles. There was vociferous opposition from important sectors of the industry. But the legislation has certainly been justified: the results have been dramatic. Recent research by the Transport and Road Research Laboratory (TRRL)

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suggests that between 1980 and 1983 fares on these services dropped on average by 40 per cent in real terms and 700 new services were introduced.

4.6. The 1980 Act also introduced provision for county councils to set up "trial areas" in which road service licensing is abolished. Three counties, Devon, Hereford and Worcester, and Norfolk have taken up the opportunity. Annex 3 reports in detail what has happened in their trial areas. All cover large tracts of the countryside - indeed the very sort of areas which it is claimed benefit most from cross-subsidy. Yet there has been no massive decline in services to the rural communities in these areas. Nor have the County Councils had to provide increases in subsidy from the ratepayer to offset the loss of cross-subsidy. In the Hereford and Worcester trial area, the County Council is paying 38 per cent less subsidy to rural services and there have also been reductions in the cost of taking children to school. The only reductions in services (amounting in total to the equivalent of half the service provided by a single bus) were those which the Council say they would have made in any case. Moreover, in Hereford town itself, which is within the trial area, the number of bus services has increased and fares have gone down. This has also happened on routes between country towns. So the abolition of road service licensing can provide real benefit in rural areas.

4.7. The 1980 Act also changed the criterion for the grant of road service licences for local bus services, placing on the traffic commissioners a duty to grant a licence unless to do so would be against the public interest. The Government hoped that this would stimulate competition locally. But that has not proved to be the case to any great extent. There are two reasons for this. First, the present system allows existing operators to object to the grant of a licence and to appeal if the licence

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is granted. A small operator may not be able to face the expense of fighting an objection. Second, large operators have used their financial strength, based on their existing licences or the public purse, to try to defeat competition as it emerged.

The Case for Change

4.8. The Government now proposes to extend the successful deregulation of the long distance bus services and in the trial areas by abolishing road service licensing throughout Great Britain. London is to be excluded for the present as explained in paragraph 4.18.

4.9. Annex 2 provides a critique of regulation and shows why the Government believes that abolition of road service licensing will bring big benefits. On many services passengers will pay lower fares. The costs of services will go down. There will be more variety in the kinds of service offered. New operators will be prepared to come in, providing new jobs. Overall patronage should increase. And the industry will be ready and able to respond in the future to changing patterns of living, working and leisure.

4.10. The benefits may extend beyond existing profitable routes, as the trial area experience shows. First, services which are unprofitable for a large operator may be profitable to smaller ones particularly where, as perhaps with evening services, they can integrate them with their other business, such as works or schools contracts. Second, there is evidence that the costs of private operators working mostly in the unregulated parts of the market - in excursions and tours, contract and private hire - are 30 to 40 per cent below those of public sector operators who mainly provide local services. Of course there are good reasons why it costs more to provide a reliable local service all day and every day, often on congested roads, than it costs to run a

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service once a day on contract, but this does not account for the whole of the difference. Appendix A to Annex 2 examines what the cost differences are and where there is scope for bringing costs down. After careful review of all the evidence, the Government has concluded that the potential exists for cost reductions of up to 30 per cent of total costs of public operators. Competition is the only way to secure and sustain these efficiency gains.

4.11. Over time, competition will end non-commercial cross-subsidy. There is a strong view in the industry and among some local authorities that that will be detrimental. The House of Commons Transport Committee in its recent report "Transport Aspects of the 1984 Public Expenditure White Paper" appeared to think so too and for that reason urged caution in approaching deregulation. The Government believes this view to be wrong.

4.12. Some cross-subsidy is applied for good commercial reasons. Operators may run services, for example late at night or early in the morning, which lose money in order to provide a service which will ensure that passengers continue to use the bus rather than take to the car. But most cross-subsidy goes to finance services which, on a commercial basis, the operator would not provide.

4.13. That kind of cross-subsidy has perverse effects. It raises fares on the more heavily used routes higher than is necessary for profitable operation in order to preserve services for which there is less demand. So it drives people away from using buses. Fare rises lead to a loss of patronage equal, on average, to about 3 per cent for every 10 per cent real fare increase. Thus, far from protecting bus services, cross-subsidy has increased the rate of their decline. It may also have perverse social effects. Users of bus services are mainly the less well off; yet cross-subsidy requires some passengers to take

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on their shoulders the burden of maintaining services for other bus users regardless of their ability to do so. This is as much historical accident as a calculated decision. Moreover, protection under regulation enables operators to switch resources from one part of the country to another. In this way areas with lower car ownership which depend most on bus services may pay more than they have to so as to keep ill-used services going in other places. Thus in two ways, cross-subsidy produces unwelcome social effects. Appendix B to Annex 2 further describes the extent of cross-subsidy and analyses its effects. For all these reasons the Government rejects the argument that cross-subsidy ought to be preserved.

4.14. It is strongly argued by some that licensing provides benefit because it allows the integration of transport services, so that a network can be offered to the traveller. Authorities and operators have devised bus services which allow for connection between them and between road and rail particularly in the metropolitan areas. It is certainly obvious that the traveller wants to make convenient journeys, to travel throughout the urban areas, to rely on comprehensive information about the services available. But if they are to stay in a free market operators will have to meet the needs of the customers as the demand arises. They will be alive to those needs and will strive to provide for them. Fares will vary accordingly, as will frequencies. A free market encourages a quicker response to what the customers want, than a regulated system ever could. Systems of large-scale, planned public service networks can indeed produce high quality services and connections. That is not disputed. But the question is whether the benefits are great enough to justify the costs and whether the benefits cannot be attained more cost-effectively another way.

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The Safeguards

4.15. There is concern that competition on urban bus routes might bring unacceptable practices such as speeding, racing to bus stops and cutting in and lead to unreliability in operation. While the industry and newcomers to it are adjusting to the new opportunities, we must expect some failures and shortcomings. The essential public interest is to curb unacceptable practices. For this reason the licensing authority will have new powers, through operator licensing, to stop operators who behave foolishly on the road from running local services at all. It is, of course, in the interests of operators to offer reliable services to maintain the goodwill and patronage of their passengers but passengers should be protected against any operators who, by incompetence or design, hold out false promises of running services which they fail to deliver. It is therefore proposed that all operators wishing to run local bus services will be required to register the route and timing of their service with the licensing authority and give adequate notice of withdrawal. Failure to provide registered services will be a further matter which the licensing authority will weigh in considering whether an operator should continue to be allowed to run local services.

4.16. There may also be concern that the larger numbers of buses which competition will encourage might increase congestion although better bus services should also to some extent ease traffic flow by attracting people from their cars. Given that there are many fewer buses and coaches on the streets than other types of vehicle, any increase in their number is likely to be a problem in only a small number of places, like city centres where traffic conditions are already difficult. To deal with any problems of this kind which may arise, the licensing authority will have reserve powers to impose conditions about routes and stopping places, in consultation with the police and local



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authorities, so as to produce a result which is both orderly and fair to all operators involved.

Agreements Restricting Competition

4.17. At present, agreements between bus operators are specifically exempted from the application of the Restrictive Trade Practices Act 1976. The Government intends to remove this exemption. Agreements between operators will in consequence have to be furnished to the Director General of Fair Trading and will come under the scrutiny of the Restrictive Practices Court if they contain significant restrictions on competition. The Court will decide whether or not such restrictions are in the public interest according to criteria set out in the Act. Restrictions found to be contrary to the public interest are void. Agreements expressly authorised by statutory provision will not be affected as there is a general exemption from the Act in such cases.

London

4.18. The Government does not propose to deregulate completely in London for the time being. The need to take a grip on subsidy has led the Government to take over responsibility for the London Transport Executive from the GLC and reconstitute it as London Regional Transport, with new powers and duties. The London Regional Transport Act 1984 requires changes in the way London's buses and tubes are run, requires LRT to contract out work wherever suitable and provides for greater involvement by the private sector in the provision of services both as contractors to LRT and in competition with them. In particular, LRT is required by the Act to invite tenders from private firms to carry on certain of their activities and to accept satisfactory tenders where this would save costs. In addition, for the first time bus operators will be able to apply to the traffic commissioners for a road service licence to run local bus services in London rather than having to depend, as formerly, on obtaining an agreement

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from London Transport. These are major changes which will bring a measure of competition into the provision of London bus services. The Government has decided, in these special circumstances, to defer deregulation in London while the changes so recently instituted, bear fruit.

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CHAPTER 5

THE STRUCTURE OF BUS OPERATION

The Nature of the Industry

5.1. Nearly all local stage bus services in Great Britain are provided by public sector operators - the Passenger Transport Executives, municipal operators, the National Bus Company, the Scottish Bus Group and London Transport. Only 8 per cent of stage carriage mileage is run by private operators.

5.2. It is generally agreed that this industry does not show economies of scale. The private firms are not large, indeed most are small - with 5 vehicles or less. In sharp contrast, the public sector operators are big and a few of them are very big indeed, as shown in Annex 1. Moreover, elements of bus operation which might well have developed more efficiently as separate entities have been integrated into single organisations. Thus public sector bus operators often own and run bus stations, they retain most if not all engineering functions, they normally undertake their own office services, computing, research and so forth. This has tended to impose very large overheads, and the development of policies and standards for the whole organisation which may fit ill with local circumstances or operational needs.

5.3. It is by no means evident that a structure of large-scale and integrated operations is necessary or efficient or would be produced by an industry competing to meet the needs of the consumer for a great variety of local journeys at the prices he is prepared to pay for them. There is for instance no particular reason why operators should own all the assets they use. The very different structure of the taxi industry is instructive. The largest taxi market, that in London, shows the variety of ownership and operation that is possible. This diverse structure nevertheless maintains high standards and has enlarged the market. The NBC and some of the PTEs have recognised the need to

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change and are developing policies to separate out functions and devolve responsibility for local operations. But this is not enough in itself to produce organisations which will seek out market changes and adapt to them.

Efficiency of Public Sector Bus Operation

5.4. In 1981 four public sector bus operators were referred for examination by the Monopolies and Mergers Commission. The operators were Bristol Omnibus, Trent Motor Traction (both NBC companies), West Midlands PTE and Cardiff City Transport. The Commission were required, amongst other matters, to examine whether the operators could improve their efficiency and reduce their costs without significantly affecting services. They found much to commend, but a very large number of respects in which one or other of the operators could increase their efficiency.

5.5. Annex 1 describes the key trends in the performance of public sector operators, which have already been referred to. Three points deserve particular attention: first, the 15-30 per cent rise in real unit costs, measured by operating costs per vehicle kilometre, since 1972; second, the 30 per cent increase in fares in real terms between 1972 and 1982, compared with the increase of only 3 per cent in the real cost of running a car over the same period; third, the fact that service levels, as measured by vehicle kilometres, have not fallen as fast as passenger kilometres.

5.6. These figures should not be taken to imply that the management of public sector bus operations have failed to improve their performance. They have increased labour productivity. The NBC succeeded in cutting its costs in 1981 and 1982. Some have redrawn and reduced their operations on the basis of market analysis, and consultants studies. But in other places, notably some major cities, decisions on the operation of bus services

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have more often been informed by political considerations than ones of efficiency.

5.7. The managers of these large public sector operations have had to work within the system of road service licensing and the current arrangements for subsidy. Their need to maintain local bus services under these conditions of regulation and public sector ownership has made it very difficult for them to secure the real efficiency gains which, in other circumstances, they might achieve. When freed from regulation they have shown an impressive ability to provide better and cheaper services.

5.8. Three points cast major doubt on the efficiency of the present structure:

(a) as mentioned in chapter 4, costs of private sector operators are below those of public sector operators, maybe by 30-40 per cent. This is not to compare like with like but the differential is very large. There is no suggestion in any of the evidence that costs of any public sector operators are lower than their private counterparts.

(b) comparison of the costs of PTE and NBC operators within metropolitan counties shows that NBC's average costs per vehicle mile are more than 20 per cent below the PTE average. (Appendix A to Annex 2);

(c) in Hereford, the pressure of competition caused by the trial area led the management of the local NBC subsidiary, Midland Red (West) to negotiate changes in agreements which led to an improvement in productivity of 25-30 per cent.

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5.9. There can be no doubt that major improvements in efficiency are possible, given the right pressures to identify and secure them.

Structure of Public Sector Operations

5.10. The structure of public sector bus operation is an obstacle to the provision, through competition, of the bus services which the community needs. Their size and financial strength and in some cases the blanket subsidy to the operation as a whole, give them a market advantage which could thwart the growth of competition. The Government has therefore decided that there should be changes to the structure of public sector operation at the earliest opportunity to ensure fairer competition between public sector operators and with the private sector.

5.11. The Government proposes that any bus undertakings of a district council be incorporated into a company owned by the district council. After a short period of adjustment, the council will be prohibited from providing further funding (other than for long-term investment purposes, on commercial criteria) to subsidise the company's operations. The company will draw its revenues either from the passenger or from local authorities following open tender for the provision of subsidised services, or from a concessionary fare scheme open to all comers. The company will also be able to seek capital (whether equity or borrowing) from the market in the usual way. It would be open to councils to privatise the company if they wished. Successful companies, wishing to expand and diversify, will see strong advantage in that. So long as the district council remains in control of the company it will appoint the directors and suitable arrangements will need to be made for the control of its spending. There will be provision to ensure that where a company is, or is likely soon to become, insolvent the district council

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may provide temporary funding to ensure creditors are paid or as part of an approved plan for a return to viability.

5.12. The Government also proposes that the bus operations of PTEs should, extending their current policies, be broken down into smaller units and turned into companies as soon as possible. After a period of adjustment, restrictions will be imposed on funding by the metropolitan county council or its successor, on the same lines as those proposed for the municipal undertakings.

5.13. The White Paper "Streamlining the Cities" (Cmnd 9063) explained that on the abolition of the metropolitan county councils in April 1986 the Government proposes to transfer their passenger transport functions to joint boards of elected members appointed by district councils. It outlined the Government's willingness to consider proposals by individual district councils to provide separate services and to enter into arrangements with other operators in the public and private sector. Nothing in this White Paper affects that policy. Metropolitan district councils will be able to put forward proposals for subsequent secession from those arrangements. If the Government agrees to the secession proposal, the district council will be solely responsible for deciding on the local bus services it wishes to subsidise. The provisions of this White Paper concerning subsidy and the running of bus operations will then apply to a seceding metropolitan district council.

National Bus Company

5.14. There is no good reason why local bus services should be provided by a national corporation. Nor is there any particular reason why such services should be the virtual monopoly of the public sector. The fact that some services require subsidy does not affect this and there are good reasons

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to expect that private enterprise will do better. The sale of the National Freight Company to the private sector has shown that freedom from the control of Government leads to better performance by management and staff. Transfer to the private sector also removes any potential future liability on the taxpayer to provide capital or make good losses. Managers and employees have the chance to gain from their own success.

5.15. The Government therefore intends to transfer the operations of the NBC to the private sector. It does not believe that it would be right to privatise NBC en bloc. The Company's size and financial strength might deter other operators from competing with it particularly in view of the strong position from which it will start. The Government proposes that the NBC Board should have a duty to reorganise the Company, in consultation with the Secretary of State, into parts which can be disposed of as free standing companies. The market can set the pattern of operation and ownership. The Government will particularly welcome participation by employees in the new companies, including bids from the staff for the units in which they work, though it will not stand in the way of other purchasers.

Bus Stations

5.16. If competition is to flourish, no operator should be in sole control of a bus station of a size or strategic position which would allow him to gain an unfair advantage by excluding other operators. The Government believes that major bus stations should be operated whether in private or public ownership on a commercial basis under arrangements which will provide for all operators to have equal opportunity of gaining access to them.

Consultation

5.17. The Government will consult those affected by these proposals, or their representative associations, about the detailed implementation.



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CHAPTER 6  
TAXIS AND HIRE CARS

6.1. Taxis and hire cars have become an increasingly important form of passenger transport, and in recognition of this, responsibility for policy on taxis and hire cars in England and Wales has recently been transferred from the Home Secretary to the Secretary of State for Transport.

6.2. There is at present a rigid demarcation between buses on the one hand and taxis and hire cars on the other. Does this allow for the transport needs of the public to be met in the best way? There will still be demand for the classic taxi operation, where a cab is hired on the street for exclusive use, and there will be a continuing market for hire cars - pre-booked for exclusive use for a specific journey. It is not proposed to make any fundamental change to the way in which these services are provided. However, it is right to consider whether taxis and hire cars could play additional roles in the new markets that will be opened up by the relaxation of bus licensing.

6.3. There will be bus routes where there are simply not enough travellers to warrant the operation of large vehicles. Studies suggest that services might be operated more economically using taxis as buses, with an improved frequency, at less call on public subsidy. There is also a place in the market for a service of higher quality than the conventional bus can give, at the fares which would be possible were taxis shared. The Government propose to make such services possible by allowing taxis to carry passengers at separate fares, and will consult interested bodies on the practical arrangements. This will also cover the possibility of allowing hire cars to carry pre-booked passengers at separate fares.

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6.4. Under such arrangements taxis and hire cars must be subject to adequate quality control to ensure necessary standards of safety. It is therefore proposed that the right to carry passengers at separate fares will be extended only to licensed vehicles

6.5. Such opportunities should encourage an expansion in demand for taxis and hire cars, which will be met only if there is an adequate supply. The Government will propose provisions to relax progressively the restrictions on the number of taxis which operate in some areas. The Government will be consulting separately on these proposals.

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CHAPTER 7

SCOTLAND

7.1. Scotland also faces the problems of an industry in long term decline, with rising costs and deteriorating service. But there too the opportunity is available to remove the obstacles to initiative and efficiency, to enhance consumer choice and to provide better value for money. This can be achieved within a framework which protects the public by ensuring safety, the provision of socially necessary services and the availability of concessionary fares for elderly and disabled people.

7.2. In Scotland stage carriage trips, which account for over 90 per cent of all bus trips, fell from 891 million in 1975 to 694 million in 1982. Over the same period route mileage declined by 15 per cent. Falling patronage and rising costs have meant that expenditure by local authorities on bus support has risen considerably over the last decade.

7.3. The problem of rural areas is acute. Many are extensive, remote from any substantial centres of population and very sparsely populated. Bus journeys are often long and indirect. Services can be infrequent. The decline of rural bus services is a cause of great and understandable concern. Most rural dwellers can still make essential journeys by one means or another but this often depends on informal arrangements such as friends or neighbours with cars; some sections of the community are particularly disadvantaged as a result. Indeed the decline of rural bus services is taken by many as a sign of lack of confidence in the future of their communities and way of life. Some of the RUTEX experiments of the late 1970s to examine alternative forms of rural road transport were carried out in Scotland. They were useful in stimulating new ideas for meeting transport needs but did not produce major results. The

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Government is firmly committed to supporting the rural way of life and recognises that bus services are vitally important to the well-being of rural communities. More therefore needs to be done.

7.4. In towns, services are often poorer than they used to be, require high subsidy, and still charge high fares: Strathclyde is a prime example of a high subsidy/high fare authority. As noted in earlier chapters, cross-subsidy does not encourage efficiency. It makes fares on densely used routes higher than they need be. It results in the transfer of disaffected passengers to private transport which in turn leads to greater urban congestion and hence to further decline in the quality of bus services.

7.5. Total current expenditure by local authorities on bus subsidy (excluding concessionary fares) is about £25 million per year. Of this, revenue support to the nationalised Scottish Bus Group (SBG) is around a modest £5 million a year representing less than 4 per cent of its operating costs. Most of the subsidy is directed at local authorities' own undertakings though the amounts differ significantly, reflecting substantial variations in the size and efficiency of the operations and to some extent in fares policy. Grampian Region's subsidy to its municipal bus operation in 1982/83 was £0.4 million, while the Strathclyde PTE bus operation received £10.7 million.

7.6. In Scotland the bus industry is dominated by the public sector: SBG, the Strathclyde PTE and the three municipal operators operate 60 per cent of the total bus fleet and provide about 95 per cent of the stage carriage market. SBG, the principal supplier of stage services throughout the country, has improved its efficiency in recent years and measured against the public sector bus industry generally is an efficient operator.

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While there is scope for further increases in efficiency, these are likely to be difficult to achieve within the existing framework of bus service operation, given complete implementation of driver only operation, and the virtual conclusion of the SCOTMAP market analysis studies. The likelihood is therefore that if current arrangements continue and if services are to be maintained at broadly present levels, public subsidy to SBG services will have to increase.

7.7. The private sector on the other hand is the main provider of contract and hire services. It has over 60 per cent of this market. In addition it provides only 5 per cent of stage carriage services mainly run by very small operators in rural areas. But the private sector has risen effectively to the challenge of partial deregulation in 1980 and has contributed significantly to the substantial increase in long-distance express services which in turn has provided major benefits particularly for less well-off travellers.

7.8. Against this background it is clear that something needs to be done. There is no doubt that on some routes fares are too high in relation to costs. While there are some differences between the state of the bus industry in Scotland and that in the rest of Great Britain, broadly the same problems exist; and the Government is confident that broadly the same remedies are appropriate.

### Regulation

7.9. The present bus regulatory framework is (and always has been) applied uniformly throughout Great Britain. It is operated in Scotland through the Traffic Commissioners for the Scottish area. The deregulation of long-distance express services and the relaxation of the licensing system for other services, introduced by the Transport Act 1980, has been markedly successful in

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Scotland particularly in relation to express services. It is against this background that it is right to scrap quantity control restrictions entirely in Scotland, as in the rest of the country. The arrangements to ensure proper standards (described in paragraphs 3.1-3.2 and 4.15-4.16) to protect passengers and others will, of course, be retained and reinforced.

Local Authority Services

7.10. In order to secure the full benefits of this change - better services for consumers at lower costs - it will be necessary in Scotland also to ensure that supply in the market is not distorted. At present (as described in paragraphs 3.6-3.7) blanket subsidies can conceal the true cost of providing services and make it difficult to determine whether services are provided efficiently or at the lowest possible cost. The new arrangements to make tendering a pre-condition of subsidy payments will apply in Scotland also; as will the proposals about reimbursing operators for concessionary fares. Municipal operators and the PTE will continue to have a valuable contribution to make. They will benefit from the challenge of greater competition but they should not be able to compete unfairly either through market dominance or through fares and subsidy policies. It is proposed therefore to take powers to require municipal bus undertakings to be incorporated as limited companies owned by the local authorities. Similar powers are proposed to require the PTE undertaking to be turned into a company and (if desirable) split into smaller units. The proposals for subsidy tendering will apply to services provided by municipal and PTE undertakings, ensuring both that subsidy is targeted at services which need it and that efficiency savings are made. After a transitional period general operating subsidy to municipal undertakings and the PTE will be prohibited, and they will be subsidised only to the extent of revenue support from successful tenders, and from concessionary fares. The new companies will be able to seek

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capital from the market and could be privatised if the local authorities wished. Where a local authority retains control of a company there will be suitable arrangements for control of its spending. The provisions to permit temporary funding by the local authority in cases of insolvency (described in 5.12) will apply in Scotland. There will be consultation about the detailed implementation of these proposals.

### Rural Services

7.11. The proposed changes offer the prospect of a new stability and confidence in the provision of rural bus services. Experience in the trial areas in England (described in paragraphs 1.9, 4.6 and Annex 3) is that deregulation can mean lower subsidy requirement for a similar service or the possibility of improved services for the same overall level of subsidy. In Scotland, rural services are provided predominantly by the SBG. It is not proposed at present to change the Group's ownership (it too will, however, have to compete for subsidy). In addition the scope for stimulating the wider use of vehicles owned by other bodies (such as education, health and social work authorities, the Post Office and private firms) for public transport will be explored. The transitional grant to operators of rural services (described in 3.11) will extend to Scotland as will a rural innovation grant, to encourage the development of new ways of meeting rural transport needs. The availability of resources for experimental services was confirmed in the Government's response to the Select Committee on Scottish Affairs, following their inquiry in 1982 into rural road passenger transport and ferry services in Scotland. The Government hopes that there will now be renewed interest in such experiments.

### Urban Services

7.12. The benefits of competition will be substantial particularly for travellers on urban corridors. After more than

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50 years of regulation it is to be expected that some services will undergo early and rapid change after deregulation. The first fruits are likely to be new operators on certain routes and the creation of new services. Competition, or the threat of it, will in turn lead to the sharpening of efficiency and greater consumer orientation of existing operators, particularly in the public sector. On many routes, consumers will benefit from lower fares. In the longer run, the benefits of increased competition will be substantial, and will readily outweigh any short-term uncertainties and difficulties as change takes place.

Subsidy

7.13. Subsidy for bus services in Scotland is paid by the regional and islands councils. In the case of SBG services, this is to make up the net loss incurred in providing a network of stage carriage services in their areas. In recent years, unremunerative services have benefited much more from cross-subsidy between services than from local authority subsidy. This cross-subsidy will tend to fall as a result of deregulation since competition will reduce the level of profits on busy services. These effects will apply both to local authority and SBG operations; but the loss of cross-subsidy need not result in a requirement for additional direct support. Much will depend on the extent to which opportunities for greater competition and for cost savings are achieved and on what loss-making services local authorities decide to support. While the need for subsidy may rise in some areas there will be reductions in subsidy requirement in others. Strathclyde Regional Council subsidise the Glasgow suburban rail network under section 20 of the Transport Act 1968. There has been substantial investment in recent years assisted by capital grants from Government and proposals for further investment are being considered at present. The Regional Council will need to decide, in the light of the changes to the regulation and structure of



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the bus industry whether any changes are required in its present rail support policy.

7.14. Local authorities continue to spend in excess of the Government's plans for public transport subsidy: their budgets for subsidy for bus transport in 1984/85 were £8.1m (34 per cent) in excess of the Government's provision. Overall, the changes allow scope for this burden to the ratepayer to be reduced substantially. Rate support grant is now distributed on the basis of client group assessments of relative expenditure need which look at the costs of providing similar levels of service in different types of area in order to arrive at an overall assessment of relative expenditure need. Any changes in the relative cost of providing bus services in different areas would be reflected in the assessments underlying the formula for the distribution of rate support grant and also current expenditure guidelines.

### Co-ordination Powers

7.15. The Government is aware of the conflict that has been perceived to exist since the Transport Act 1980, between the obligations of the traffic commissioners to grant new licences unless they are satisfied that to do so would be against the public interest, and the statutory duty of local authorities under the provisions of section 151 of the Local Government (Scotland) Act 1973 to promote the co-ordination of public transport provision. The nationalised transport operators are similarly obliged to co-operate with local authorities, and this has meant in some instances that operating policies have been adopted which are not necessarily in the best interests of the taxpayer and ratepayer or of the travelling public. In the new context of deregulation, such statutory powers and obligations are clearly inappropriate and it is intended to remove them and replace them with a duty to secure the efficient provision of

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such transport services as are necessary but are not provided by the market.

Taxis and Private Hire Cars

7.16. The Government has also considered the proposed changes in the context of the new system of licensing for taxis and private hire cars in Scotland under the Civic Government (Scotland) Act 1982. These provisions, which will produce a uniform system of control within Scotland, are optional in that it is for each district or islands council to decide whether to adopt these provisions for all or part of its area. However, if a licensing authority resolves to adopt these provisions, it is required to license and control both taxis and private hire cars. The Secretary of State for Scotland can prescribe vehicle types, sizes and designs which a licensing authority shall regard as suitable but, at present, sees no need to do so. Detailed regulation of taxis and private hire cars and their drivers, is achieved by means of conditions attached to the grant of a licence. The particular conditions which a licensing authority impose may be subject to regulation by the Secretary of State and he has used this power to prevent the imposition of certain restrictive conditions by licensing authorities.

7.17. The Government believes that the new system, which came into full operation on 1 July 1984, should generally be allowed to settle down. But there is one change which will be pursued immediately; this is to allow taxis and private hire cars to operate with separate fares when used by two or more passengers simultaneously, each paying for their own journey. The Secretary of State is consulting interested parties about this proposal and the practical problems associated with introducing it in Scotland. In addition, he will keep under review the implementation of the new licensing and appeal arrangements and the benefits that they bring to the travelling public.

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Conclusion

7.18. Public transport in Scotland can be improved. The proposals outlined above offer new hope and confidence to communities in Scotland, whether rural or urban, who for too long have felt themselves to be receiving poorer services. They offer a real chance to balance supply and demand, at a cost which is reasonable both for the fare-paying passenger and the Scottish public who too often as taxpayers and ratepayers have been asked to finance inefficiency. The spiral of decline can be broken. These proposals offer Scotland the opportunity to do so.

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CHAPTER 8  
THE NEW MARKET

8.1. The free and fair competition in road passenger transport which the Government proposes will bring great benefit to many travellers and to the community at large.

8.2. The main network of services will continue and will better meet the needs of the traveller. On many well used services fares will go down. Other services may change to match peoples' requirements more closely. In rural and urban areas alike, there will be potential for new services. Most important of all, the measures proposed by the Government should slow or halt the seemingly inevitable decline in service to the travelling public. The total market for public transport should expand.

8.3. Ratepayers and taxpayers will know how much money they are providing for the services they subsidise and will reap the benefit as gains in efficiency reduce the need for subsidy. The managers of bus operations will have more freedom to manage and compete within a clear structure of responsibility.

8.4. The purpose of the bus industry is to meet the needs of its passengers. There have been 30 years of decline in bus services. Under these proposals the country can look forward to a future where passengers determine the services they want.

## THE BUS INDUSTRY: FACTS AND FIGURES

Introduction

1. This annex describes the recent trends and current position in the bus industry. Paragraph 2 gives a general picture of the contribution of public transport to total travel. Paragraphs 3-24 focus on the bus industry - its structure, the level and nature of bus demand, the subsidy provided and the industry's performance in terms of costs and productivity. Paragraph 25 discusses taxis, and paragraphs 26-27 other local public transport services.
2. 84% of all passenger travel is by private transport; only 8% is by bus, 7% by rail. The shares of bus and rail in total travel have continuously declined over the past three decades, while the share of private transport has risen (see Table 1). Taxi journeys are estimated by the Transport and Road Research Laboratory to have numbered between 370M and 700M in 1982, or between 6% and 12% of the number of bus journeys.

Structure of the Bus Industry

3. There are some 70,000 buses and coaches operating in Great Britain today. Some 40,000 of these vehicles are owned by public bus operators and the rest by private operators. Four distinct sectors can be identified within the industry: transport executives, (ie the Passenger Transport Executives and, until 1984, the London Transport Executive\*), municipal, nationalised and private. Their bus fleets are shown in Table 2.

Table 2: Bus operators in Great Britain 1983:

<u>Operator</u>	<u>Number of buses</u>
National Bus Company	14,600
Scottish Bus Group	3,100
London Transport Executive	5,600
Passenger Transport Executives	9,600
Municipals	5,300
Private Operators	30,000(E)
All Operators	68,000

Source: Transport Statistics Great Britain.

4. The transport executives are responsible for the provision of passenger transport services in the English metropolitan counties and the Strathclyde Region of Scotland. Some bus services are provided in the transport executive areas by subsidiaries of the nationalised bus companies under operating agreements concluded under provisions of the Transport Act 1968 and the Transport (London) Act 1969. Agreements made under the 1969 Act continue to have force under the London Regional Transport Act 1984. In Scotland, the Strathclyde Regional Council provides support for SBG services in its area under the Local Government (Scotland) Act 1973.

\*As from 29 June 1984, LTE was renamed London Regional Transport.

TABLE 1

## PASSENGER TRANSPORT BY MODE 1953 - 1983

## GREAT BRITAIN

	1953		1963		1973		1983	
	bn Pass km	% of total	bn Pass km	% of total	bn Pass km	% of total	bn Pass km	% of total
Private motor <sup>1</sup>	58	30	158	60	309	77	414	83
Bus and Coach	82	42	64	24	53	13	40	8
Rail	39	20	36	14	35	9	35	7
Air <sup>2</sup>	0.2	0.1	1.3	0.5	2.4	0.6	3.0	0.6
Pedal Cycle	17	9	6	2	4	1	5	1
TOTAL <sup>3</sup>	196	100	265	100	403	100	497	100

<sup>1</sup> car, van, taxi and motorcycle.

<sup>2</sup> includes Northern Ireland and the Channel Islands.

<sup>3</sup> totals may not add due to rounding.

Source: Department of Transport

5. The municipal undertakings are those run by certain district councils (in Scotland, regional councils) whose powers to operate services derive from local Acts passed before 1930. The number of buses run by the 49 councils (37 English, 9 Welsh and 3 Scottish) which have such operations varies considerably as shown by Table 3.

Table 3

Municipal Bus Operators in Great Britain 1983:

No. of Operators	No. of buses
9	less than 41
15	41-70
8	71-100
7	101-150
3	151-200
5	201-240
2	over 250

Source: Department of Transport

6. The nationalised sector comprises the National Bus Company (NBC) and the Scottish Bus Group (SBG). Both Groups operate in urban and rural areas. They provide a very high proportion (over 75%) of stage bus services in rural areas throughout Great Britain.

7. In the private sector there are about 5,500 operators who generally own a few vehicles each as shown by Table 4.

Table 4

Private Bus Operators in Great Britain 1982

<u>No. of vehicles</u>	<u>No. of operators</u>	<u>% of operators</u>
less than 5	3432	62
5-14	1650	30
15-24	281	5
25-49	111	2
50+	23	1

Source: Department of Transport

Activities of Industry

8. The main activity of the bus industry is the provision of stage carriage bus services (which provide for local travel) as indicated by Table 5.

The industry's non-stage activities are long-distance express coach services, contract operations (particularly school buses and works services), private hire work, and excursions and tours.

Table 5: Bus Services and Patronage: Great Britain 1982

(million)	Stage services	Non-stage services
Passenger journeys	5,490 (90%)	593 (10%)
Vehicle kilometres	2,113 (65%)	1,119 (35%)

Source: Department of Transport

9. Table 6 shows the pattern of provision of services by the four sectors of the industry. The provision of stage bus services is dominated by the public sector operators who accounted for 92% of the mileage operated and 97% of passenger journeys made on such services in 1982. Private operators play a greater role in the provision of express services although again public operators (NBC and SBG) have the larger share of the market. The contract, private hire, and excursion and tours markets have traditionally been and still are dominated by the private sector.

#### Turnover by Activity

10. The turnover of the bus industry in 1982/83 was approximately £2.4 billion. Provision of stage carriage services accounted for nearly 80% of the turnover. Table 7 gives a breakdown of turnover as between the main sectors and stage and non-stage services.

Table 7: Turnover\* of Bus Industry (£ million) 1982/83

	Stage services	Non-stage services	Total
Nationalised			
NBC	567(30%)	87(17%)	654(27%)
SBG	123( 6%)	14( 3%)	137( 6%)
Transport Executives			
LTE	401(21%)	2(0.4%)	403(16%)
PTEs	546(29%)	7(1.4%)	553(23%)
Municipals	213(11%)	6(1.2%)	219( 9%)
Private Operators	65( 3%)	393(77.')	458(19%)
	<u>1,915(100%)</u>	<u>509(100%)</u>	<u>2,424(100%)</u>

\* income including grants and subsidies for stage carriage services, but excluding fuel duty rebate.

Source: Department of Transport



TABLE 6 : THE IMPORTANCE OF EACH OPERATOR GROUP IN THE PROVISION OF BUS SERVICES: GB

Vehicle kilometres by type of operator and service : 1982

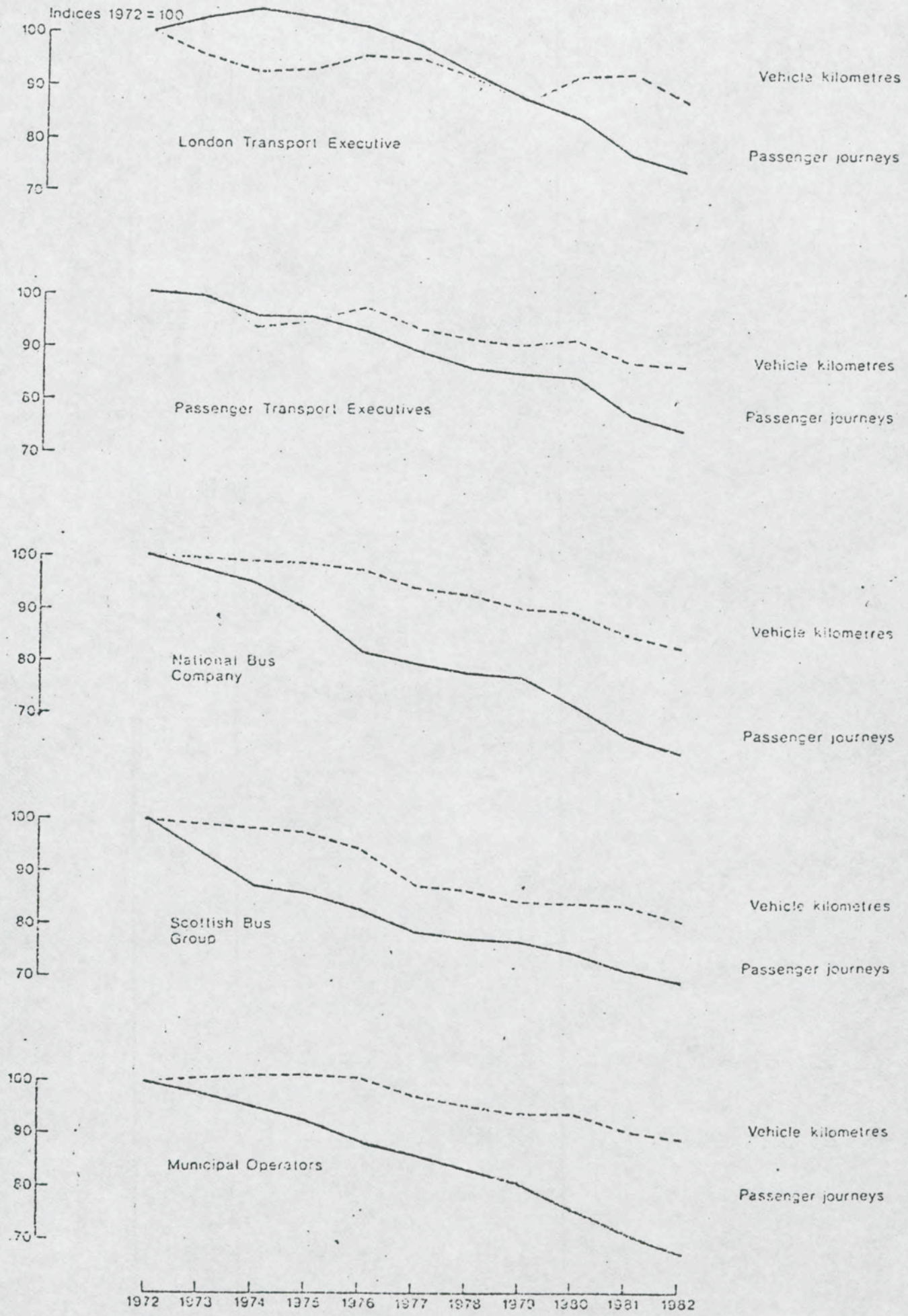
	Stage		Express		Excursions and tours		Contract		Private Hire		All Services	
	million	%	million	%	million	%	million	%	million	%	million	%
Public Operators:												
London Transport Executive	264	12	-	-	1	1	-	-	-	-	265	8
Passenger Transport Executives	474	22	-	-	1	1	6	1	3	1	485	15
Municipal operators	222	11	-	-	1	1	4	1	5	1	232	7
National Bus Company	821	39	84	64	18	14	25	6	24	5	972	30
Scottish Bus Group	169	8	15	12	2	1	11	3	3	1	200	6
All public operators	1951	92	100	76	22	18	47	11	35	8	2155	67
Private operators:	163	8	32	24	100	82	399	89	383	92	1077	33
All operators	2113	100	132	100	123	100	445	100	419	100	3232	100

Passenger Journeys by type of operator and service: 1982

Public Operators:												
London Transport Executive	1042	19	-	-	1	3	-	-	1	1	1043	17
Passenger Transport Executives	1722	31	-	-	-	-	10	3	4	2	1736	29
Municipal operators	839	15	-	-	-	-	10	3	5	3	854	14
National Bus Company	1417	26	12	67	6	18	33	9	10	5	1479	24
Scottish Bus Group	298	5	1	6	-	-	13	4	2	1	314	5
All public operators	5317	97	13	72	8	24	66	19	22	12	5426	89
Private operators:	173	3	5	28	26	76	289	81	164	88	657	11
All operators	5490	100	18	100	34	100	355	100	186	100	6083	100

Source: Transport Statistics Great Britain 1972-1982

# CHART 9 TRENDS IN STAGE SERVICE PATRONAGE AND LEVELS OF SERVICE: GB



Source: "Transport Statistics Great Britain"

## Demand for Bus Travel

11. Over the last 30 years there has been a continuous decline in the proportion of passenger transport accounted for by buses and coaches from 42% of all passenger kilometres in 1953 to only 8% in 1983, during which time the total distance travelled by this mode has halved. This has occurred simultaneously with an increase in total travel of 154%. From 1973 to 1983 bus and coach passenger kilometres have declined by nearly 25% and their share from 13% to 8%. A major contributory factor has been the growth in car ownership (Table 8). Private transport now accounts for 84% of all passenger kilometres, having grown 7 times in volume over 30 years. (Table 1). The reduction in stage bus service patronage was of the order of 2-3% per annum in the 1970s and was accompanied by decline in vehicle kilometres, though the former declined more rapidly than the latter. Chart 9 shows these trends for different operators. Evidence for 1983 suggests that there was a slight increase in stage journeys of 1-2%, accounted for by a significant increase in journeys on London Transport, and an increase in PTE journeys. NBC stage journeys were slightly reduced.

12. There are indications that following the Transport Act 1980 there has been a significant growth in express services, though the redefinition of "express" and "stage" makes interpretation of the statistics difficult. There have been marked improvements in the variety and quality of services on offer, including luxury coaches with refreshments, video entertainment and toilets making possible faster non-stop journeys. The NBC "National Express" services have been dominant in this area, the numbers of passengers carried increasing by 45% between 1980 and 1983.

Table 8: Trends in Car Availability 1962-1982: Great Britain

Household with regular use of a car <sup>1</sup>	% of all households		
	1962	1972	1982
No car	67	47	39
One car only	30	44	45
Two or more cars	3	9	16
All households	100	100	100
-----			
Numbers (m)	16.6	18.6	20.3

<sup>1</sup> Car or van available for private use.

Source: "Transport Statistics  
GB 1972-82"

## The Pattern of Stage Bus Travel

13. Tables 10 - 12 review the purposes of stage bus travel, the users and the differences between urban and rural areas. Patterns of usage have been changing. In 1965 work-related journeys

accounted for 40% of bus trips and shopping for 18%. By 1978/79 the respective percentages were 28% and 29%. Two thirds of bus journeys are made for work, education and shopping, whereas just over one-half of journeys by other modes of transport are for these purposes. Less than one-quarter are for leisure purposes compared with more than one-third of the trips by other modes.

14. Bus usage is above average for adult women in all age groups and for men between 16 and 20 years and over 65. Children between the ages of 11 and 15 also make above average use. People living in households headed by semi-skilled and non-skilled manual workers make two and a half times as much use of the bus as those in the households of managers and professional groups. This is partly due to the interrelationship between socio-economic groups, household income and car ownership, all of which influence bus usage.

15. Reduced fares also influence use by children and old age pensioners in many areas. In 1978/79, three in four stage bus journeys by OAPs were at a concessionary rate or free. One in five stage bus journeys by children were also free and a 1978 survey of operators found that most offered children reduced rate fares. Many journeys by children to and from school are in buses provided by local education authorities.

16. Residents of rural areas travel more by all modes each week (187 km per person) than those of urban areas (146 km per person) but make less use of stage bus (10 km compared with 16 km). Consequently although 15% of the population live in rural areas they account for only 10% of bus travel. However in rural areas the works and school bus is used more and clearly provides an alternative to the stage bus for this type of journey. Rural areas tend to have higher levels of car-ownership than urban areas and the rural use of the car/van/motorcycle is almost 50% greater than in urban areas.

Table 10: The Purpose of Stage Bus Journeys: Great Britain

	Bus		Other modes of transport 1978/79	Percentage All modes of transport 1978/79
	1965	1978/79		
Work	40	28	22	22
Education	9	10	9	9
Shopping	18	29	21	22
Personal business	7	9	11	11
Leisure and other <sup>(1)</sup>	26	24	37	35
All purposes	100	100	100	100

Source: National Travel Surveys

(1) Other includes escorting and journeys not classified under any other heading.

TABLE II CHARACTERISTICS OF BUS TRAVELLERS 1978/79 : GB

Stage bus journeys/persons/week			
Age of individual		Socio-economic group of head of household	
0 - 4	1.3	Managerial	1.4
5 - 10	1.1	Professional	1.3
11 - 15	3.2	Clerical	2.2
Males		Skilled	2.5
16 - 20	3.9	Semi-skilled	3.2
21 - 29	2.2	Non-skilled manual	3.6
30 - 59	1.5	Other (1)	2.2
60 - 64	2.3	Total	2.4
65+	2.5	Rest (working status or SEG not available)	2.6
Females			
16 - 20	5.6		
21 - 29	2.6		
30 - 59	2.7		
60 - 64	3.2		
65+	2.8		
All ages	2.4		

Source: National Travel Survey

(1) Other includes members of the armed forces, full-time students and those whose SEG was inadequately described.

TABLE 12 DIFFERENCES BETWEEN URBAN AND RURAL AREAS IN USE OF BUS 1978/79: GB

	Percentage	
	Population	Bus passenger kilometres
Urban	85	90
Rural	15	10
Total	100	100

Source: National Travel Survey

URBAN AND RURAL DIFFERENCES IN THE VOLUME OF TRAVEL BY ALL MODES: GB

	Kilometres/person/week			
	1965	1978/79		
		All areas	All areas	Urban
Car/van/motorcycle	71	109	101	149
Stage Bus	19	14	16	10
Works/school bus	2	2	2	5
Rail	10	11	- 11	8
Other*	11	18	18	16
Total	113	153	146	187

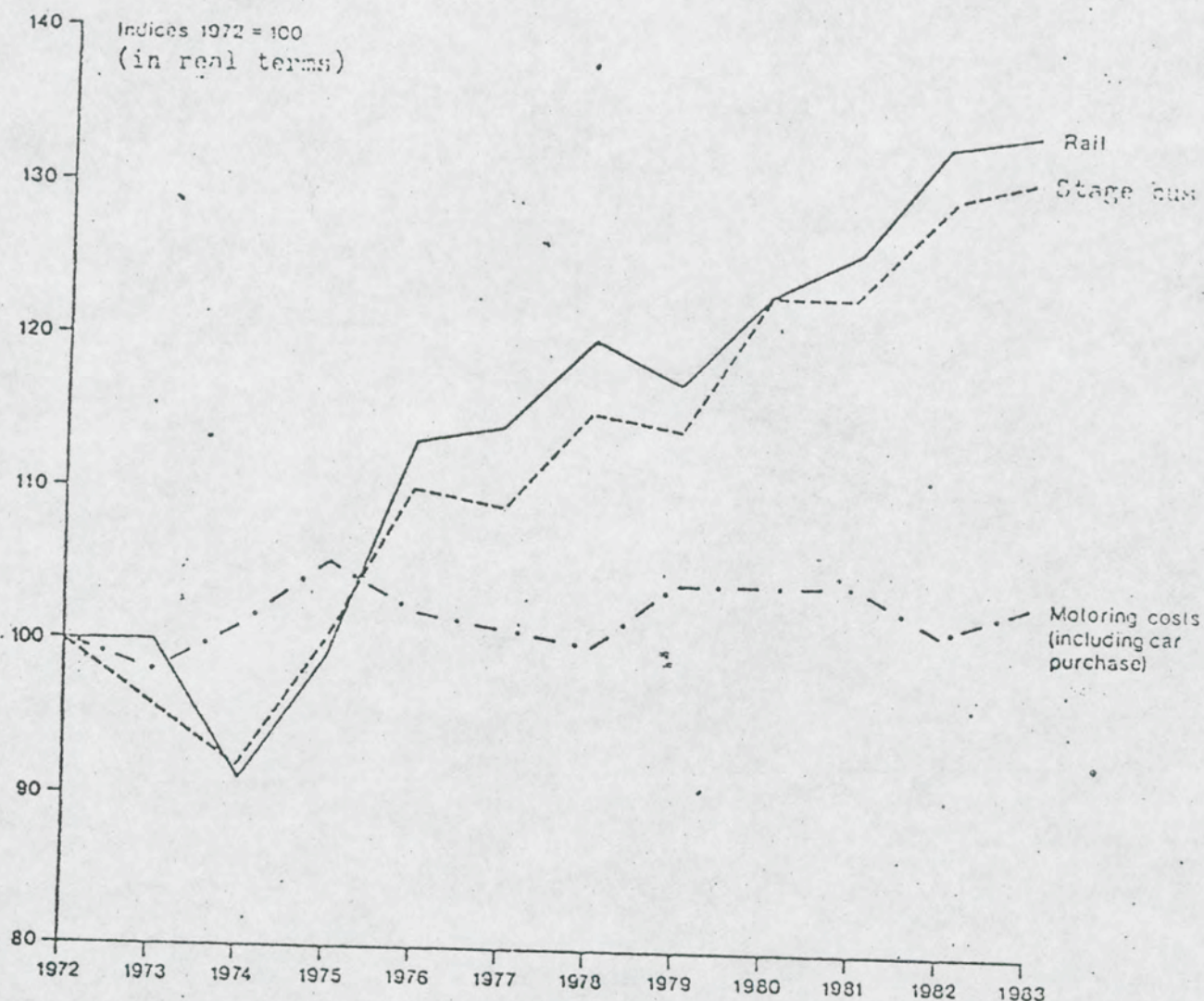
Source: National Travel Surveys

\*Other includes walk, bicycle, taxi and buses other than stage carriage and works school bus, express bus, private hire bus.

Note: Urban areas are generally defined as those with a population density of at least 0.6 persons per acre at the ward or parish level and a population of more than 3,000.

CHART 13

# COMPARISON OF PUBLIC TRANSPORT FARES WITH MOTORING COSTS GB



Source: Department of Employment:  
Retail Prices Index  
Department of Transport  
Stage Bus Fares





## Fares

17. One of the factors that has contributed to the decline in public transport use has been the upward trend in real fares. Between 1972 and 1983, stage bus fares rose by over 30% above the rate of inflation, while motoring costs grew by only 3% (see Charts 13 and 14). An exception to this upward trend in recent years has been in the PTE sector, where the maintenance of low fares has been a policy objective of the controlling authorities.

## Subsidies to the Bus Industry

18. The two principal types of bus subsidy are revenue support and payments towards the cost of concessionary fares schemes: both payments are made by local authorities to operators of local services. Some authorities also make capital grants. The GLC in particular has given 100% grants to London Transport for capital expenditure. Other counties cover depreciation of capital assets in their revenue support payments. Some make capital grants to infrastructure projects such as bus stations and repair depots. Bus operators also receive fuel duty rebate direct from Central Government. New bus grant, formerly paid by Central Government, has now been discontinued.

19. Table 15 shows the contribution of revenue support and concessionary fares subsidies to the income of public operators in Great Britain in 1982/3. The income of the private sector of the bus industry given the limited amount of stage carriage work it undertakes, comes almost wholly from the farebox. The staple income of many private operators will be received from local education authorities for contract school transport services. Table 16 provides a more detailed breakdown of subsidies including fuel duty rebate. Tables 17-20 show the rising trend in the provision of subsidy for stage bus services over the past decade.

20. In 1983/4, expenditure on revenue support was 88% above the public expenditure provision, and in 1984/5 authorities budgeted to spend more than 80% above provision. The overspending occurs almost entirely in England, and here the bulk of the overspend is accounted for by the GLC and the metropolitan counties. This is shown in Table 20.

## Costs and Productivity

21. The pattern of parallel growth in real fares and subsidy needs to be related to what has happened to the costs of providing bus services, as well as the declining trend in passengers per bus illustrated by Chart 9.

22. The bus industry is labour intensive and wage costs account for as much as two-thirds of total costs for the main public sector operators. Real earnings in the road passenger transport industry have risen over the past decade (Chart 2). Increasing labour productivity by introducing one man operation of buses has been a key objective within the industry over the past 15 years. New Bus Grant, introduced by the Government in 1968, was paid only for buses suitable for one man operation. One man operation is now prevalent, the main exception being London where about half the bus mileage is crew operated. In 1982, the industry employed 186,500 staff, 15% below the 1972 level. Most of this reduction

is accounted for by a 74% decline in the number of conductors to just under 11,000. Drivers' numbers have fallen by 4% to 92,000 whilst there has been a slight increase in other staff.

24. There has been a general trend within the public sector of the industry in recent years of improving staff productivity in terms of vehicle kilometres operated. This is shown by Chart 22. Overall real costs per kilometre operated have risen since 1972. The trend is illustrated in Chart 23. The growth in real costs per vehicle kilometre was particularly fast in the early 1970s, especially for London Transport. In recent years NBC, SBG and the municipals have been successful in reducing real costs per vehicle kilometre. One factor underlying the trend has been growth in maintenance costs in real terms associated with the introduction of the rear-engined one man operated buses.

#### Taxis and Hire Cars

25. Taxis and hire cars are playing an increasingly important role in passenger transport. Their number has grown rapidly in recent years as shown by Table 24. During the period 1972-1982 real passenger expenditure on taxis and private hire cars increased by 30% whereas on stage bus and coach services it has fallen by 13%. Trends in real taxi fares, compared to stage bus fares, are shown at Chart 25. Taxi and hire car passengers are drawn from a wide range of social and economic groups and in addition to business journeys taxis are widely used for shopping and social purposes and for travel to and from work and school.

#### Other public transport services

26. School transport services play an important role in meeting transport needs, particularly in rural areas. Total payments on education transport for educational purposes in England in 1981/82 were £221m, of which £175m was for home to school journeys. Shire counties typically spend significantly more on school transport than they do on public transport.

27. Unconventional and innovatory forms of public passenger transport do play a much appreciated role in rural areas. Although not typical of all rural areas, a study in Lewes showed that unscheduled services provided 4.5m journeys compared with 4m by rail and 10m by bus. The Department has sought to act as a catalyst in the development of such services. The main forms are social car schemes, post buses and community buses. There are a large number of social car schemes throughout the country co-ordinated by individuals and voluntary organisations such as the WRVS. Approximately 20 community bus schemes have been established since the first commenced operation in 1975 at Sharrington in North Norfolk. The Post Office operates some 150 post buses, the majority of these operating in Scotland. In England, there are post bus services in a number of counties including Devon, East Sussex and Surrey.

TABLE 15 THE CONTRIBUTION OF SUBSIDIES<sup>1</sup> TO OPERATORS' INCOME FROM STAGE SERVICES  
1982/83: GB

	Percentage				
	LTE Bus	Passenger Transport Executives	NEC and SEG	Municipal operators	All public operators
Passenger and other receipts <sup>2</sup>	46	55	76	65	62
Concessionary fares payments	11	13	7	14	10
Revenue support	44 <sup>3</sup>	32	17 <sup>4</sup>	21	28
TOTAL	100	100	100	100	100

Sources: Annual Reports and Accounts of operators  
Returns by operators and local authorities  
to the Department of Transport, the Department  
of the Environment and Scottish Office,

- 1 Excludes fuel duty rebate.
- 2 'Other' receipts are from advertising and carriage of parcels etc.
- 3 Includes depreciation and renewal grant.
- 4 Includes reimbursement of expenses under operating agency agreements.

TABLE 16 SUBSIDIES AND GRANTS BY TYPE OF OPERATOR AND TYPE OF AUTHORITY : 1982/83

Great Britain					£ million
Type of operator	Revenue Support <sup>1</sup>	Concessionary fares payments	New bus grant	Fuel duty rebate	Total
London Transport Executive	201	49	7	15	272
Passenger Transport Executives	180	72	9	25	286
NWC and SEG	118 <sup>3</sup>	52	8	47	225
Municipal operators	48	31	3	11	93
Private	11	16	3	5	35
<b>Total</b>	<b>558</b>	<b>220</b>	<b>30</b>	<b>103</b>	<b>911</b>
Type of authority <sup>2</sup>					
Central Government	-	-	30	103	133
GLC and London Boroughs	201	49	-	-	250
Metropolitan Counties	225	82	-	-	307
Shire counties	80	) 49	-	-	144
District Councils	15		-	-	
Scottish <b>Councils</b>	38	41	-	-	79
<b>Total</b>	<b>558</b>	<b>220</b>	<b>30</b>	<b>103</b>	<b>911</b>

Sources: Annual Reports and Account of operators  
Returns by operators and local authorities to the  
Department of Transport, the Department of the  
Environment and Scottish Office. Estimates by  
the Department of Transport

- 1 Includes LTE depreciation and renewal grant of £39 million (estimated).
- 2 Subsidies and grants paid by local authorities and the Department of Transport
- 3 Includes re-imbursment of expenses under operating agency agreements

TABLE 17: EXPENDITURE ON SUBSIDIES AND GRANTS: 1972 - 1982 : GB

£ Million

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Fuel duty rebate	21	20	32	38	45	57	59	60	78	93	93
New bus grant <sup>1</sup>	18	21	23	31	39	43	52	62	80	56	40
Price restraint (National Bus Company)	7	-	-	-	-	-	-	-	-	-	-
Payment to operators in respect of concessionary fares	12	20	37	79	95	109	124	137	162	190	235
Infrastructure <sup>1</sup>	1	1	2	2	2	1	1	1	-	-	-
Revenue Support from local authorities	10	14	76	185	191	166	165	185	250	400	490
Depreciation and renewal from GLC	-	6	7	8	10	13	14	25	28	27	39 <sup>2</sup>
Capital grants from GLC <sup>1</sup>	2	-	-	-	7	-	-	-	1	14	-
All Grants	71	82	177	343	389	389	415	470	599	780	897

Source Transport Statistics Great Britain 1972-1982

<sup>1</sup> Capital grant

<sup>2</sup> Change in accounting procedure

TABLE 18: REVENUE SUPPORT AND RECEIPTS PER PASSENGER JOURNEY 1972-1982: GB

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Revenue Support (£m)	10	20	83	193	201	179	179	210	278	427	529
REX (1980 = 100)	32.5	35.5	41.1	51.1	59.6	69.0	74.7	84.8	100.0	111.9	121.5
Revenue Support at 1980 Prices (£m)	31	56	202	378	337	259	240	248	278	382	435
Stage Receipts (including concessionary fare contribu- tions) (£m)	440.3	464.0	509.0	667.9	813.3	895.7	983.9	1069.9	1266.4	1320.9	1438.1
Stage Receipts at 1980 Prices (£m)	1354.8	1307.0	1238.4	1307.0	1364.6	1298.1	1317.1	1261.7	1266.4	1180.4	1183.6
Stage Passenger Journeys (million)	7873	7839	7682	7498	7112	6833	6596	6443	6200	5685	5490
Revenue support (p) per stage passenger journey at 1980 prices	0.4	0.7	2.6	5.0	4.7	3.8	3.6	3.8	4.5	6.7	7.9
Receipts (p) per stage passenger journey at 1980 prices	17.2	16.7	16.1	17.4	19.2	19.0	20.0	19.6	20.4	20.8	21.6

Source: Transport Statistics Great Britain 1972-1982

Note: Fuel duty rebate is excluded, but revenue support includes depreciation and renewal payments from GLC to LTE.

TABLE 19: TRENDS IN REVENUE SUPPORT BY TYPE OF AUTHORITY: 1978/79 TO 1984/85: GB

£ million

	1978/79	1979/80	1980/81	1981/82	Provisional 1982/83	Estimated Outturn 1983/84	Budgeted Expenditure 1984/5
Bus, underground, metro and ferries <sup>1</sup>							
England: GLC <sup>2</sup>	58.0	52.0	94.0	86.0	162.6 <sup>3</sup>	183	190
Metropolitan counties	58.9	79.4	124.6	188.6	227.6	207	206
Shire counties and districts	51.0	66.0	61.3	89.6	88.0	91	96
Wales:	6.0	7.7	8.5	9.5	9.6	11	11
Scotland: <sup>4</sup>	13.3	18.9	40.2	38.7	38.6	29	34
GB Total	187.2	224.0	328.6	412.4	526.5	521	537

Source: Department of Transport, Welsh Office, Scottish Office

1 Revenue support for underground, metro and ferries is relatively small (less than £10m).

2 Excludes depreciation and renewal payments from GLC to LTE.

3 Includes the cost of the "Fares Fair" policy incurred in 1981/2.

4 Buses and ferries only

Table 20: LOCAL AUTHORITY REVENUE SUPPORT FOR BUSES<sup>1</sup> COMPARED WITH PUBLIC EXPENDITURE PROVISION GB

£ million

	1983/84		1984/85	
	Provision	Estimated Expenditure	Provision	Budgeted Expenditure
England				
GLC	)	183	)	190
Metropolitan	) 153	207	) 166	206
Shires	90	91	94	96
Total	243	481	260	492
Wales	10	11	11	11
Scotland <sup>2</sup>	24	29	26	34
GB Total	277	521	297	537

1 Includes expenditure on underground, metro and ferries

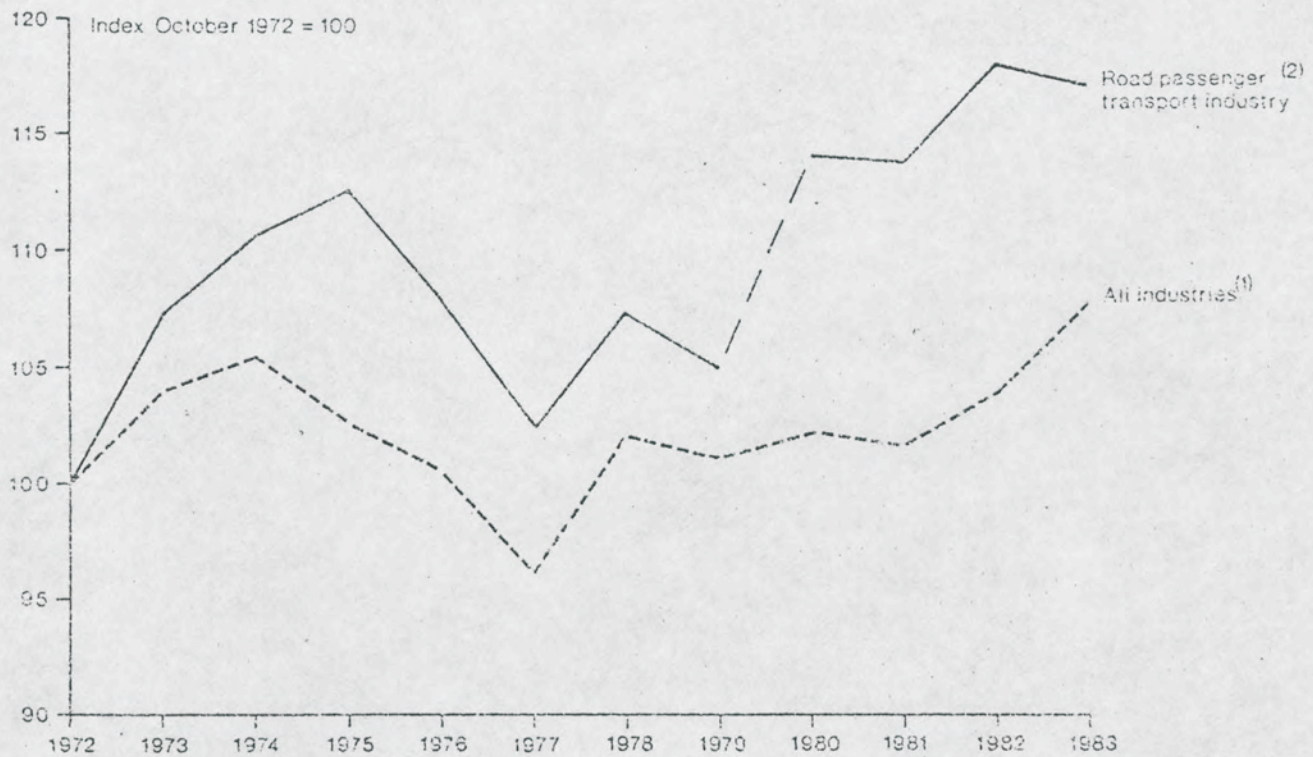
2 Buses and ferries only

Source: Department of Transport,  
Welsh Office, Scottish  
Office.



# CHART 21 TRENDS IN REAL EARNINGS: U.K.

Male manual workers on adult rates



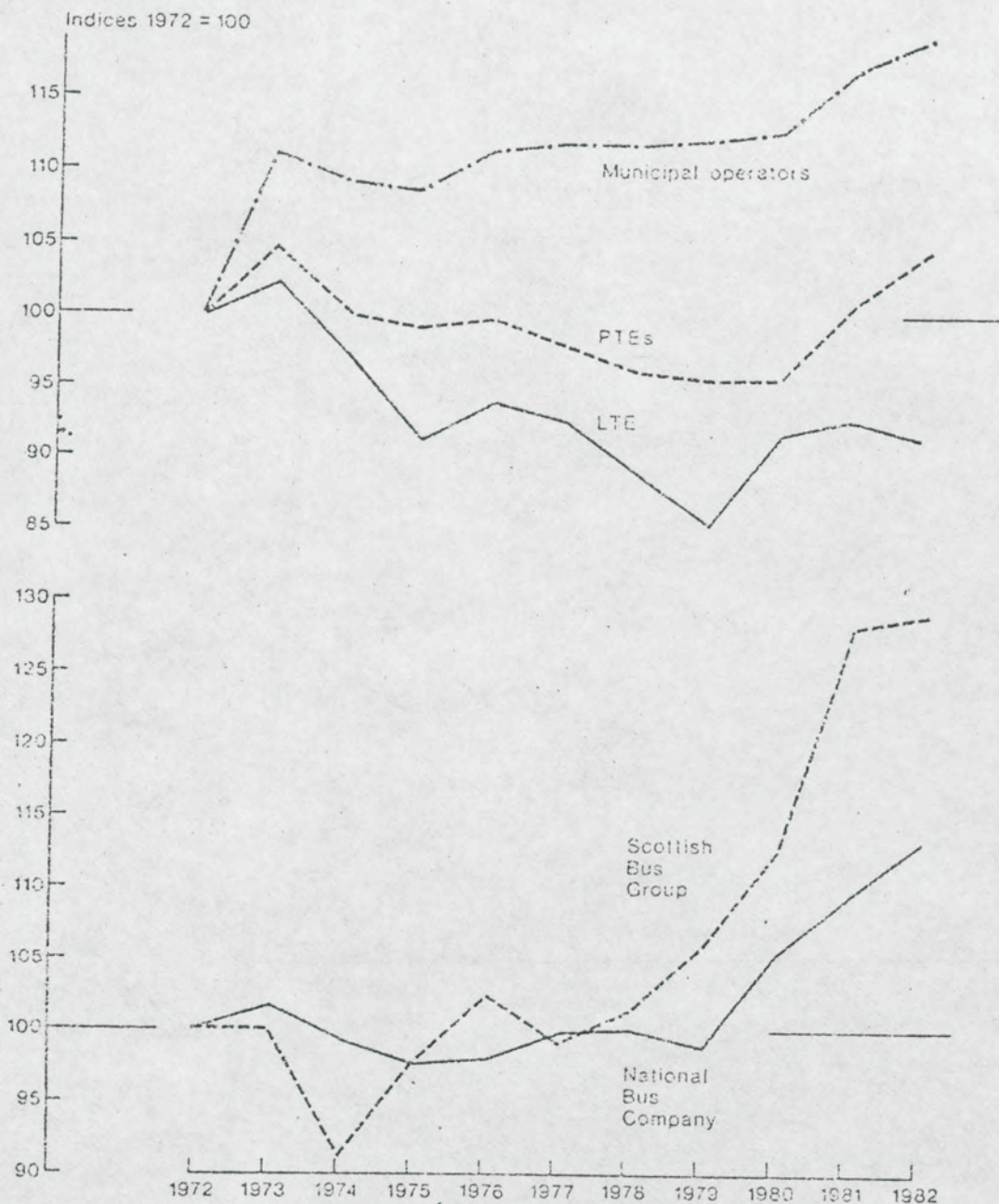
(1) All industries in survey: generally all manufacturing, mining & quarrying (except coal mining), construction, gas, electricity & water, transport & communication

(2) Figures for 1972-1979 exclude LTE staff; for 1980-1982 LTE staff are included. Figures for 1972-1979 relate to full-time male workers aged 21 and over.

Source: Department of Employment annual survey

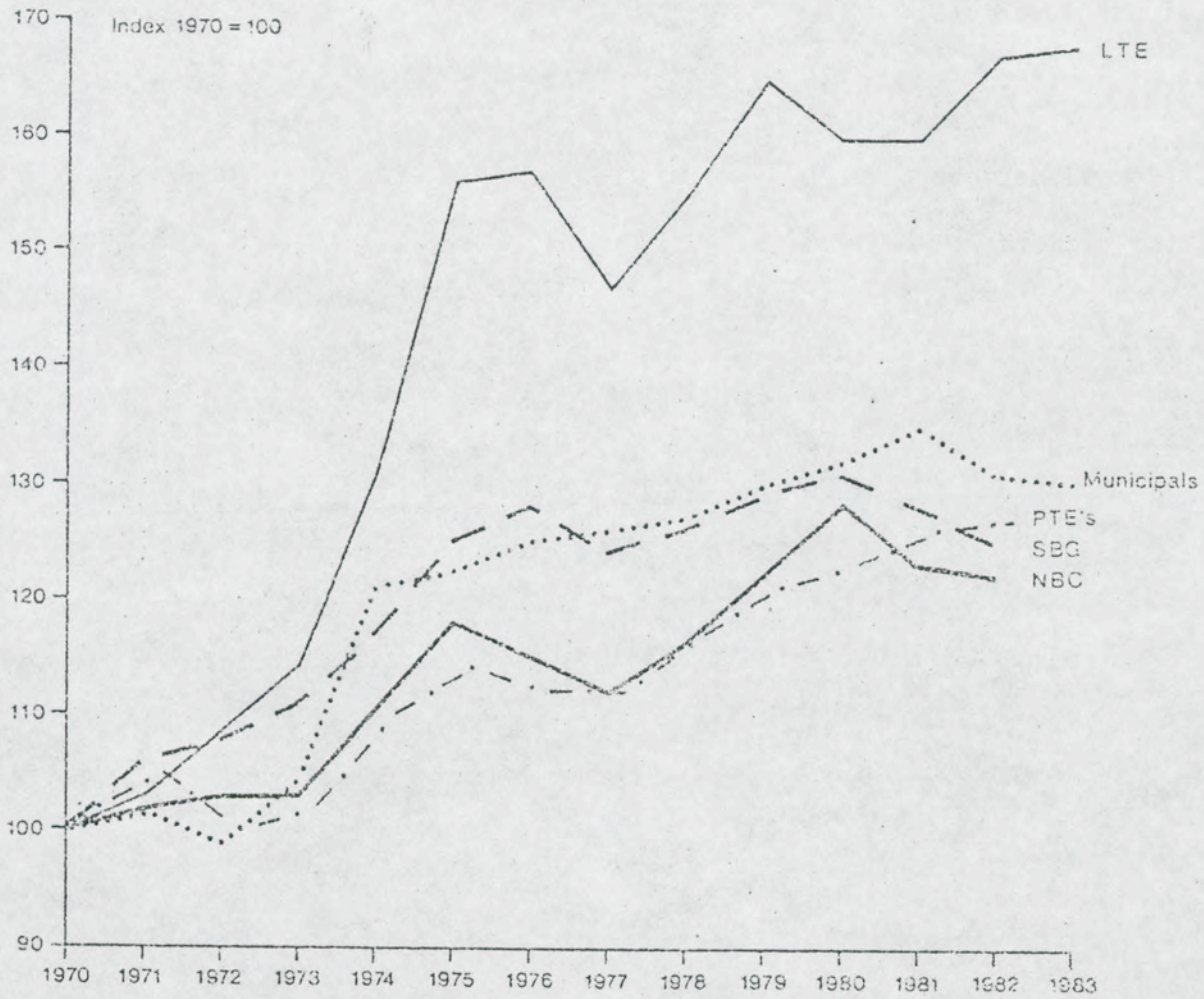
# 22 TRENDS IN VEHICLE KILOMETRES/STAFF EMPLOYED

GB



Source: Department of Transport

CHART 23 TRENDS IN REAL COSTS PER  
VEHICLE-KILOMETRE GB



Source: Department of Transport

1983 figure is provisional.

TABLE 24: THE TAXI AND PRIVATE HIRE CAR INDUSTRIES 1980 : ENGLAND AND WALES

	OUTSIDE LONDON			LONDON	
	Taxis	Licensed Private Hire Cars	Unlicensed Private Hire Cars	Taxis	Private Hire Cars
No. of licensed vehicles	17,000	19,300	6,000 (E)	12,300	27,000 <sup>3</sup> (E)
Mean no. of vehicles/ proprietor	1.4	1.5		1.6	
No. of licensed drivers	47,200 <sup>1</sup>	41,300 <sup>2</sup>		17,100	
Mean no. of drivers/ vehicle	2.8 <sup>1</sup>	2.1 <sup>2</sup>		1.4	
% increase in no. of licensed vehicles					
1972-1980	37	46		22	
1976-1980	10	25		n/a	

Source: Transport and Road Research  
Laboratory Report 1011

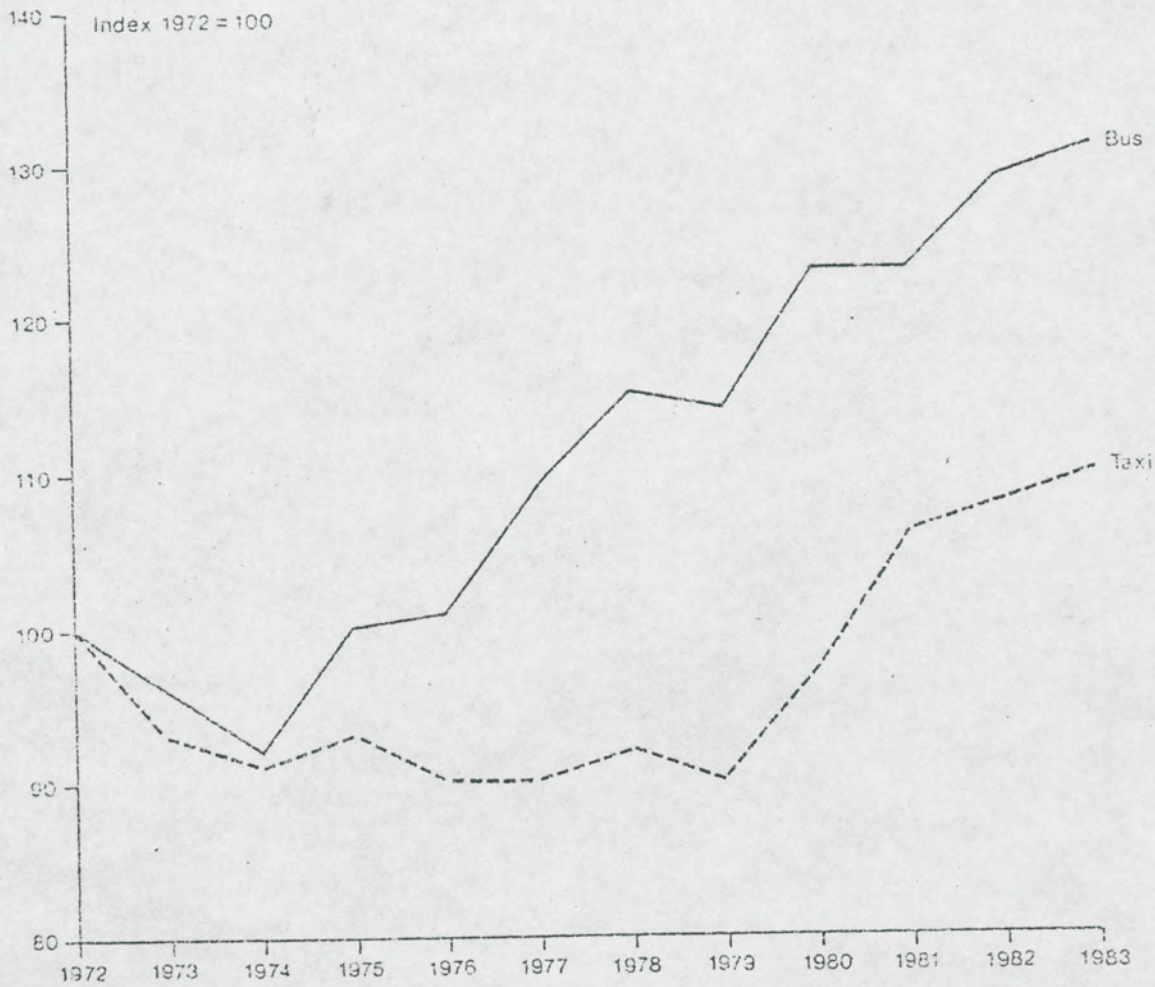
<sup>1</sup> Excluding 5,300 persons eligible to drive taxis by virtue of holding a private hire car driving licence.

<sup>2</sup> Excluding 10,800 persons able to drive private hire vehicles by virtue of holding taxi driving licences.

<sup>3</sup> 1975

(E) estimated

# CHART 25 TRENDS IN REAL TAXI FARES<sup>1</sup> AND STAGE BUS FARES<sup>2</sup>



Source: Department of Transport

<sup>1</sup> England (excluding London) and Wales.

<sup>2</sup> Great Britain

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All tables and charts cover Great Britain unless otherwise stated.

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## REGULATION, SUBSIDY AND CROSS-SUBSIDY - A CRITIQUE

## PREFACE

The main part of this critique is an assessment of some of the advantages and disadvantages of the present regulatory system that has governed the bus industry for the last fifty years and also, as far as the evidence permits, of the consequences that would follow from the radical changes that the Government is proposing. It examines three main subject areas - the scope for greater efficiency in bus operations, the potential for greater innovation in a competitive environment and the implications of the loss of cross-subsidy that would follow. It draws on evidence from a range of sources including some analysis undertaken specially for this review.

There is rather more evidence in relation to the first and third of these subject areas than to the second. In respect of each of the former there is a separate appendix analysing the available evidence in rather greater detail. In respect of the second subject area, innovation (both its potential and its possible problems), there is no separate appendix, but the assessment which follows draws on Annex 3, which describes and analyses the changes that have followed the limited relaxations of licensing for local bus services under the Transport Act 1980 - especially the experience in the three trial areas, where licensing has been suspended.

This critique has been prepared through the joint efforts of the Department's economists and three external advisers, Professor Michael Beesley of the London School of Economics, and Dr Stephen Glaister of the London School of Economics, and Mr Malcolm Buchanan of Colin Buchanan and Partners, who have been assisting the Government in its review of bus policy.

## INTRODUCTION

1 Since 1930 local scheduled bus services have been provided under a comprehensive system of regulation administered on a quasi-judicial basis by the traffic commissioners. This system comprises both quality regulation - of the operators, of the vehicles and of drivers - and quantity regulation of the number and types of services that are operated. This assessment is concerned only with the effects of the latter. Under the current provisions the operator of any service requires a licence, which will be granted unless the commissioners are satisfied that the service would be against the interests of the public. It is open to operators (including British Rail), local authorities and others to object to applications or to seek to persuade the commissioners to impose restrictive conditions to limit their competitive effect. In recent years, most arguments have turned on whether and to what extent new services would take revenue from an existing operator and so reduce that operator's ability to finance other unremunerative <sup>in some cases,</sup> but socially valuable services from that surplus: that is to cross-subsidise. The traffic commissioners have had to balance their judgement of the effects of the loss of such cross-subsidy against the loss of benefit to potential passengers on the new service if a licence were refused. An understanding of the operation and effects of cross-subsidy is therefore important when assessing the consequences of deregulation.

2 Since 1930 there have been such profound changes in transport that the experience of the 1920's is of limited relevance to present conditions. In the 1920s buses, both in town and country, were rapidly opening up new local markets for which there was no effective competitor to the bus. The industry, although then already consolidating fast, still had far more independent units than it has today. It neither needed



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nor got public subsidy - the only way in which unremunerative services were financed was from the profits of the rest of the business.

3 With a fully unregulated system so far in the past, there is little direct British evidence for what would happen now if quantity regulation did not exist for stage carriage bus services. There are some recently initiated examples of bus deregulation in OECD countries, but these have so far yielded little useful information. Substantial successful examples can be found in major cities in some other countries. Relevant also is the success of complete deregulation of inter-city coach services in reducing costs and fares while improving services. These examples of course do not constitute direct evidence of what would happen - whether in town or country - if local bus services were not regulated. The only such evidence relates to the three <sup>largely rural</sup> ~~trial~~ areas deregulated under the 1980 Act. The experience there is examined in Annex 3. Its conclusions are on balance favourable. Many of the fears previously expressed about the adverse effects of deregulation were seen to be misguided and major cost savings have been achieved.

THE MAIN ISSUES

4 Regulatory systems cost money and resources to run. Apart from the direct costs of public administration, they impose costs and delays on operators, which have eventually to be paid by users or through subsidy. There should therefore be a general presumption that it is up to the defenders of regulation to show that its benefits exceed its costs and the evidence of these annexes indicates that the disbenefits of regulation are so substantial that they far outweigh any risks and transitional costs associated with implementing the change.

5 The general case against regulation is that of consumer sovereignty. In principle, consumers should be free to choose what they will buy and existing producers should not be protected from competition from those who believe they can offer services that give better value for money to consumers. With control over entry existing high cost operators are protected from challenge by cheaper operators and innovation is discouraged. Critics of regulation argue that the results of this have proved especially damaging in the period of the declining market that has characterised the bus industry for over two decades.

6 Against this, defenders of the present system argue that the disadvantages are outweighed by the support the system gives to the provision of a network of services and in particular, to the ability to sustain many unremunerative services through cross-subsidy. Some of their other less fundamental arguments are discussed later.

#### UNIT COSTS AND COMPETITION

7 In the simplest aspect of value for money - the general level of fares - bus users have done badly in recent years. During the decade 1972-82 unit costs (measured in terms of costs per bus mile) among public sector operators outside London rose by between 15 per cent and 30 per cent more than the general level of inflation, much of this due to the growth in relative wages in the industry. Since the supply of bus services was reduced less than patronage, real costs per passenger mile rose even more. So in spite of rising subsidy, real fares also rose by about 30 per cent.

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8 If subsidy had not been allowed to rise, would unit costs have risen so steeply? Certainly the rise in both has been greatest in urban areas where counties have been least willing to contain subsidy. Also the differential movement in unit costs between metropolitan and shire counties has been greater than can be explained solely by the greater unwillingness of the former to adapt services to customer demand.

Evidence from the U.S. and from international comparative studies of subsidy lends support to the contention that subsidy 'leaks' into costs.

9 In Great Britain, there is evidence that present costs are substantially higher than they need to be. This is analysed in detail in Appendix A, but in summary is as follows.

10 First there are major differences in unit costs within each of the main public sectors. Simply to achieve the best practice within each separate sector would substantially reduce average costs.

11 Second, there are also similar wide differences between the main public sectors. Generally NBC unit costs are much lower than those of municipal and PTE operators. And these differences persist when PTE costs are compared with those of NBC operations within their own areas and seem too large to be accounted for simply by differences in the types of services provided.

12 Third, costs of public sector operators are 30-40 per cent higher than those of private sector operators. Because private sector operators in this country are usually small, these cost comparisons are not of like with like. But Australian experience, where a direct comparison can be made between some private operators and public sector ones, shows even larger differences.

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13 These comparisons of unit costs relate to costs per bus mile (comparisons in terms of seat miles, a better measure of supply, are not explicitly available).

Equally important for fares are the average numbers travelling in each vehicle. Again, there are wide variations between PTEs deriving largely from the greater willingness of some areas to restructure their pattern of services to reflect falling patronage. But the experience of NBC and of other operators such as Southampton has shown that major economies in vehicle mileage can be made without correspondingly substantial reductions in patronage and revenue.

14 The latter gives an indication of what can be achieved within the present system if subsidy is strictly controlled and if management is determined. But the full achievement of the potential for cost saving, which could bring public sector costs much nearer those of the private sector, seems most unlikely to be achievable without the spur of competition, because of all the institutional barriers and inertia that currently exist.

INNOVATION: POTENTIAL AND PROBLEMS

The Potential of Innovation

15 Regulation discourages innovation by its very nature. Under regulation the incumbent operator protected by his effective monopoly over existing services, has less incentive to pioneer new ones. It discourages the challenger by placing

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additional costs and risks on the way to his potential market. The regulator has to consider for any proposed new service whether it would be in the interests of users, but the more radical the proposal the harder it is to judge. Ultimately there is one critical test, that of the public's response to the entrepreneur's willingness to risk his resources in innovating. Innovative services will not be introduced without the operator doing his best to find out what the market for them is likely to be and the operator's own desire to earn profits will be the most effective deterrent to providing services users do not really want. In this industry change should not be difficult because the capital costs of innovation are low.

16 It must always be remembered that the bus is only one of the ways in which the demand for personal travel can be met. While bus travel has been declining, not only personal motoring, but also the use of taxis and private hire cars has been growing. These are much more expensive public transport modes, but are not solely for the rich and the business traveller - they are used by many without access to private cars, often for essential journey purposes. But in Britain - mainly because of the regulatory system and the entrenched position of the big bus - there has been only limited development of the intermediate alternatives to both taxis and buses that have flourished in many other countries. Not all of these are likely to prove popular in Britain; but the growth of taxi and hire car use suggests that there may in Britain be a substantial market for mini-buses, shared taxis and other intermediate modes. With rising prosperity the demand for personal travel is bound to continue growing. This will mainly take the form of higher car ownership, but the public transport industry, as long as it offers new and attractive services, can also tap this growing market.

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17 Such potential demand exists in towns and cities; in some cases people will be prepared to pay a premium above the conventional bus fare for faster or more convenient or more comfortable journeys. But there should also be scope elsewhere for offering new kinds of service where conventional types are only sustainable by heavy subsidy.

18 Smaller vehicles are far from the only potential means of innovation. Fare structures are another. It has all too readily been assumed that a uniform fare structure (which has obvious merits of convenience) makes sense; but, as has been observed in other industries and other modes of transport, forms of selective fare differentiation that reflect the costs of provision can help to improve the utilisation of services and so keep costs per passenger down. Similarly too there will be increased scope for innovation in types of service: limited stop, express, flexible routing etc. Although important innovations can and have been made within the present regulatory system, full deregulation would substantially speed up the pace by allowing management greater freedom to experiment with new types of service and fare structures. Free entry to the industry will also enable new sources of capital and entrepreneurial skill to be tapped.

#### Possible Problems with Deregulation

##### a) "Wasteful" Competition and Unreliability

19 Many defenders of regulation argue that, without the protection for incumbent operators from competitors, the provision of services will be both excessive and unduly volatile. In part, this may reflect a distrust of small operators, who, it is argued, will have neither the financial resources nor the tradition of public service to sustain reliable services of the kind the public has come to expect. Given the retention, and in some respects enhancement, of effective controls over the competence and financial standing of operators such fears are exaggerated. Operators of any size out to make a profit will not hazard the goodwill of travellers by unreliability or by over-frequent changes in

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timings, routes or fares and the market test will provide an effective check on additional services for which there is inadequate customer demand.

20 Indeed, the bus industry is an industry in which the risks of over-provision should prove less than in most industries and services. Just because in buses costs of entry are low, sunk costs are comparatively small in relation to operating costs and economies of scale are limited, there are few reasons in principle for fearing that competition will lead to frequent and unsettling changes in the supply of services. In the absence of regulation any operator will know that, in respect of any service he is providing, he is liable to challenge from other operators or potential operators who think they can offer better value for money. The bus market is therefore a highly contestable one.

21 Substitution of one operator for another will not be frequent once markets have settled down after deregulation. In practice, the actual degree of competition on the ground - and therefore the amount of change travellers will have to face - will be much less than the potential degree of competition. Incumbent operators will be kept up to the mark by this consideration.

22 Consider, first, the case of heavily-used routes. On such routes intending passengers do not need to arrange their journeys to catch a specific bus on the timetable. Knowing that buses run frequently enough for waiting times to be short they go to catch the next bus available. This is the kind of route on which, in the absence of regulation, competition on the ground is likely to develop. There will be opportunities for several operators to survive. With deregulation much of the competition will take the form of new types of service. For this reason, the total market should expand and on many services fares will fall.

23 In order to test this prediction, Dr Glaister was asked to investigate <sup>a computer model</sup> by simulation what might happen on a range of urban bus routes if mini-buses were free to operate in competition with conventional double-deckers, under some reasonable assumptions about cost structures and the spread of values of time among travellers.<sup>1</sup> On a heavily used route a pattern of two types of differentiated service emerged, with the mini-bus providing a faster service at a higher fare than the conventional bus. This gave better results both financially and in terms of overall benefits to passengers than the conventional service and the market was substantially expanded. The work merits further development; but what has been done so far does provide some confirmation for the thesis that regulation has led to a comparative neglect of good routes. This result also emerged from earlier work<sup>2</sup> which showed that, even under the regulated regime, much better value for money for users was achieved by concentrating economies on less heavily used routes.

24 On less heavily used routes, there are rather more prima facie grounds for concern. On such routes, intending travellers will benefit from a regularly spaced service. So, it is argued, passengers have a direct interest in a regulatory system that ensures that competing operators will work to a co-ordinated timetable designed to minimise waiting times for passengers. Without regulation, it is argued, services

1 Unpublished. Available on demand from the author.

2 M.E. Beesley, P. Gist, and S. Glaister. Cost-benefit Analysis and London's Transport Policies. Progress in Planning Vol. 19 Part 3.



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will be bunched, since, if there are competing operators, each will have a financial incentive not to let his competitor get in just ahead of him and so cream the traffic.

25 But this is not what will probably happen with totally free entry. If two competitors were to behave like that, the profitability of both would be at risk. So one of the two ~~might~~ decide to offer a different type of service and the market would then be differentiated. Otherwise, one ~~might~~ be forced to withdraw. But if there is enough demand to support two operators of the same kind of service, they will usually, in practice, agree to co-ordinate their services (subject to the provisions of the Restrictive Trade Practices Act). By so doing service to passengers will be enhanced, and financial returns will be greater. Instability, excess provision and deliberate fare-cutting below cost occur when only parts of the market are effectively contestable.

b) Ease of Interchange

26 Many journeys by public transport, though not the majority, involve an inter-change - sometimes between modes, and sometimes from one bus to another. PTEs and other operators have put much effort into this aspect of their co-ordination responsibility. Lack of through-ticketing arrangements and **common fare** schedules can pose problems for such travellers even under the present system.

27 It is argued that, with several independent operators and without regulators to insist on proper provision for co-ordination and interchange sensible arrangements could prove harder to make. But this need not be the case, because the commercial

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incentive will be there for operators to cater to the needs of such passengers. Informal measures of co-operation between operators will develop to ensure that their services connect, especially as under competition there should be more flexibility in the type of service that can be provided. Through-ticketing, which involves transaction costs, may be less common; but even in this, arrangements can be expected to arise through the market where such are clearly to everyone's advantage.

28 Some other issues concerned with the use of cross-subsidy to sustain networks are discussed below (paragraphs 35-41).

c) Congestion

29 Serious concern is also expressed that free entry will add to congestion, especially in town and city centres in the peak, to the detriment of all road users (and of the environment). The particular fear is that, if new entry leads to the introduction of many new mini-bus services, then the demand for road space will go up - especially for road space in which to stop in order to put down or pick up passengers. It is also argued that the local authority and the police will find it harder to fulfill their traffic management responsibilities if they have to deal with a large number of competing operators.

30 However, other factors serve to counter-balance these effects. Not all travellers on new types of services will have transferred from conventional buses or railways or walking. Some may have been car drivers and their transfer will positively assist the flow of traffic. The congestion caused by any new service will depend on the frequency with which it wants to stop in areas where congestion is a real problem. And at least in most parts of the country, even within the cities, severe congestion is limited in both time and place.

31 Over most of the country no significant addition to congestion or traffic management problems need be feared. After all, buses and coaches form a very small proportion of all vehicles on the road; even if their number were to double, they would represent 2.4 per cent of all traffic. A small minibus, even if only partly loaded, is more economical in its use of road space than a private car with only the driver or a taxi with only one passenger. There may be some local problems requiring local solutions, especially in the centres of towns and cities. But even here simple appropriate actions, such as the designation of stopping areas and the provision of stopping bays, should suffice. In those rare cases where severe congestion or problems of road behaviour develop, the reserve powers described in chapter 4 can be applied.

#### NETWORKS AND CROSS SUBSIDY

32 Now we turn to the final group of issues - that of the relation between networks and cross-subsidy. Twenty years ago there was little direct subsidy from public funds for unremunerative services and operators sustained comprehensive networks of services only through the power of cross-subsidy. As demand weakened and real unit costs rose, that power was reduced. So in almost all areas direct subsidy was brought in to help maintain the networks.

33 Subsidy grew most sharply in London, metropolitan counties and some municipal areas. Many authorities proved unwilling to adjust their services as demand fell, so the pattern of services has in many places become outmoded in relation to the present day. Although few services now earn substantial surpluses, cost recovery rates vary widely between different routes and times of day. So, as external support is reduced within the existing framework of regulation, it is to be expected that once again the good services would be developed to generate surpluses to sustain the less remunerative parts of their network. So the issues related to cross-subsidy are relevant to all types of area - and not just to those where it is now currently the main source of support for unremunerative services.

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34 Some evidence relating to the scale and distribution of cross-subsidy is presented in Appendix B. It is drawn from a limited number of NBC operating units, all in shire counties. It suggests that in these areas cross-subsidy measured on a route by route basis could be three or more times as important as direct subsidy as a source of support for unremunerative routes. Further details about its distribution are given later.

35 Because of its importance, many fear that without cross-subsidy it will no longer be possible to sustain a comprehensive range of transport services, operating an inter-linked network along the lines of the present planning ideal. This is often seen as an important component of local authorities' planning duties. As argued above (paragraphs 26-7), the fears that without comprehensive planning inter-change will be much harder are misguided. Some authorities have also felt that the promotion of common fare scales was an integral part of their planning duties. But the main fears relate to the effects on unremunerative services, especially as many local authorities understandably see cross-subsidy as a valuable means of augmenting their limited resources for direct subsidy.

36 It would be possible to increase competition in the supply of public transport services while still retaining a system of regulation and therefore cross-subsidy. Perhaps the best idea is that of competitive franchising, under which periodic bids would be invited for the supply of specified services within an area. The successful bidder would then be protected for the period of the franchise from competition on both profitable and unprofitable services, but would be contractually obliged to sustain the latter by cross-subsidy from the former.

37 Although such a system would exert some competitive pressure on operators, it would do so much less than full deregulation. Although perhaps suitable in other contexts, one must doubt how effective would be the threat of competition in practice were franchising introduced for the provision of local bus services. The incumbent operator would be strongly placed in the bidding, particularly vis-a-vis the small operator. The latter, however efficient, would find it hard to grow enough to emerge as a genuine challenger and would be wary of incurring the costs and the effort needed to mount such a challenge. There would be much less room for innovation and experiment. Moreover

there would be some danger of unrealistic bidding. If operators failed to fulfil the terms of their contracts, the authorities could be faced with difficult decisions whether to allow contract revision or to risk disruption of services - on a scale that would not arise if bidding is confined to the loss-making services where public support is required.

38 But the case against the practice of cross-subsidy is more fundamental than this. It has two main grounds. First, users of good routes are being penalised by being made to pay excessive fares in relation to the costs of providing the service they use. This is not to deny the social case for subsidising some routes because otherwise those who live along or near them would be deprived of a valuable service. But the merits of such expenditure need to be judged against the social value of other forms of public expenditure. There is no reason why other travellers who happen to live along well-trafficked routes should in effect be taxed. The argument is not just about equity. Through the regulatory system, the development of public transport has been held back where it has a comparative advantage, so that overall there has been a needless encouragement of personal transport.

39 One particular result is worth mentioning. When people buy cars, they usually give up using public transport for journeys for which they would previously have used it. Other things being equal, the demand for public transport is likely to be more buoyant in areas of low car ownership even though such areas will usually be of lower income levels. So the principle of cross-subsidy, rather than of direct subsidy from public funds, to support loss-making services can mean that the public transport services of the less prosperous areas are being taxed to cover deficits in more prosperous areas. This can happen both within and between operating companies under common ownership.

40 The second main argument against cross-subsidy is that it leaves to operators for decision matters which should not be so left. Where operators can finance their services through the fare-box, what is provided should be left to be determined in the market. Services which the market does not provide and which therefore need subsidy if they are nevertheless to continue should get that subsidy only by decision of elected representatives after proper testing that they constitute good value for public money and within the resources available to them. Part of that test relates to the social needs that will be so met. But an equally important part relates to the efficiency of meeting them. The latter requires that they too be put to the test of the market eg. through competitive tendering by potential operators.

41 In this way there will in future be a sharp distinction between the core of the system consisting of viable services determined under commercial competitive pressures and the additional services provided with external support to meet specific needs. But a comprehensive system of services can be expected to emerge. In particular, many of the features of networking that are often claimed to depend on <sup>regulation and</sup> cross-subsidy will still be found because they will be justified by normal commercial criteria. An apparently loss-making service is only genuinely loss-making if its withdrawal will improve the overall financial results of the operator i.e. if the costs that will be avoided exceed the revenue that will be lost to his network as a whole. Management will have good grounds for believing that using a measure of apparent cross-subsidy to sustain the network will, for example, influence passengers' decisions regarding their choice of mode, allow the economic provision of through-ticketing and season tickets, reduce administrative costs and facilitate co-ordination of linking services. None of this involves cross-subsidy in a strict economic sense and should not therefore be at risk.

42 What does evidence in Appendix B from the existing pattern of subsidy and cross-subsidy tell us about the services that will continue to need external support?

43 First, as regards different routes. Most rural services, comprising perhaps a fifth of bus mileage (much less of passenger mileage) outside the major urban complexes are unprofitable. Town and, even more, inter-town services usually contribute to the support of the rural services. With the gains in efficiency brought about by competition some of these rural services and many of the loss-making urban services should become commercially viable. External support will

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then be focussed on the remaining, <sup>particularly</sup> rural services where it is most needed.

4 4 Second, as regards the times of day and week. Cross-subsidy in this context is harder to measure. Early morning, late evening and Sunday services mostly lose money. Saturday services, especially those to shopping centres, are mostly profitable and competition should result in a better provision and possibly lower fares for these important <sup>appears to</sup> journeys. During weekdays service between peaks often subsidise the peak services so inter-peak fares are likely to fall (relative to peak fares) and the level of provision on major routes could well increase. Again competitive pressures should lead to low costs and a greater variety of service provision. Independent operators and novel forms of transport may provide a substantial amount of the capacity at peaks and force incumbent operators to improve labour flexibility and tackle the problems of high peak costs.

4 5 In a deregulated system it will be seen to be inappropriate to attempt to subsidise large networks as such. Rather public support will be directed to the attainment of specific objectives meeting defined social needs by the most cost-effective means possible. Local authorities will need to re-examine the ends to which subsidy is to be applied and the means of evaluating them within their limited resources. Many have been developing their skills in this task but the new context will make the <sup>of this work</sup> realisation/ easier and more effective. They will no longer be dealing with a single dominant operator. Instead they will be able, through open tender, to gain the advantages of competition to let contracts to the operator best placed to provide them economically and efficiently. With some limited exceptions, which could arise in both town and country, there is no reason to suppose that the availability of local bus services will be radically affected by the loss



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of cross-subsidy implicit in opening up the industry to competition. Its loss should be offset by the gains from the more effective use of direct subsidy made possible.

CONCLUSION

46 The present system of regulation gives cause for concern because it has detrimental effects. It has allowed growth to occur in real operating costs; it has inhibited innovation and suppressed demand on the better routes. As a result, the consumer has a less good service than he could and the public cost of subsidy has soared.

47 If bus licensing is abolished, major changes are likely to occur. Much of the present cross-subsidy will disappear, as fares on better routes go down in the face of competition. But at the same time, new income will be generated by increased demand and there will be significant reductions in costs as management and staff face up to the pressures of operating in the competitive market.

48 Local authorities will be able to buy in the services they currently support at a lower price; the savings will be available to put towards other services which will have lost the benefit of cross-subsidy. Overall, the loss of cross subsidy and the cost reductions through greater efficiency may be not far out of balance. Although some individuals will gain and some will lose, the community as a whole will benefit, since the loss of cross-subsidy and lower fares will balance, while the efficiency related cost reductions will remain a significant benefit.

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49 On the demand side, it is impossible to forecast how many people will use buses more as fares decline and service improves. There is little direct British experience of what might happen, particularly in urban areas. But the various strands of evidence - on unit costs, on the experience abroad, on the inter-city coaches and of deregulation

in the trial areas, on the continuing competitive success of the taxi and car hire trades - all point to the conclusion that with better services and with lower fares more people are likely to go by bus or other forms of public road passenger transport.

5.0 As to the services themselves there will be substantial changes in their pattern. Existing and new routes will be developed commercially and there will be new forms of provision.

The outcome will depend on the skill with which individual councils fulfill their new remit and on the priority they choose to accord to local transport as against other social needs. There are no grounds for expecting widespread deprivation of service - and genuine grounds for suggesting that overall, once the new regime has settled down, those who now depend on services subsidised either directly or by cross-subsidy will have no significant worsening of their access to public transport.

5.1 There is however likely to be a period of uncertainty as the various parties adjust to the new rules. Perhaps the hardest thing to foresee is how fast change will come on the ground. There is bound to be resistance to change when a 50-year old system of restriction is removed. But

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change came with less fuss than feared in the trial areas and in the inter-city coach network - one major factor being the confidence that reliance on the market, rather than on political decision taking, brings to business decision, since judging accurately what the market wants and then setting out to produce and market it efficiently and economically constitutes the essence of business skill. Most bus operators have the skills to respond to this challenge; the transition should therefore prove less troublesome to travellers than might have been feared.

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## THE EFFECTS OF THE TRANSPORT ACT 1980 ON LOCAL BUS SERVICES

## INTRODUCTION

1. The Transport Act 1980 modified the regulation of local bus services and made provision for certain "trial areas" in which road service licensing would be abolished. This annex describes in Part I general developments in the period immediately following the Act (largely based on published Transport and Road Research Laboratory (TRRL) reports). Part II examines developments in the trial areas based on a TRRL study shortly to be published.

## PART I: LOCAL BUS SERVICES THROUGHOUT GREAT BRITAIN

Introduction

2. The Transport Act 1980 eased the criteria against which road service licences for local services were granted. Previously, the burden of proof was on the applicant to demonstrate the case for the proposed service, against objections. From 1980 the traffic commissioners have been required to grant licences unless they were satisfied that to do so would be against the interests of the public. So the burden of proof changed from applicant to objector. The Act also removed fares control by the traffic commissioners, save as a reserve power to be used in exceptional circumstances.

3. This part of the annex assesses the effects of these measures on local bus services and fares. It also discusses the growth of commuter coach services.

Local Services

4. The Act coincided with a sharp acceleration in the rate of decline in the demand for local bus services and in the level of provision, attributable to the general economic recession. This had the effect of masking, and perhaps inhibiting, developments resulting from the new licensing arrangements. During the first year the Act was in force, some 2800 licences for local services were surrendered or not renewed - roughly five times as many as in the last complete year before the Act for which statistics are available. However, some 1700 licences were granted for new services - an increase of nearly 50 per cent. A significant proportion of these new services were essentially replacements for withdrawn services. On some, independent operators replaced public sector ones.

5. The majority of objections to new licence applications were to those made by independent operators and many of these objections were by public sector operators. Nevertheless, applications achieved a success rate of 92 per cent - significantly higher than before the Act. That does not necessarily mean that operators can easily obtain licences. Applications to run services on profitable routes have been vigorously opposed by established operators, sometimes at considerable cost.

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6. The traffic commissioners' interpretation of the "public interest" has been crucial. In several cases in the early months established operators objected to licence applications on the grounds that the proposed new services would abstract revenue from their existing ones, reducing their ability to cross-subsidise unremunerative, but socially desirable, services. Although the supporting evidence for such arguments was often meagre, objections were upheld by the traffic commissioners in some cases (but not all). The argument was given considerable public exposure in the case of Yeowart's Coaches, whose application for a licence to run a service to Whitehaven in competition with Cumberland Motor Services was refused by the commissioners, but granted on appeal by the Secretary of State, a decision ultimately reversed by the courts.

7. Since that appeal, there has been some re-appraisal by the traffic commissioners of the "public interest". Cross-subsidy, the interests of ratepayers and taxpayers and the demands of passengers for subsidised services must be weighed against the benefits to people who would use the proposed new services. Objectors are now being called upon to support their cases in a more analytical and quantitative manner and are doing so successfully.

8. In the few cases where operators have obtained licences allowing them to compete with established operators, they have faced formidable resistance, in the form of predatory pricing, increased service frequencies and other means. Such tactics tend to be successful, especially when the resources of the established operator greatly exceed those of the newcomer.

9. So despite the relaxations of the 1980 Act, operators wishing to offer new services are in practice limited to those very few routes not covered at all by existing operators but where reasonable returns can be made on investment.

#### Stage Carriage Fares<sup>1</sup>

10. Since the first years of bus licensing, fares had been fixed in detail for almost all licensed services. The 1980 Act abolished that control other than in exceptional circumstances where it might be necessary, in the public interest, to prevent an operator exploiting a monopoly position by overcharging, or to regulate the terms of competition on a route (ie to stop undercutting).

11. Observations over the period January 1978 to January 1983 indicate that:

- (a) the rate of increase in bus fares appeared to have declined. This was probably attributable to the combined effects of a falling rate of inflation, heavy patronage losses arising from economic recession, the fares policies of local councils elected in May 1981 and possibly the threat of competition;
- (b) there have been some moves away from uniform pricing. These have taken various forms, and none appears to have been a direct result of the emergence of competition. Nevertheless, in January 1983 some form of overall fare scale still dictated the level of most fares;

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- (c) the majority of fare agreements reached before the Act between public and private sector operators seem to have been maintained. Most unilateral fare reductions by private operators have been matched and some form of equilibrium has generally returned;
- (d) by January 1983 there had been only a few examples of the use of traffic commissioner reserve powers to control the terms of competition. In no case have the commissioners been known to use their powers to prevent overcharging.

Commuter Coaching<sup>2</sup>

12. Commuter coach services have developed significantly since the Act. Demand was effectively suppressed before 1980 by the difficulty of obtaining the necessary licences - particularly when there were objections by British Rail. Just after the Act, the majority of the new services catered for journeys of 30 miles or more and so avoided licensing but gradually a substantial number of shorter, licensed services were introduced. Some shorter services have also avoided licensing by being organised as clubs (though the law here is not entirely straightforward). Most services ran into London, only a few into other cities. This reflects the unique volume of long-distance commuting into the capital.

13. By January 1983, 22 private sector operators were using about 76 vehicles to move about 3000 commuters into London daily on publicly advertised services. In the public sector, 7 operators with about 91 vehicles carried some 3700 passengers. 4 commuter clubs (employing private sector operators) were using about 18 vehicles to carry approximately 800 passengers daily. It is estimated that about 6800 of the overall daily total of 7500 were regular commuters. In January 1983, commuter coaches carried roughly 5-6 per cent of the total long-distance commuter market into London, but with a substantially higher market share from some locations. The potential market from some areas may not yet have been fully exploited.

14. A high proportion of London coach commuters previously travelled by train. The low fares (compared with rail) were the major attraction, offsetting the generally longer journey times. The convenience of coach stops nearer to homes and places of work is also appreciated, as are other features like comfort, reliability and a more friendly atmosphere.

15. Overall, the main financial effects of long-distance commuter coaching developments until January 1983 may be broadly summarised as follows:

revenue gain to operators (peak only)	about £5million per annum
saving to London commuters	about £3million per annum
revenue loss to British Rail	about £6million per annum
revenue loss to London Transport	about £1million per annum

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reduction in expenditure on petrol about £1million per annum

revenue loss to buses outside London about £1.4million per annum

PART II DEVELOPMENTS IN TRIAL AREAS

Introduction

16. The Transport Act 1980 made provision for the Secretary of State to designate, at the request of the local authority, trial areas in which road service licences are not required and bus operators may run whatever services they choose. So far three trial areas have been designated, in parts of Norfolk, Hereford and Worcester and Devon. This is the only experience in this country of full deregulation of local services.

17. All three County Councils selected mainly rural areas though there were some interesting differences between them in the comprehensiveness of existing local services, in the extent to which private operators were prepared to expand their stage carriage activities and in the degree to which they were encouraged by the County Councils to do so.

18. The general relaxation of licensing caused by the Act and economic conditions since it came into effect (October 1980) have brought about many changes in bus services and fares throughout the country. Considerable care is therefore needed to distinguish their effects from those of trial area deregulation. Further, there has not been time to assess longer term effects of deregulation. With those caveats, this part of the annex reviews developments in each area from its inception to the present time (June 1984) and assesses the extent to which they are due to deregulation or to other factors.

The Norfolk Trial Area

19. This was the first trial area to come into effect, on 6 April 1981. It is a sparsely populated area in the north-west of the county, containing a number of small towns. There is also a small detached part of the area in the centre of Norwich which allows operators to run unlicensed services into the city from the trial area. King's Lynn and Cromer were excluded from the trial area.

20. Before the trial area began, most of the stage carriage bus services in Norfolk were provided by Eastern Counties Omnibus Company, an NBC subsidiary. Before 1980, revenue support payments by the County Council represented a substantial proportion of the company's operating deficit. But the shortfall began to increase; in 1980-81 the company received £0.5 million in revenue support and £0.5 million in concessionary fare reimbursement, but still lost £0.8 million.

21. The independent operators were less involved in stage carriage operation, concentrating on contract work and private hire. Their few stage carriage services received very little support from the County Council. The Council's purpose in seeking a trial area was to encourage private operators but it continued its revenue support policies unaltered and did not intervene to stimulate new or competitive services beyond circulating information to independent operators.

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22. At first there was little change that could be attributed to deregulation. It appeared that many of the independent operators did not fully understand the information they received; others were not especially interested in expanding their stage services to provide new services or to compete with each other or Eastern Counties on existing routes. There were some marginal changes in services not made as a response to deregulation.

23. In the period April 1981 - November 1983 Eastern Counties reduced services by some 10 per cent and increased fares throughout its operating area, including the trial area, in attempts to reduce operating deficits. In November 1983, Eastern Counties sought again to improve its financial situation by submitting proposals to the County Council for various networks of bus services the Company could provide for different levels of revenue support. The existing level of service would have required an annual subsidy of £1.3 million but the Council opted for a lower level of service costing £0.5 million and has instead contracted with independent operators to provide most of the services withdrawn by Eastern Counties. The resulting pattern of services is still subject to minor adjustments and it is not yet possible to evaluate the overall savings in revenue support.

The Hereford Trial Area

24. The Hereford trial area (comprising much of the old county of Herefordshire) is of particular interest for three reasons. First, the County Council have at the same time applied a new system of competitive tendering for subsidy; second, there has been very active competition between independent operators and the local NBC Company (Midland Red (West)); third, this is the only trial area which included a sizeable town (Hereford).

Subsidised services

25. The tendering system principally affected rural areas where most services are unprofitable and subsidised. The Council began by inviting tenders for 53 services which, it appears, no operator was willing to continue without subsidy. 15 of these were being run by NBC Companies which decided to continue 12 of the services (or parts of them) without subsidy. There was competition for 32 of the contracts, and 19 changed hands. The resulting contracts started in September 1981 initially for 18-month periods. During this time there were a few changes in the pattern of bus services, some operators replacing others and new contracts being awarded for previously unsubsidised services - all by competitive tender. When the original contracts expired in April 1983 the process was repeated, but over several months in order to moderate the administrative workload. 38 contracts were awarded, fewer than before because some had already been re-let, some operators opted to continue services without subsidy, some services were grouped together and some carried so few passengers that the Council decided not to continue subsidising them. Competition for these contracts was fiercer than in 1981 and several new operators made bids.

26. The 1981 round of tendering resulted in an annual saving of £62,000 (38%) in revenue support and there were savings of



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£ 65,000 in education transport payments (for season tickets on stage carriage services) which were also subject to the tendering process.

27. The main NBC Company, Midland Red, reduced services in the trial area by about 170,000 vehicle miles per annum, but more than 85 per cent of the mileage withdrawn was replaced by independent operators, the net loss, 25,000 miles per annum (mostly in Hereford City) being considerably less than the annual mileage of an NBC bus (42,000 miles). These services were not replaced because the County Council felt they were too little used to justify subsidy.

28. There have been a few speculative services in rural areas designed to cope with special demands. These modest developments would probably have been licensed under regulation but the new competitive atmosphere may have encouraged operators to seek new opportunities and the redistribution of contracts may have produced spare capacity to be redeployed.

Town services

29. Before the trial area, town services were provided by Midland Red and Yeomans Motors, and were supplemented by the urban sections of longer-distance services provided by these and other operators. Since the trial area, four independent operators have competed with Midland Red in Hereford and three are still doing so. Midland Red have responded by making substantial fare reductions, introducing more buses (timed to run just in front of those of their competitors) and, on occasion, free buses. There have been questions about the quality standards of operators competing in Hereford. One lost his Operators' licence and another only secured licence renewal on a limited basis, subject to review.

30. Demand for bus travel in Hereford has increased as a result of this competition, but not sufficiently to support all the additional buses, especially at the current low level of fares. Surveys on two routes in Hereford in the autumn of 1983 indicated average (weekday/daytime) revenues, of half the NBC 1983 average cost per vehicle mile.

Inter-town services

31. Competition, or the threat of it, has also affected some of the inter-town services in the area. There have been increases in service frequency and fare reductions on four main routes with independent operators stimulating existing operators to compete. Passenger demand has increased on one route surveyed by about one third. It is uncertain whether this is sufficient to cover the additional costs incurred by the operators.

The Devon Trial Area

32. Devon County Council applied for trial area designation after a Market Analysis Project network revision by Western National, the local National Bus Company subsidiary. The results of this exercise were disappointing, with substantial reductions in services not leading to the anticipated savings in revenue support. The

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County Council sought the assistance of independent operators to maintain much of the network of rural services before the trial area came into effect (October 1982).

33. The Devon trial area consisted of the East and Mid Devon Districts (a large rural area) and an "island" in the centre of Exeter which allowed unlicensed services to operate into the city. The area contained a number of small towns and coastal resorts with perhaps more suitable opportunities for bus operators than the Norfolk or Hereford areas. Existing revenue support arrangements were continued and the Council devoted considerable effort to informing operators of the new opportunities and encouraging initiatives.

34. The main operator in the trial area is Devon General<sup>+</sup>. Independent operators still play a minor role in providing local bus services. Since the trial area came into force, both Devon General and independent operators have made some changes and introduced some innovations. Some of these may have been prompted by potential competition but few of the independent operators are inclined to provide competitive services: they appear reluctant to risk the goodwill of Devon General who subcontract work to the private sector and who operate the bus station in Exeter, providing facilities there for some of the independents. There is also doubt whether additional services on existing routes would be profitable. Only two operators have attempted to compete, neither establishing a permanently successful service.

35. Since the trial area was introduced, some services have been withdrawn or reduced because of dwindling patronage and in some cases this has been prompted by the Council's withdrawal of revenue support for poorly used services.

36. The changes resulting from deregulation in Devon have thus been rather limited in scale. Nevertheless the County Council is encouraged by the fact that slightly more new services have been made available in the trial area than in other similarly rural areas in the County during the same period. Since designation has had no apparent disbenefits, it is currently considering whether further trial areas might be appropriate.

Conclusions

37. Any conclusions drawn from experience in the three trial areas must be qualified by the fact that they are based on a limited set of largely rural areas over a limited period of time.

<sup>+</sup> Western National was reorganised into smaller operating companies on 1 January 1983. Devon General was the successor company in the trial area.

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Furthermore, the trial areas have not been isolated from economic factors (eg. pressure on financial resources, declining demand) which have influenced the provision of bus services everywhere.

38. The gradual decline in rural bus services in the trial areas simply reflects the general pattern and is not demonstrably a consequence of deregulation. In all three counties, Councils have been able to replace services formerly provided by NBC companies with privately operated services, thus preserving basic networks with substantially smaller amounts of revenue support. In Hereford and Worcester, this was achieved by a formal system of tenders for contracts operating only in the trial area. Norfolk and Devon used more conventional county transport co-ordination procedures in and outside the trial areas, but the results appear to have been less dramatic.

39. Deregulation has provided opportunities for operators to experiment with new services. It is arguable that some of those which have been tried in the more rural areas would have been allowed under the licensing system, but the procedures for obtaining licences can be a deterrent to small operators in marginal cases. Deregulation has not been sufficient to halt the overall decline in rural bus services, but neither has it worsened the situation. Operators have benefitted marginally from simplified administrative procedures.

40. The effects of deregulation are more discernible in urban areas and on inter-town routes, where bus services may still be profitable. Independent operators have provided new services, sometimes complementary to those run by established operators and sometimes in direct competition. Where there is competition, established operators have responded by reducing fares, increasing service frequencies, adjusting schedules, running free buses or various combinations of these actions. The public have consequently enjoyed lower fares and better levels of service. Demand has increased but not necessarily by enough to cover the costs of the additional service provision.

Under present conditions, deregulation in itself may not be sufficient to allow small operators, however efficient, to compete successfully with established operators with greater resources.

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## APPENDIX A

### THE SCOPE FOR IMPROVED EFFICIENCY

#### INTRODUCTION

1. One of the purposes of deregulation is to improve the efficiency of the bus industry so that costs are reduced. The extent to which this will be achieved will depend on the scope for such savings. Such information as is available, from a variety of sources, indicates that this scope is substantial. This appendix surveys this information and attempts to assess the savings which might be achievable. Most of the material deals with productive efficiency, that is the extent to which the same services can be operated at less cost. Substantial cost savings can also be made by changing the pattern of services so that buses are more fully used. The scope for such restructuring is also addressed. Lower costs also make new services more likely to be viable. An important purpose of deregulation is to stimulate innovation and the material thus bears on this indirectly.

#### Trends in Unit Cost

2. Unit costs per vehicle kilometre in the public sector bus industry have increased substantially since 1970 (chart 23, annex 1) Overall for operators outside of London they have increased by 15-30 per cent above the rate of inflation between 1972 and 1982 whereas over the same period motoring costs grew in real terms by only 3 per cent (chart 13, annex 1) and provincial taxi fares by 10 per cent (chart 25, annex 1). In the case of taxis it is reasonable to assume that fares

increases place an upper bound to the increase in cost since no subsidy is paid to taxi operators. It is also important to note that this lower cost growth has been achieved in a sector where there is a fairly fixed ratio between "platform" operators and vehicles and hence where the benefits of increased one-person operation were not available. The growth in bus costs has been associated with a large increase in revenue support. The index of real stage bus fares has grown by 30 per cent (chart 25, annex 1) and revenue per journey (including concessionary fares grant) has grown by 26 per cent. The reduction in patronage, not fully offset by reduced service levels, has meant that receipts per vehicle mile have only increased by 2% in real terms. The result is that revenue support in 1980 prices has increased from 1.3p to 20.5p per vehicle kilometre (Table II) between 1972 and 1982.

#### Variations within Sectors

3. Within each of the sectors of the publicly-owned industry (PTEs, municipals and NBC) there is significant variation in the level of operating costs. Thus, in the case of the PTEs' operations the costs per vehicle mile in 1982/3, excluding asset utilization charges, varied between £1.56 and £1.81. Bringing all operators down to the level achieved by the best operator would reduce average costs by approximately 6%. This range is likely to be even greater on a cost per seat mile basis as the cheapest operator had the second highest proportion of double-decker buses in its fleet while the highest cost operator had the second lowest proportion. The analysis of

Higginson and White 1 identifies "the very wide range of performance between different operators" in the local authority sector, including both PTE and municipal operators, as "perhaps the most notable feature" of the industry's performance. In 1979/80 for these operators the cost per vehicle mile varied between 84p and £1.88 around an average of £1.22. Even excluding extreme results as possibly reflecting special circumstances, the central  $\frac{2}{3}$  of all operators' costs covered a range of  $\pm 16\%$  of the average. Thus there is considerable scope for improvement in performance simply by achieving best practice in the sector.

#### Variation Between Sectors

4. As well as variation within each sector there are considerable variations in the average cost levels between sectors. Thus in 1982 the reported cost per vehicle mile achieved by the NBC was 74% of the average of the English municipal operators and 66% of that of the PTEs, as shown in Table 1. Provisional 1983 results are similar. These are obviously very significant differences, even though the services provided by NBC contain a much higher proportion of rural, and thus less expensive, routes. An estimate of the difference in cost per seat mile can be obtained by interpolating values of relative costs for buses of different sizes, as estimated in 'Commercial Motor' 2, to reflect the average number of seats per vehicle in the different operators' stock. This suggests that NBC cost levels are about 78% and 71% of municipal and PTE levels respectively. A more limited comparison of the costs of PTEs' own operations with those of NBC which are provided within the PTE areas, as identified in the PTEs' Three Year Plans 1984/5, also shows substantial differences (though of course

it is still possible that some of the NBC services will more rural.) Data for 1982/3 in the four PTE areas where NBC provide a significant proportion of the services (ie. excluding Manchester and West Midlands) show NBC costs per vehicle mile to be on average more than 25% below the PTE level. \* The possibility of considerable savings is confirmed by the statements of the Merseyside PTE 3 that "progress in the field of productivity has been slow as despite determined efforts by the Executive, there has been resistance by the Trade Unions to enter into meaningful discussions ..." Further, there is a reference to "the wide variation which exists between garages in the context of scheduling" and an acceptance of the view that "the potential for financial savings ... is at least theoretically substantial".

5. An even greater difference seems to exist between public sector and private operators. There is some limited evidence from this country about their relative costs which suggests that private operation is much less costly. A TRRL study 4 which compared the fares charged by NBC and private operators providing a similar type of stage service in two trial areas concluded, on the assumption that private firms break even on average, that private sector costs were about 30-40% below those of NBC. There was little difference between comparisons made on an area-wide basis or a more local one. Initial evidence from the trial areas, following the 1980 Act, while still fragmentary, is consistent with those results.

\* A direct comparison of Strathclyde PTE with Central SMT (Scottish Motor Traction), a member of the Scottish Bus Group, which operates primarily in the PTE area, shows a considerably greater difference.

6. There still remains the question as to whether these cost levels in the private sector could be maintained as it came to play a greater role. While there is no direct UK evidence some guidance can be obtained by considering a study<sup>5</sup> of private urban bus operators in Australia, in towns where they accounted for 46% of buses in use which compares their costs with publicly owned services. Average costs per vehicle mile for the private operators were, in general, substantially lower than those for the public sector operators. When allowance is made for the differences in the types of services operated by the two sectors, the authors conclude that on average unit costs of private operators in <sup>these</sup> Australian urban areas were between half and two-thirds of those of public operators. Even if such evidence is not directly applicable it is strong support for the claim that private sector costs are considerably below public costs and can remain so with growth in the role of the private sector.



## Sources of Cost Differences

7. In a regulated and subsidised environment there is reason to expect that costs will be higher as there is less pressure to restrict them. There is a growing body of evidence which suggests that this is the case in the field of urban bus operations. International comparisons carried out by TRRL 6 and several studies of U.S. operations 7 8 9 found a positive relationship between the level of subsidy and cost levels among bus operators. While these do not actually prove causality there is reason to believe that higher subsidies do lead to higher costs. Both the TRRL study 4 and the Australian research already mentioned sought to identify factors contributing to these cost differences. Inevitably, in an industry where the largest single cost is for labour (usually about 70%) the main focus is on unit labour costs. These are determined by employees earnings, add-on costs and labour productivity.

8. There is also some evidence that work practices provide a greater element of 'slack' in the public sector than in the private sector. This shows up in differences in the ratio between crew paid-hours and bus-hours operated. We have some information for Australia where this ratio was between 87% and 95% for private firms as against a public sector range of 71% to 74%. This more efficient use of platform staff combined with the differences in labour costs identified above, was estimated to be responsible for a 15-20 % difference in cost per vehicle mile between the public and private operators. The Monopolies and Mergers Commission 11 in its report on four British public sector companies estimated a maximum achievable scheduling efficiency (scheduled bus hours divided by scheduled platform staff attendance hours), given existing agreements, of between 80% and 90%. In no case did actual scheduling efficiency approach the maximum, averaged across undertakings, with West Midlands PTE and Trent Motor Transport coming closest. Further, for the single case where data was available which allowed actual operating efficiency to be calculated, it was 66% for urban services and 71% for rural. As already mentioned, there is a paucity of UK evidence on the private sector but one earlier study of bus services in rural Wales 12 suggested that private operators used their labour more flexibly, thus reducing costs.

9. Further evidence on the importance of labour contracts can be derived from the Joint Report by NBC and the Institute for Transport Studies on 'Cross- subsidy in Urban Bus Operations' 13. As part of its analysis it considered the level of crew costs which would result from four different labour agreements which currently exist. Further, each agreement was costed over a range of possible patterns of bus service provision. The results showed that for each such pattern of services there was a significant difference in crew/<sup>cost</sup>between the different labour agreements. In fact over the range of policies tested, the variation in cost caused by varying the labour agreement (expressed as a percentage increase of the more expensive agreements over the cheapest) lay between 23% and 77%. This indicates that, whatever the pattern of services being provided, there is significant scope for savings even within the range of existing labour agreements.

10. Recent experience shows that competition enhances the incentive to examine the effect of labour agreements on cost. A Regional Director of the NBC has recently reported, in a speech to the Association of County Councils: "In Hereford the pressure caused by the trial area enabled Midland Red (West)'s management to negotiate a local improvement in productivity of 25-30%".

11. The previous paragraphs relate to the labour costs of direct operations. There is also scope for major reductions in service, Repairs and maintenance costs which Higginson and White [1], in their study of British urban bus operations, estimated to amount to 26% of costs of the highly integrated local authority operators in 1979/80. Further, this proportion had been increasing. In Australia the differences in such costs accounted for 9% of the overall difference in cost per vehicle mile between the public and private operators, even though costs in this category are a lower proportion of the total there than in the UK (where they are about 15%). Further, in this country the cost of service, repairs and maintenance for the PTE operations is approximately twice that quoted by 'Commercial Motor' [2] for large buses. While this is likely to exaggerate the savings achievable on average, because of the extra wear and tear of operating urban bus services, it does suggest that there is considerable scope for such savings and that the potential for cost reduction might exceed the 9% difference measured for Australia. Finally, there is likely to be scope for savings in administration as the planning and co-ordinating role of PTEs declines and as the size of company operating in the industry falls, though there will be some offset to this due to the need to deal with tendering.

#### Bus Usage

12. There is also a potential saving to be obtained from the restructuring of services to better reflect the pattern of demand, which will increase bus loadings. Within the PTEs' own operations there is considerable variation in average load per

bus between a high of over 18 and a low of under 13 which can not be explained by differences in bus size (as proxied by the proportion of double-decker buses in their fleets). Some further idea of the scope for improvement is given by Table 2 below and chart 9, annex 1 which compare the changes in demand (passenger journeys) with changes in the service offered (vehicle stock and bus kilometres). The table shows that from 1972-82 for local authority bus operators the decline in demand was far in excess of any corresponding reductions made in service. For operations as a whole, passenger journeys fell by 28% but bus kilometres were reduced by only 12% and the stock of buses by 8%. The effects were most severe in the municipal sector where the fall in passenger demand was highest and the reduction in mileage was least. Therefore there is a strong prima facie case that in most urban areas there is potential for major improvements, through getting better utilization of buses by adjusting the pattern of services to the pattern of demand. The case of Southampton City Transport, where a Market Analysis Project was conducted in 1980/81, illustrates that with a detailed knowledge of passenger demand major economies in the provision of services can be achieved without much inconvenience to passengers. In the eleven years up to 1980/81, passenger demand on Southampton City buses had declined by about 18% and the bus service provided had been reduced by only about 7%. During the same period, real fares had been increased by nearly 80% ahead of inflation but despite this, subsidies had risen from nearly zero to account for about 15% of total operating costs. This was expected to amount to £1.2 million in 1982/3, and the County Council set an initial target of totally eliminating

the need for this subsidy. The study they set up estimated that this financial saving could be achieved by reducing the vehicle kilometres operated by 18.5% and the total number of vehicles by 27% (ie 45 buses). It was forecast that this would result in a passenger loss of only 7% and an even smaller revenue loss of 3%. In the event, after lengthy discussions, the financial criteria were relaxed and about 8 buses were put back into the fleet. Nevertheless, substantial economies were achieved.

13. In its report 11 the MMC placed considerable emphasis on the benefit of this kind of tailoring of service to demand, although of course in the context of maintaining cross-subsidy and regulation. It approved the efforts of Bristol Omnibus Co., where Market Analysis Projects had proposed a fleet reduction of 37.2%, subsequently negotiated to 30.4% in discussion with the County Councils. The MMC also approved the service planning efforts of the West Midlands PTE although the reductions in resources required (up to 10%) were generally much less significant than those achieved in Bristol. However, the MMC were critical of Cardiff where it was pointed out that the peak vehicle requirement had changed little over the period 1967/1981. Cardiff were accordingly recommended to adopt the methods of the other operators.

14. Thus there is obviously scope for savings from such restructuring of services. While some of these improvements could be obtained through management action under the current regime, deregulation will ensure that the pressure for such adaptation is universal and continuous and that the benefits obtained are passed on to travellers.

## Conclusion

15. Thus the broad facts seem to be as follows:

- a) private sector costs both here and in Australia are much lower than public sector costs - by 30% and more;
- b) costs within the public sector show considerable variations. In particular NBC costs are much lower than most PTEs and unicipals.
- c) the possibilities for economy relate to direct operating costs<sup>and</sup> to costs of service, repairs and maintenance as well to general overheads.
- d) it would be possible to reduce the cost of service provision through a more efficient structuring of services to meet the pattern of demand.

16. Thus there is major scope for economy in the bus industry. Some can be achieved by stricter financial control and by tighter management but the differences between private and public sector costs, even allowing for the fact that they may not be completely comparable, suggest that under competition the incentives will be much greater. While it is not possible to make estimates in detail of the effects of such a radical change there is good reason to suppose it should be of a scale that would eliminate much of the difference between the present costs of the public and private sector.

TABLE 1: COST PER VEHICLE MILE 1982 (excluding asset utilization)  
(England and Wales)

	£
London Transport	2.24
PTE	1.64
Municipal operators	1.45
National Bus Company	1.08

Source: Department of Transport



TABLE 2: TRENDS IN LOCAL AUTHORITY BUS OPERATIONS

	% changes 1972-82			
	LT	PTEs	Municipals	Total
Passenger journeys	- 26.2	- 26.1	- 31.8	- 27.6
Vehicle stock	+2.5	- 13.3	- 10	- 8.4
Bus km	- 13.4	- 12.9	- 9.4	-12.2

Source: 'Transport Statistics Great Britain 1972-82,  
Department of Transport.

TABLE II: REVENUE SUPPORT AND RECEIPTS PER PASSENGER JOURNEY 1972-1982.

	at 1980 prices	
	<u>1972</u>	<u>1982</u>
Revenue support per stage journey (p)	0.4	7.9
Receipts per stage journey (p)	17.2	21.6
Stage journeys vehicle km.	3.2	2.6
Receipts per vehicle km (p)	55	56.2
Revenue support per vehicle km (p)	1.3	20.5

Source: Transport Statistics Great Britain 1972-82, Department of Transport.

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## CROSS SUBSIDISATION IN STAGE BUS OPERATIONS

1. In broad terms, cross-subsidisation has been described<sup>1</sup> as the practice of using surpluses obtained from parts of a system to offset deficits incurred elsewhere, thus allowing operations to continue which might otherwise be cut back or withdrawn. Cross subsidy has, by a mixture of accident and design, been a long standing characteristic of stage bus operations. There is considerable evidence<sup>2 3 4</sup> suggesting that, in some shire counties at least, internal cross subsidy is far more important than external revenue support.
  
2. The practice of cross subsidisation has its origins in the Road Traffic Act 1930. The traffic commissioners appointed under the Act came to interpret their remit as firstly to maintain 'standard charging' of a uniform per mile fare for profitable and unprofitable services alike and secondly to protect operators who provided services, unremunerative in themselves, to help maintain a comprehensive network. This interpretation has had a strong continuing influence on the discussion and nature of public transport policies. Its context was a rapidly expanding industry; profitable routes were growing and the scope for cross subsidy increasing. This context has changed drastically in the last two decades.
  
3. Measurement of cross-subsidy is subject to numerous difficulties and these become more acute as analysis is disaggregated more finely. These difficulties centre on the problems of dealing with 'joint' costs and revenues and 'units' of output and of defining these units in terms of whole or part routes and services. The difficulty is enhanced particularly at present, by the existence of significant inflexibilities in many aspects

of bus operation, notably in manning arrangements and pay agreements. The significance of this is that costs and revenues can only be allocated to an activity if a feasible change in output can be postulated. The scope for this is reduced by these arrangements. The scale of the problem of joint costs and revenues is largely related to the structure of the incumbent operators who use centralised facilities to service large fleets of vehicles running on integrated networks. Problems of "jointness" would be much less notable in a competitive industry structure, partly because more services will be provided within a separate ownership pattern.

4. It is however not the case <sup>that</sup> measures of cross-subsidy are too dependent upon choice of accounting convention to be of great value. A number of studies have shown that it is possible to derive useful conclusions from an examination of cross-subsidy. The problems of allocating costs and revenues by route, or by broad geographical grouping of routes, are in practice fairly tractable. That is to say, associated with a decision to expand or contract say a whole route, reasonably clear statements about costs and revenues can be made. The main difficulties arise in attempting to allocate costs by time of day, in particular in assessing the costs of supplying peak services. Most cost allocation methods load the peak heavily on the ground that total capacity is largely determined by the need to meet demand at these periods. Hence the bulk of overhead costs including engineering and maintenance costs is attributed to the peaks. In the absence of part-time manning

the number of full-time crews employed is also determined by the level of peak operations. Existing costing methods may or may not reflect realistic options available to operators; most of them attribute a greater hourly labour cost to peak operations. But, to repeat, despite these difficulties useful conclusions can be drawn from the available evidence, and some of these turn out to be surprisingly robust.

5. The analysis of cross subsidy gives:

- (i) a measure of the distribution effects of existing practices and an identification of the main groups of losers and gainers;
- (ii) an indication of the resource losses involved in the practice of cross subsidy;
- (iii) an estimation of changes likely as the industry becomes more competitive and the degree of cross-subsidy declines.

6. A study of bus services in and around Taunton in 1978 <sup>2</sup> concluded that internally generated surpluses, mostly from inter-urban and inter-peak services, dominated external subsidy as the means of support of unremunerative operations. The recent study carried out by the <sup>NBC and the</sup> Institute for Transport Studies of Leeds University <sup>4</sup> applied a more detailed analysis to other NBC operating centres and tested the conclusions under differing cost conventions. The study also employed more complex approaches to cost calculation designed to show the full incremental cost of postulated service changes.

7. Table 1, taken in part from the NBC - ITS study, illustrates a pattern of inter-urban routes supporting rural ones which show persistent losses. None of these cases is in the highly subsidised conurbations.

Table 1 Average Operating Ratio\* by Type of Service

	Urban	Inter-urban	Town-rural	Rural	Overall
Taunton	1.08	1.28	0.82	0.46	0.95
Bridgend	0.73	1.15		0.48	1.03
Hawick	1.05	1.41		0.58	1.19
BOC**	0.77			0.65	0.76
Cheltenham	0.81 (0.94)	-	-	-	
Bristol City	0.75 (0.9 )	-	-	-	
West Wiltshire	-	0.74	-	0.65	0.69
Swindon	-	(0.85)	-	(0.7)	(0.78)
East Avon		0.8		.66	0.72
		0.78		(.72)	(0.74)

\* Operating ratio =  $\frac{\text{Allocated revenue}}{\text{Allocated cost}}$

\*\* Total for the Bristol Omnibus Company. The lines below the total give results for the Company's four main operating areas for the period November 1980 - October 1981. Figures in brackets indicate the improvements following on the subsequent MAP (Market Analysis Project) service reorganisation. Here, although no single group is in surplus the urban and interurban services perform significantly better than the rural.

8. In general, the route by route pattern of cross subsidy is not greatly affected by the cost convention employed and is similar in a number of separate cases studied. Although variation in profitability by time of day is sensitive to the considerations mentioned above, using a wide variety of assumptions suggests that the interpeak periods (and, under some allocation methods, Saturday services) are the main surplus generators in most situations. Greater flexibility of operation particularly in manning arrangements would modify this conclusion. It would add options to management's repertoire.

Similarly a more flexible fare scale, allowing higher fares in the peaks, would affect relative profitability. Current knowledge of fares elasticity variations by time of day does not permit confident quantification of the effects of peak pricing regimes on the pattern of cross subsidy. However preliminary results from Bristol City<sup>5</sup> where some flexibility has been introduced into the fare structure suggest that <sup>there</sup> urban peak services are surplus generating and off peak as a whole are not.

9. The relationship between internally generated surplus and external subsidy as sources of support for unrenumerative services is also subject to problems of definition and analysis. The finer the degree of disaggregation the more important internal subsidy will appear. For example in the case of Taunton the ratio of internal surplus to external support is about 3:1 if measured at the route level. Further



disaggregation, breaking down each route by time of day and week yields a higher measure of cross subsidy in a ratio of 5:1 with respect to external support. This dominance of internal subsidy persists over a wide range of different assumptions in most cases studied. The exception is Bristol where only a few urban routes generate surpluses and overall cross-subsidy in route terms is apparently negligible.

10. Table 2 compares these sources of support for various operating centres. Column 1 shows the percentage of total operating costs covered by revenue support payments under Section 1 of the Transport Act. Column 2 shows the total of cross subsidy at the route level as a percentage of such costs while Column 3 shows the effect of further disaggregation by time of day and week. The fourth column shows the proportion of costs covered by surpluses made from weekday interpeak operations.

Table 2: Source of Support

% of cost covered under 'Taunton Study' costing assumptions

	1. <u>External Support</u>	2. <u>Inter Route</u>	3. <u>Route x Time Split</u>	4. <u>Inter Peak</u>
Bridgend	2.8	13.8	14.2	6.7
Cheltenham	12.0	n.a.	9.0	5.7
Hawick	0	21.0	28.1	7.7
Taunton	5.0	15.6	26.2	16.1

11. It is clear that a significant degree of cross-subsidisation between routes and times of day can be identified. Although

results by time of day are particularly sensitive to the method followed for the allocation of costs, the broad conclusion that rural services are largely unprofitable holds in the areas studied. It is clear that, however defined, cross-subsidy is often substantially more important than revenue support in the shires.

But it should be remembered that only a small number of cases have been studied, and the preliminary evidence from Bristol<sup>5</sup> already indicates that there may, in other cases, be significant departures from the pattern adduced for the shires. The relative importance of cross-subsidy and its broad direction from urban to rural areas may not be the same elsewhere and cannot be taken as a fully proven universal fact. The evidence concerning cross-subsidy in the conurbations is limited, but does show wide variation between routes in profitability. This pattern is confirmed by the evidence from the study of Bristol which also indicates the particular unprofitability of Sunday, early morning and late evening services.

12. Some indication of the effects of reducing cross-subsidy in urban areas comes from the study of Cheltenham, although it should be remembered that this is a small scale operation involving at the peaks fewer than thirty vehicles on the town services. The NBC-ITS study applied demand modelling and sophisticated costing techniques to develop a number of alternative network and service patterns. This allowed identification of a 'Viable Network System' in which revenue covered costs and which

accommodated as much of the existing demand as was economically possible. It also minimised cross-subsidy except to the extent that supporting 'unprofitable' services was commercially justifiable on more general grounds and assumed no revenue support. The 'VNS' showed a notably coarser pattern of routes than currently operated (and particularly with respect to the much finer network operated by NBC before the revision of services in November 1981). However average frequencies on the coarser network would be higher and indeed total patronage (measured in passenger miles) would be slightly higher, about  $1\frac{1}{2}\%$  greater than on the unrevised system. This does not suggest that moving to the 'viable' network causes great deprivation although there will be some losers as well as <sup>gainers from</sup> such a change. In the case of Cheltenham it also does not appear that access, in terms of walking distance to a bus route, is greatly worsened for more than a small number of passengers. The VNS leaves practically every residential area of Cheltenham within half a mile of a route.

#### Cross subsidy and Competition

13. The above observations on cross-subsidy obviously relate to existing institutions, with single operators supplying services under a framework of regulation. They will not therefore fully reflect the changes in revenue and cost patterns which would be observed under competitive conditions but can be used to give an indication of likely changes. In particular even the most flexible of existing labour agreements with the centralised pattern of operation using large-scale termini, garaging and maintenance facilities may give rise to unnecessarily high costs of peak operation. New entrants by contrast may benefit by

having small scale, decentralised facilities, allowing greater utilisation by reducing 'dead time' running between central depots and outlying route termini. It has already been mentioned that the NBC-ITS study particularly emphasised the importance of manning agreements, not only on total crew costs but on the peakiness of those costs.

14. In attempting to outline the possible impact on services of introducing competition into bus operations it is necessary to bear in mind the mutability of the assumptions on which the cross-subsidy analysis rests. Greater flexibility of manning and variety of different fare structures will modify these findings. However, it is difficult to avoid the conclusion that under present operating arrangements, many services to rural areas depend on both internal and external subsidy to cover a significant proportion of their operating costs. These services comprise perhaps 20% of bus mileage and carry about 12% of total passenger miles on buses operating outside the major urban complexes. The cost reductions possible under competitive conditions should enable some of these to become self-supporting and the others to cover a much greater proportion of their costs from fares. But Sunday services appear vulnerable at present and many share with the rural services the distinction of revenue/cost ratios of 0.5 or less. Low levels of demand and high labour costs of Sunday operation suggest that few Sunday services could be made fully profitable, although their financial performance may improve considerably. Despite the loss of cross-subsidy it should however be possible to redirect external subsidy to maintain a reasonable system of rural and Sunday services within acceptable levels of expenditure.

15. The encouragement of more competitive conditions will modify substantially the pattern of cross subsidy within week-days. Some differential pricing is likely to emerge, and there may be ways in which part-time independent operators and novel means of transport will augment capacity at peaks. Together with improved labour flexibility this would allow major operators to mitigate the problems of high peak costing. The effects on the pattern of service provision by time of day must be predicted with caution. It may be reasonable to speculate that inter-peak fares will fall (relative to peak) and that service levels will increase as competitors move in, attracted by the prospectively high margins to be earned between the peaks. Such changes obviously depend on the extent to which competition increases labour flexibility and on the availability of vehicle capacity.

16. The Cheltenham study does give an interesting pointer to the way in which the route pattern of services may change and reinforces conclusions drawn from earlier studies 6 that the level of provision on the more densely trafficked routes will increase. To the extent that the 'viable' network described in the NBC-ITS study was one in which cross-subsidy was minimal it is reasonable to speculate that a 'competitive' network might be similar in many respects. Under fully competitive conditions no significant components of a system would be operated for long at a loss or at above normal profit levels. The viable network, as described above (paragraph 12), actually has a higher patronage than existing operations with lower route penetration but higher service frequencies.

### Cross Subsidy and Equity

17. It has been observed that the practice of cross subsidy effectively redistributes benefits. Compared to a competitive system, or indeed an administered one where cross subsidy is deliberately minimised, certain groups of users now pay higher fares and receive lower levels of service in order to maintain services for other groups. It seems clear that the users of rural bus services benefit, as a whole, at the expense of urban and interurban passengers. Passengers in the peaks appear in most cases to benefit at the expense of interpeak users. With only slight caricature it has been said that under the present system women doing the shopping subsidise men going to work 4 It appears likely that passengers living on or near busy (radial) routes in urban areas suffer higher fares and lower service levels to help subsidise those living in less accessible neighbourhoods. The practice of supporting the poorer routes also means that the total benefits achieved for any given level of external subsidy are lessened. This is demonstrated in a study 6 of London bus routes which compared the net social benefit effects of varying service levels on routes showing different financial returns. Benefits were enhanced by supporting the route showing the best cost recovery ratio.

18. There is ample evidence therefore to support the conclusion that the current practices of cross subsidy redistribute benefits between passengers in a manner which appears arbitrary and which is not subject to rational scrutiny nor explicit justification 7,8

Competition and tighter financial constraints on incumbent operators will result in a much lower level of cross-subsidy and hence modify these redistributive effects. On the basis of the limited evidence available it cannot be claimed that such changes are generally undesirable.

## References

- 1 Monopolies and Mergers Commission 1982, para 8.41.
- 2 DTp/NBC/Colin Buchanan and Partners. The Taunton Study 1979.
- 3 Scottish Bus Group - Evidence to Select Committee on Transport. 1983.
- 4 NBC/Institute for Transport Studies. Cross-subsidy in Urban Bus Operations. 1984.
- 5 Bristol/Exeter Bus Network Study 1984, being carried out on behalf of NBC/DTp by Colin Buchanan and Partners.
- 6 Beesley, Glaister and Gist. Cost Benefit Analysis and London's Transport Policies. 1983.
- 7 Ponsonby, Transport Policy. 1969. Institute of Economic Affairs Hobart Paper 49.
- 8 Hibbs, Transport without Policies, 1982. Institute of Economic Affairs Hobart Paper 95.

SA



10 DOWNING STREET

*From the Private Secretary*

6 July, 1984

Sealink

BT / The Prime Minister has seen your Secretary of State's minute of 5 July. She is concerned at the way the Sealink privatisation is developing. She would like to discuss it at a meeting already arranged for Wednesday, 11 July on the CAA Review. It would be helpful if your Secretary of State could circulate a note by Tuesday evening evaluating the bids which have been received for Sealink.

I am copying this letter to David Peretz (H.M. Treasury), Callum McCarthy (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss D. A. Nichols,  
Department of Transport

ST





NDPM RT 6/7 CCATO  
SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

5 July 1984

COMMERCIAL - IN CONFIDENCE

The Rt Hon Peter Walker MBE MP  
Secretary of State for Energy  
Thames House South  
Millbank  
London SW1P 4QJ

Dear Peter,

We agreed in April 1982 that the Portavadie oil platform construction yard which was developed by your Department at a cost of around £14m on land appropriated by my Department from the Forestry Commission at a cost of £362,000 was no longer required for purposes connected with offshore petroleum development, and I subsequently decided that it should be reinstated in fulfilment of my obligations under the Offshore Petroleum Development (Scotland) Act 1975 and sold. The reinstatement programme costing some £900,000 is nearing completion and I am now in a position to dispose of the site. *will request rapid.*

My Department have engaged estate agents, Bernard Thorpe and Partners, who advertised the site extensively and pursued enquiries energetically. In the event we have received only 3 offers for the entire property, the highest of which is £50,000 from an electronics company, Linn Products Limited, who appear to be interested in the site for purely speculative purposes.

I should make it clear that in the wake of the PAC report on the disposal of Hamilton College of Education my Departments have revised the procedure for the disposal of property, and I am satisfied that in this case the new procedure has been fully complied with. In particular, the Chief Valuer is satisfied that the site has been marketed properly and neither he nor our estate agents can see any circumstances which suggest that any better offer will be received in the near future. Nevertheless, the offer is disappointing, and comparisons will inevitably be drawn between this figure and the cost of developing the site (which was of course undertaken under the previous administration).

I have considered in these circumstances whether it would be better to retain the site, given that a contribution towards the costs of doing so might be obtained by leasing the site to fish farming interests. There are, however, obvious objections to this course, principally that to do so would run counter to our policy

for the disposal of unwanted assets and that there is at present no particular reason to think that the prospects of obtaining a higher price for the site would be improved in, say 5 or 10 years' time. In the interval, there would be some continuing costs in maintenance and administration, and the possibility of more substantial unforeseen expenditure arising from our continuing occupation of the site could not be ruled out.

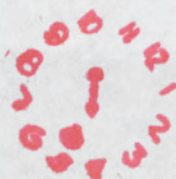
Therefore I conclude that, notwithstanding the comment that will be made, I should conclude the sale. I cannot assume that even the present offer of £50,000 will remain on the table indefinitely and if I am to accept it early action is desirable. For this reason I will assume concurrence unless I hear from you or other recipients of this letter to the contrary by Monday 9 July.

I am copying this letter to the Prime Minister, Peter Rees, Norman Tebbit and Sir Robert Armstrong.

1988 JUL 2

Yours  
wer.

George.



6 JUL 1984

CONFIDENTIAL

①

PRIME MINISTER

You will see from this that the Sealink privatisation is getting closer and closer to the rocks.

I suggest that this be put on the agenda of the meeting arranged for Wednesday with Mr. Ridley, Mr. Tebbit and the Chancellor to discuss CAA. By then, Mr. Ridley will have details of the bids (though the bidders now look a pretty motley crew). Mr. Tebbit has always favoured delaying sale to allow more time for position of P & O and European Ferries to be considered by MMC; Chancellor favoured early sale but may now be cautious, fearing damage a fiasco will do to privatisation programme as a whole.

Agree a meeting?

AT

Yes mh

5 July, 1984.

CONFIDENTIAL



PRIME MINISTER

SEALINK

This minute is to inform you about the latest position on the Sealink sale, and the necessary timescale for decisions.

We decided last December to proceed by means of a trade-sale because a flotation could not be an early prospect in the light of the profit record of the company, and we believed that both the company itself, and BR, would be better off when it was privatised. BR and their advisers Morgan Grenfell have since been pursuing that path; it has taken longer than was originally envisaged because of the need for audited results, and problems of defining a satisfactory series of contractual relationships between BR and Sealink for the future.

BR have confirmed to potential purchasers that they would like to receive their competitive bids this Friday 6 July. Although that timescale is very short the bidders have been working on that assumption, and, as I shall explain, there are good reasons for avoiding any delay.

#### The Nature of the Bids

Although BR's aim has been to achieve a set of unqualified bids, which could be compared solely by their value, it has become increasingly evident that that will not be attainable. The performance of the company this year has been disappointing compared to the bullish forecasts that the management were making at the end of the year. Bidders attempting to form an



independent view of Sealink's potential have also found that the internal management information systems that were thought adequate between BR and its subsidiary, do not provide sufficiently reliable information about the current performance of the business for their purposes. As a result of these uncertainties, one potential bidder, Trafalgar House, has decided - in spite of having invested a great deal of time, effort and money - not to bid at all. Others have said that they will bid, but they have reservations about particular aspects of their future contractual relations with BR, and will want to qualify their bidding in that respect. I had already made it clear to BR that they must not impose on Sealink, in the last days of their ownership, contracts which would not reflect a reasonable balance between the interests of BR and the purchasers. But even with that limitation it has become clear that we and BR will face a need to make judgements between bids with differing qualifications attaching to them.

In the circumstances I have naturally given careful consideration to the possibility of deferring the sale. But I have concluded that we must now continue at least to the point of obtaining bids. I have been advised by my own merchant bank advisers, Hill Samuel, on the manner in which the bids are being invited, and they say that in their opinion nothing in the contractual terms themselves is of a nature that would deter an otherwise serious bidder from making a bid, or would result in a material lowering of the value.

There are strong financial arguments against any deferral. If it becomes public knowledge that Trafalgar House have decided not to bid this may well affect the attitude - and the bids - of other parties. Trafalgar agreed that they would keep their position confidential till the end of this



week, but felt that they could not do so thereafter. Another likely bidder, the Sealink Consortium, put together by Charterhouse J Rothschild, and involving the National Freight Company, have also made it clear that they will only be able to make a low and highly qualified bid, and this information too might emerge very soon.

We have always made it clear that if none of the bids comes up to scratch, there will be no sale. However if that happens we must recognise that it will have been because the company has been judged by competent bidders to have greater problems than they believe can readily be sorted out. We would therefore certainly be committed to an extended period - of at least two years or more - before a sale could be attempted again. Restructuring and rationalising would involve a good deal of public money, and diversion of BR management effort. Such a process would be far more effectively conducted in the private rather than the public sector, and if at all possible that should remain our aim.

For completeness in reviewing options, I should mention the one most recently suggested in the correspondence between European Ferries and Norman Tebbit - that the company should be sold in separate parts. That too is not in any way a short-term possibility. To sell the whole harbours business as an entity separate from the shipping would leave all the very difficult problems of establishing rights of access to the harbour slots. It is clear that none of the present bidders is willing to contemplate the purchase of the shipping side alone, without guaranteed rights to harbour places. Similarly the harbour business derives the great bulk of its income from Sealink ships and could prove extremely difficult to sell unless guarantees about the continuation of the shipping business could be given. I am advised that the sale



of individual harbours would probably require private legislation, or some alternative means of separating individual rights and duties from those of the present Harbour Company, and that would inevitably take a long time. It would, of course, also face intense opposition within Sealink itself and so would make desirable management changes more difficult, by providing a focus for discontent.

### The Next Steps

The next steps are clearly the receipt of bids and any necessary clarification of the bidders' terms.

The remaining likely bidders are:

Sea Containers

Ellermans

Common Brothers (possibly)

The Sealink Consortium will submit only a heavily qualified bid.

Common Brothers entered the field late, and may well not turn out to be serious contenders, but they will be asked to give a price indication on 6 July, and will be told that they will be welcome to come forward with something firmer during the following two weeks, as discussions continue with the other contenders. Brief facts about these companies and Sealink itself are at Annex.

We need to ensure that the Sealink fleet will continue to be available for defence purposes, and I have devised, in consultation with Michael Heseltine and Nigel Lawson, an arrangement to achieve this by means of a "special share", which I will hold. I will exchange undertakings with the





buyers that Government will not use the power of the special share to intervene in the commercial operation of the company except on grounds of national defence. I believe that all bidders are likely to be content with these arrangements, and if so we will have no reason to distinguish between them on defence grounds. All the potential bidders have also been cleared by the Office of Fair Trading as presenting no problems of competition policy.

All this obviously leaves a difficult problem of timing in reaching a conclusion on whether or not I should give my consent to a sale. Essentially BR as the sellers, and their advisers, Morgan Grenfell, will be conducting a negotiated sale at a time when it could well become increasingly clear to the party concerned that they are becoming the only serious contenders. In order to clinch a deal it may be necessary to act quickly. All the bidders have indicated that they will aim, subject to prudent commercial considerations, to continue to operate the business on the present lines, and the defence and competition aspects are safeguarded. I will report to colleagues when bids are in, but I hope you will feel that any decision needed can be settled with you and the Chancellor.

In view of the commercial sensitivity of the information contained above I am copying this only to Nigel Lawson and Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of stylized initials 'NR' followed by a long, sweeping flourish.

NICHOLAS RIDLEY

5 July 1984

SEA CONTAINERS LTD. (SCL)

President: James B. Sherwood

SCL is a Bermudan Company whose shares are quoted on the New York and London Stock Exchanges.

#### Activities

The Company's main business is the ownership and leasing of marine container assets worldwide particularly specialised containers but it also leases container ships and cranes. Its customers are mainly the liner ship operators. The company also manufactures container and refrigeration systems with factories in Yorkshire and Singapore. The administrative headquarters of the Group is in London.

SCL has an associated Company, SeaCo Inc. which has interests in property development, leisure and retailing. SeaCo owns the Venice Simplon Orient Express rail service and eight hotels five of which were acquired from British Rail in the 1983 privatisation programme.

#### SCL Financial Highlights 1983 -

Turnover £102m      Pre tax earnings £27.5m  
Total assets £560m

#### Shipping

SCL is active in the design, owning and operating of deep-sea container vessels but is not in the passenger shipping market.

## ELLERMAN LINES PLC

### Owners

Ellerman Lines was taken over in 1983 by hoteliers and caterers David and Frederick Barclay using a holding company now called Ellerman Holdings and chaired by Lord Matthews, Deputy Chairman of Trafalgar House.

### Activities

Ellerman lines are British registered and engage in cargo shipping, brewing, travel and leisure. Their attempt to sell a brewing subsidiary J W Cameron to Scottish and Newcastle Breweries for around £56 million was recently blocked by the need for an MMC reference.

### Turnover

£248.9 million (to 31 December 1982) of which  
£86 million was in shipping, £70 million in travel and  
leisure.

### Shipping

Ellerman Lines PLC owns or operates 16 container ships; the company's subsidiaries are Domino Container Ships Ltd, Ellerman Harrison Container Lines Ltd, and HCL Shipping Ltd. Associates include Associated Container Transportation (Australian) Ltd in which Trafalgar House also has a minority holding.

## THE SEALINK CONSORTIUM

### Composition

Charterhouse J Rothschild have assembled a consortium consisting of themselves, Globe Investment Trust Plc, the National Freight Consortium Plc, James Fisher and Sons Plc and the executive directors of Sealink UK Ltd. The consortium has stated its intentions of offering 20% of Sealink's shares to employees following privatisation.

### Charterhouse J Rothschild (CJR)

CJR is a banking, financial services and investment group created recently by the combination of the Charterhouse Group and Rothschild Investment Trust and Northern. It has no interests in any shipping or travel companies; and minority holdings is a UK transport and freight company and 3 French companies.

### Globe Investment Trust

GIT is an investment trust chaired by Mr David Hardy, who has considerable experience in shipping and who would become non-executive chairman of a Sealink holding company. Globe had gross assets of £575 million at 1 April 1983 and pre-tax earnings of £20.7 million. The NCB pension funds own 24.8% of ordinary shares, other investors 5% or less. Its portfolio included, at 1 April 1983, £4.9 million in European Ferries Plc but this represented only 1% of Globe's portfolio and 2½% of EF's issued share capital.

### National Freight Company (NFC)

NFC is Britain's largest and most diverse road freight business with 5% of the market. Formerly the National Freight Corporation, it was privatised by means of a management/staff buy out in 1982. Through its subsidiaries it engages in road haulage, contract hire, parcels carriage, distribution, car transport, warehousing and storage, cold storage, and travel services. Turnover in the year to 1 October 1983 was £493.3 million and pre-tax profit £9.2 million. NFC chairman is Sir Peter Thompson who would become executive chairman of Sealink UK Ltd and board member of the holding company. The stated aim of Consortium is to float NFC and Sealink as a combined company once sustained profitability had been achieved.

### Janes Fisher & Sons (JFS)

JFS are shipowners, ship managers, shipbrokers, freight forwarders and agents and are involved in various shipping-related activities. They operate 30 ships and manage 19 more; they own wharves and have facilities at several harbours. They have minority holdings in Manx line (85% owned by Sealink) and Red Funnel (which operates 2 services to the Isle of Wight).

## SEALINK UK LTD FACT SHEET

<u>Fixed Assets</u>		<u>Net book value</u>
Operates 37 ships, of which owned	-	£43m
leased or chartered on		
long term	-	£78m

Owens and operates 7 main harbours:

Folkestone  
 Parkeston Quay, Harwich  
 Heysham  
 Holyhead  
 Newhaven  
 Stranraer  
 Fishguard  
 and several small ports and piers

Net assets (excluding leased assets) £128m

Turnover

Profit/(Loss) £265m

	1979	1980	1981	1982	1983
Before interest	£13.6m	£6.6m	(£0.6m)	£2.9m	£12.8m
After interest	£4.7m	(£3.8m)	(£11.1m)	(£6.4m)	£4.1m

Routes

24 ferry routes between Britain and Holland, Belgium, France, Isle of Wight, Channel Islands, Isle of Man, Ireland and Northern Ireland. Virtually all services are multipurpose carrying foot passengers, accompanied cars and Ro/Ro freight.

Manpower

Seagoing 4,500 (National Union of Seamen, Merchant Navy and Airline Officers Association)

Shore staff 4,000 (National Union of Railwaymen, Confederation of Shipbuilding and Engineering Unions)

HQ/Sales 900 (Transport Salaried Staffs Association)  
 9,400

COMMON BROTHERS PLC

Chairman J W Common

Chief Executive Kristian Siem

Activities

Ship owners, brokers and managers, marine consultants and insurance brokers.

Registered in UK but 57% owned by Norex Corporation in Bermuda in which Norwegian Kristian Siem and family have a majority of shares.

Turnover (to 1 June 1983) £40.1 million. Pre-tax profits £2.1 million

(to 1 June 1984). £30 million estimated. Pre-tax profits (£1.0 million)

Shipping

The Group engages in shipping of petroleum products, livestock and general cargo, and operates cruise liners and a drilling ship.

## DRAFT CABINET PAPER ON CONTRACTING OUT

USING PRIVATE ENTERPRISE IN GOVERNMENT

Memorandum by the Chief Secretary, HM Treasury

On 16 December 1982 the Cabinet agreed that there should be a drive to achieve further contracting-out from the public sector. I reported progress on 21 July 1983; this paper reports further progress.

2. Introducing competition for public sector work provides a much-needed incentive for increasing value for money in the public sector. There are also other benefits, such as cost savings, reductions in public sector manpower, access to specialised expertise and greater flexibility in working practices and deployment of manpower.

3. But there are still obstacles to contracting out, and progress has been disappointing. The obstacles include union opposition, management inertia and, in the case of some local and health authorities, politically-motivated obstruction.

Local Authorities

4. Under the 1980 Local Government Planning and Land Act, local authorities are required to seek tenders for some (since October 1983 at least half) of their building and maintenance work. This has had some useful results: by 1982-83 direct labour organisations undertook less than 40 per cent of their construction work and staff numbers had fallen to 130,000 at October 1983, 13 per cent lower than in April 1981.

5. Outside this area there has been only exhortation to contract out more in the local authority field. This has not been very successful: for example only 23 contracts for refuse collection and street cleaning (saving £7m a year net) have been let compared with 16 a year ago. In consequence E(A) decided, on 28 February, that exhortation was not enough and that the Secretary of State for the Environment should prepare a report on legislative options for extending contracting out. This report is expected to be completed soon.

#### National Health Service

6. In September 1983 all health authorities were asked to draw up programmes to implement compulsory tendering for cleaning, catering and laundry services. The cost of these three key services in 1982-83 was around £950m, of which less than £17m was contracted out. The scope for savings is illustrated by the fact that in 12 recent contracts for cleaning and laundry services savings of £1.5m have been made. At present, the responses of the health authorities to this request are being assessed by DHSS.

#### Nationalised Industries

7. Unlike most central and local government activities, those of nationalised industries already take place in a commercial environment. Resultant management pressures, accentuated by tight financial disciplines, lead to the industries contracting out a wide variety of functions and services where this is the most cost-effective solution. The energy industries, for example, annually contract out over £2b of work. Corporate planning discussions and the annual Investment and Financing Review provide a mechanism for pressing the industries to do more and I am sure that we should continue to emphasise the importance we attach to this area.



Central Government

8. Some 20,000 Civil Service posts and £18m net per annum were saved by contracting out policies between 1979 and April 1984. Present manpower plans assume only a further 2,000 will be saved by April 1988. There are wide variations between the extent to which different departments have contracted out work (figures at Annex A).

9. While we need to ensure that contracting out is cost-effective, I cannot believe that these figures represent the full scope for contracting out by government departments. Nor does the approach of departments match up/ to what we are requiring of health authorities and are considering for local authorities. I hope colleagues will ensure that their top management systems set up under the Financial Management Initiative will be used to identify functions which could suitably be contracted out to the private sector. In addition, I propose that departments should now be required to test the market (where they have not done so already) for a number of specified services - for example cleaning, laundry and maintenance. If my colleagues agree I will arrange for officials to consider how best to set this in hand.

Conclusion

10. I invite the Cabinet to note progress made so far and to agree that:
- (a) government departments should be required to test the market for contracting out a range of specified services; they should also use their top management systems to identify functions which could suitably be contracted out;
  - (b) the Secretary of State for the Environment should bring forward to colleagues as soon as possible his proposals on the legislative options for increasing contracting out by local authorities;

- (c) the Secretary of State for Social Services should inform colleagues of the conclusions of the assessment of health authorities' contracting out returns as soon as it is completed; and make proposals for further action;
- (d) I should make a further progress report next year.

PR

## CONTRACTING OUT BY GOVERNMENT DEPARTMENTS

The table below shows the amount of running costs expenditure contracted out by each department.

The information was collected in the 1983-84 annual scrutiny of running costs and does not give a complete picture of work contracted out by Government departments because 'programme' expenditure is not covered. To some extent the differences in the amount of running costs contracted out shown in the final column reflect quirks in the coverage of the annual scrutiny.

	Contracting Out Expenditure (See Notes 1 and 2)	Total Running Costs (See Note 1)	Amount of running costs contracted out
	£000s	£000s	per cent
Defence	69,680	8,680,135	0.8
Foreign and Commonwealth Office	2,315	362,702	0.6
Overseas Development Admin	4,398	42,623	10.3 (Note 3)
Agriculture, Fisheries and Food	1,450	208,387	0.7
Trade and Industry	7,039	263,612	2.7
Energy	236	31,016	0.8
Employment	4,231	342,705	1.2
Manpower Services Commission	2,624	334,554	0.8
Transport	2,803	261,364	1.1
Environment	5,728	161,600	3.5
Property Services Agency (excluding Supplies)	93,104	481,125	19.4 (Note 4)
Home Office	18,191	658,494	2.8
Lord Chancellors Department	2,787	178,881	1.6
Education and Science	517	52,162	1.0
Health and Social Security	36,191	1,421,085	2.5
Treasury	3,497	68,271	5.1
Customs and Excise	1,794	375,876	0.5
Inland Revenue	15,370	902,220	1.7
National Savings	924	150,352	0.6
Cabinet Office	2,409	48,991	4.9
Paymaster Generals Office	289	12,426	2.3
Scottish Office	2,695	165,373	1.6
Welsh Office	261	41,607	0.6
Northern Ireland Civil Service	5,657	316,354	1.8
Northern Ireland Office	2,979	94,581	3.1
<b>TOTAL MAJOR DEPARTMENTS</b>	<b>287,169</b>	<b>15,656,496</b>	<b>1.8</b>
<b>TOTAL MINOR DEPARTMENTS</b>	<b>8,115</b>	<b>393,438</b>	<b>2.1</b>
<b>TOTAL ALL DEPARTMENTS</b>	<b>295,284</b>	<b>16,049,934</b>	<b>1.8</b>

#### Notes

1. Figures are forecast outturn for 1983-84.
2. Figures under headings contract cleaning, other agency charges, contract and consultancy services.
3. All of ODA's technical co-operation offices are specialists, for example in agriculture, employed on short term contracts to help underdeveloped countries.
4. PSA contract out 80 per cent of property maintenance and 40 per cent of major design work.

bc. Bob Young

CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

5 July, 1984.

Bus White Paper

The Prime Minister has seen your Secretary of State's minute of 3 July, and is content that the technical annexes should be published as part of the Bus White Paper.

I am sending copies of this letter to the Private Secretaries to the members of E(A), and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss D.A. Nichols,  
Department of Transport.

CONFIDENTIAL

RW



Secretary of State for Trade and Industry

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5 July 1984

The Rt Hon George Younger MP  
Secretary of State for Scotland  
Scottish Office  
Whitehall  
LONDON  
SW1A 2AU

D George.

NATIONALISED INDUSTRY REFERENCES TO THE MMC : SCOTTISH BUS SERVICES

Thank you for your letter of 12 June proposing withdrawal of the planned study of an aspect of public sector bus provision in Scotland from the 1984 programme of nationalised industry references to the MMC. I have also seen Nicholas Ridley's comment in his letter to me of 25 June; but I am not persuaded that we should drop this reference.

2 I take your point that we propose to create a new operating environment. But it will take some time for the benefits of the new regime to become apparent in the form of actual competition on the ground. It must be doubtful that the hoped-for invigorating effects of the new policy on public sector operators will be felt much before 1986, and an MMC reference intended for completion in March 1985 does not seem to me untimely. Indeed it could help fit the Scottish Transport Group for competition in due course. It is relevant that both the major providers of bus services in Scotland, Strathclyde and the STG, are to remain in the public sector. They will continue to be sheltered from many market disciplines and their external scrutiny will remain justifiable and useful.

3 More generally, I fear that an announcement of the withdrawal will compound Nicholas Ridley's presentational difficulties surrounding the planned deregulation. By voluntarily abandoning, well in advance of any actual benefits of the new policy, a procedure which helps achieve efficiency and responsiveness to consumer needs, we risk gratuitously projecting ourselves in an unfavourable light.

4 In addition, you will recall that we agreed to the bus reference in deference to your opposition to our proposal to refer an aspect

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of the Scottish airports in 1984. It really is essential that some references are undertaken north of the Border.

5 Finally, but not the least of my concerns as the Minister with general responsibility for Section 11, if we dropped this reference we would be left with only four for 1984, compared with our target of six. As you know, we have used the Section 11 capability in arguing against an extension of C and AG access to nationalised industries. Our credibility will be severely dented (on an issue that shows no signs of going away) if we cannot devise and sustain a full programme.

6 For all these reasons, I would be grateful if you would reconsider your position. I am sure that some aspect of public sector bus provision in Scotland can be identified that can usefully and appropriately be investigated over the winter, and that we can and should spare ourselves the presentational difficulties of changing course now. I have asked my officials to get in touch with yours to discuss the possibilities.

7 I am copying this letter to members of E(NI) and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT

Privatisation: Econ Pol. Pt 10.





NBAM

AT 5/7

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FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

5 July 1984

*Deat Dinah*

BUS WHITE PAPER

My Secretary of State has now considered the Annexes to the draft White Paper and has asked me to send you the enclosed comments which point up apparent inconsistencies and problems that have been identified by Mr Chirs Butler (Special Adviser).

Copies of this letter also go to Private Secretaries to recipients of Mr Ridley's minute to the Prime Minister dated 14 June.

*Yours ever*

*Colin Jones*

Miss Dinah Nichols  
Private Secretary to the  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
London  
SW1P 3EB

PS/Secretary of State  
PS/Minister of State

**BUS WHITE PAPER AND ANNEXES**

Nicholas Ridley's letter to colleagues of 14 June states "Our proposals will be vigorously attacked by the vested interests concerned and it will be vital to demonstrate to the passengers of the bus industry that they are founded on full and detailed analysis of the industry. I therefore think it very important to include 5 technical Annexes in the White Paper ....."

I believe the same can be satisfied, and without giving immediate arguments for our opponents to advance publicly (in the case of major home goals) and in Committee (in the case of detailed points which could better be omitted). Unfortunately, the Annexes do not achieve this. The main offenders in this regard are Appendix B and Annex 3. Appendix B investigates the issue of cross subsidy and makes observations which "can be used to give an indication of likely changes" (page 8). Bluntly, the Appendix points to the fact that Sunday, early morning, late evening, and rural services are often "unprofitable" and raises the spectre of substantial deterioration in services following deregulation. It can possibly be rewritten much more positively and substantially slimmed down, but at the moment it is a positive goldmine for our opponents. Annex 3 deals with the effects of the Transport Act 1980 in developing bus services in the 3 trial areas. Unfortunately only one of them - Hereford - appears to have made substantial gains out of deregulation and even here it admits that "The eventual outcome in Hereford is unpredictable". This is not the kind of evidence to back-up a major change of this kind and once again provides several leads for our opponents. Annex 3 needs to be substantially shorter, concentrate on Hereford, and be much more positive in its drafting.

I attach a detailed analysis of these Annexes with the inconsistencies and problems that I have identified.

*Chris.*

4 July 1984

CHRIS BUTLER  
Special Adviser  
233 4107

cc PS/MINISTER OF STATE  
PS/POSS  
PS/PERMANENT SECRETARY  
MR R A LLOYD JONES  
MR R JARMAN  
MR A H H JONES

## ANNEXES TO BUS PAPER - DETAILED COMMENT

### Annex 1

On page 1 of the Annex it states that "Only 8% of all passenger travel is by bus". Paragraph 1.1 of the draft White Paper says that over 10% of all journeys are made by bus. These figures may not be comparing exactly like with like but they do at first sight appear to differ. Paragraph 1.1 of the draft White Paper goes on to say "Most of the people who take the bus do not have the use of a car. Most are people in less well paid jobs or unemployed, women, pensioners or school children". This is not backed up by statistics in the Annex. In fact, this is a general fault. There are a number of cases in the White Paper where statements are made which could be backed up by appropriate tables in the Annex and are not; and, conversely, there is information in Annex 1 which is, to put it at its best, extraneous and superfluous to the main thrust of the argument.

Paragraph 1.2 of the draft White Paper says that "A percentage of all journeys made by bus has gone down from 40% to 8%" since 1955. The figures in the corresponding table in Annex 1 give 1953 figures but not 1955 figures.

On page 1, Table 2 the total of all operators is slightly understated. I prefer totals to add up.

On page 4, paragraph 11 there is an unnecessary reference to 1983 and increasing stage journeys in London transport and in PTE journeys. We do not need to compliment them on their miniscule achievement.

Paragraph 15 is largely extraneous and could set possible hares running.

Paragraph 16 and Table 12 taken together could be read as minimising the importance of bus travel in rural areas. This certainly conflicts with the tone of the opening paragraphs of the White Paper. I would be inclined to leave out table 12 and lessen the message of paragraph 16.

Paragraph 27 states "conventional and innovatory forms of public passenger transport are playing an increasing role in rural areas". This conflicts with the White Paper where it refers to Scotland in Paragraph 7.3 where it is stated that the alternative forms of rural road transport "Did not produce major results". I suspect that the Scottish experience is largely reflected in Wales as well. I would suggest changing paragraph 27 to "Unconventional and innovatory forms of public passenger transport do play a much appreciated role in rural areas".

Table 18 does contain very powerful evidence of increased revenue support from 0.4 pence per stage passenger journey in 1972 to 7.9 pence in 1982 (all at constant prices). This fact could well do with insertion in the main White Paper. The total amount of revenue support has risen from £10m in 1972 to £520m in 1982. This is also worth mentioning in the main body. The same table in the last figure of the last column should read 21.6 so as to tie up with Table II, page 19 of Appendix A.

## Annex 2

I think the opening paragraphs of Annex 2 are very messy and confusing. I do wonder whether Annex 2, Appendix A and B and Annex 3 should all be woven into one Annex. As it stands the signposting is bad and there is some element of repetition between Annexes and Appendices.

Paragraph 4 sets an unnecessarily difficult task for the proponents of the White Paper. I would replace the last 2 sentences of the paragraph by "and the evidence of these Annexes indicates that the disbenefits of regulation are so substantial that they far outweigh any risks and transitional costs associated with implementing the change".

Paragraph 8 indicates rather bluntly that the Government view is that services in the metropolitan counties should have been "cut-back as patronage fell". I prefer "Adapt services to customer demand".

Paragraph 43 is a good example of repeated argument. The potential damage to rural areas could be rather more muffled than in this paragraph and, indeed, it is too generous to urban services where it says that "Relatively few" are loss making. After all, London Transport had £272m of support in 1982/83 we are told in Table 16, Annex 1. Indeed, against the background of the abolition of the Mets and the GLC they could point to this as evidence of inconsistency.

Paragraph 44 again repeats an argument later rehearsed at length in Appendix B qualifying its statements about cross subsidy substantially (there are problems with accounting conventions) and I would for instance be inclined to say "During week days service between peaks often appears to subsidise the peak services ....".

In paragraph 50 I would leave out "Inevitably, some poorly used services, already at risk may be lost" and "there are no grounds for expecting widespread deprivation of service - and ....". Otherwise, the paragraph raises unnecessary bogies.

## Appendix A

Paragraph 2 appears to make a rather weak case about taxi fares. One of the reasons why taxi fares have been so competitive is that there has been an expanding market whilst buses have faced a declining market. The comparison is not really a fair one. Further on in the paragraph it refers to revenue support in 1980 prices rising to 20.5 pence per vehicle kilometre and gives a reference to Table 18 Annex 1. In fact this information is not in Table 18 but in Table II on page 19 of Appendix B.

Paragraph 7 refers to a survey by ACAS. Its conclusion that the earnings of a substantial number of drivers in the private sector were lower than those generally prevailing in the public sector leads directly into the argument that public sector wages should be lowered. This is an unnecessary home goal and the sentence should be omitted.

Paragraph 12 has a split infinitive.

Paragraph 15a has an 'or' missing.

## Appendix B

This is where we run into big trouble.

Table 1 on page 4 is confusing especially in the way that Bristol Omnibus Company splits up into its 4 separate operating areas.

Paragraph 10 states that rural services are "largely unprofitable" and outlines "The particular unprofitability of Sunday, early morning and late evening services".

Paragraph 12 points to a Cheltenham experiment in minimising cross subsidy which resulted in a much "coarser network" which did not result in "great deprivation".

Paragraph 13 claims that "The above observations on cross subsidy ... can be used to give an indication of likely changes". It does not take much of a propagandist to construct the claim, therefore, that Sunday, early morning, late evening services and rural services will be particularly threatened by the proposals and that the networks that will be left will be less accessible to the travelling public. These home goals are quite unnecessary.

Paragraphs 14, 15, 16 and 17 all contain the same traps and potholes for us.

This whole Appendix could do with considerably slimmed down and written in a more positive way. Not enough is made of the argument that regulation is holding the size of the market and not fulfilling consumer demand. If deregulation brings a larger market and more passenger revenue overall then any need for cross subsidy is reduced in any case. It takes some inventiveness to turn this into greater opportunity and better services for the rural areas, but at the moment the thrust of the paper is broadly in the opposite direction.

## Annex 3

We do not meet major problems until Part 2 of this Annex. The picture in Norfolk appears to be one of reduced services generally and increased fares (paragraph 23). The Hereford area has some very encouraging evidence in paragraphs 25 to 30, but question marks remain over some of the new services (paragraph 30) and paragraph 40 states that "The eventual outcome in Hereford is unpredictable". The Devon area suggests changes resulting from deregulation as being "Rather limited in scale" with some services having been "Withdrawn or reduced because of dwindling patronage" (paragraphs 35 and 36). This section needs to be considerably shortened so as not to give unnecessary material to our opponents; it needs the services of a good copy writer, I suspect; and, it needs to be recast so that it sits comfortably alongside paragraph 1.8 of the draft White Paper - which it does not do at present. Paragraph 1.8, for instance, says "In none has deregulation brought the loss of services which some predicted". Our opponents could use Annex 3 as direct evidence of a contradiction. Incidentally, Annex 3 is referred to as Annex 5 in this paragraph.

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Secretary of State for Trade and Industry

4 July 1984

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Andrew,

JAGUAR FLOTATION

Now that the policy consideration in E(A) on the flotation of Jaguar is behind us, you may find it useful to have a note of the main dates in the timetable.

2 The Circular to the shareholders of BL plc, summoning an Extraordinary General Meeting to approve the disposal, will be posted on Friday 6 July. It will have attached to it a "dummy" prospectus, not disclosing the main price sensitive figures or the method of pricing (fixed price or tender).

3 We have arranged for DTI and Treasury officials to have an input into BL's decision on the method of pricing before it is finalised. However this decision, and that on the price the issue is to be underwritten at, is one that at the end of the day has to be the responsibility of BL and their advisers. Thereafter the BL EGM will be on 24 July, and the underwriting on 25 July. The last chance to call the operation off on grounds of adverse market conditions would be immediately before that.

4 The application list is expected to open and close on 3 August, the basis of allotment to be announced on 6 August and dealings in Jaguar shares to commence 9 August.

5 I am sending copies of this letter to the Private Secretaries to the members of E(A) and to Sir Robert Armstrong.

Yours ever,  
Ruth

RUTH THOMPSON  
Private Secretary

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Prime Minister ②

PRIME MINISTER

Treasury and Policy Unit are now  
satisfied that the technical  
annexes can be published as  
part of the Bus White Paper

BUS WHITE PAPER

AT

4/7

At E(A) on 28 June, E(A)(84)6th7, it was agreed that I should urgently revise the draft annexes to the White Paper in the light of drafting amendments from members of the Sub-Committee.

I have received, through Treasury officials, a number of helpful drafting comments from the Chancellor of the Exchequer. I have incorporated the amendments in the revised texts I am circulating with this letter.

Unless I hear to the contrary by this Thursday evening (5 July), I will assume that colleagues are content with the revised texts of the annexes.

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

NICHOLAS RIDLEY

3<sup>rd</sup> July 1984

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## THE BUS INDUSTRY: FACTS AND FIGURES

Introduction

1. This annex describes the recent trends and current position in the bus industry. Paragraph 2 gives a general picture of the contribution of public transport to total travel. Paragraphs 3-24 focus on the bus industry - its structure, the level and nature of bus demand, the subsidy provided and the industry's performance in terms of costs and productivity. Paragraph 25 discusses taxis, and paragraphs 26-27 other local public transport services.

2. 84% of all passenger travel is by private transport; only 8% is by bus, 7% by rail. The shares of bus and rail in total travel have continuously declined over the past three decades, while the share of private transport has risen (see Table 1). Taxi journeys are estimated by the Transport and Road Research Laboratory to have numbered between 370M and 700M in 1982, or between 6% and 12% of the number of bus journeys.

Structure of the Bus Industry

3. There are some 70,000 buses and coaches operating in Great Britain today. Some 40,000 of these vehicles are owned by public bus operators and the rest by private operators. Four distinct sectors can be identified within the industry: transport executives, (ie the Passenger Transport Executives and, until 1984, the London Transport Executive\*), municipal, nationalised and private. Their bus fleets are shown in Table 2.

Table 2: Bus operators in Great Britain 1983:

<u>Operator</u>	<u>Number of buses</u>
National Bus Company	14,600
Scottish Bus Group	3,100
London Transport Executive	5,600
Passenger Transport Executives	9,600
Municipals	5,300
Private Operators	30,000(E)
All Operators	68,000

Source: Transport Statistics Great Britain

4. The transport executives are responsible for the provision of passenger transport services in the English metropolitan counties and the Strathclyde Region of Scotland. Some bus services are provided in the transport executive areas by subsidiaries of the nationalised bus companies under operating agreements concluded under provisions of the Transport Act 1968 and the Transport (London) Act 1969. Agreements made under the 1969 Act continue to have force under the London Regional Transport Act 1984. In Scotland, the Strathclyde Regional Council provides support for SBG services in its area under the Local Government (Scotland) Act 1973.

\*As from 29 June 1984, LTE was renamed London Regional Transport.

TABLE 1

## PASSENGER TRANSPORT BY MODE 1953 - 1983

## GREAT BRITAIN

	1953		1963		1973		1983	
	bn Pass km	% of total	bn Pass km	% of total	bn Pass km	% of total	bn Pass km	% of total
Private motor <sup>1</sup>	58	30	158	60	309	77	414	83
Bus and Coach	82	42	64	24	53	13	40	8
Rail	39	20	36	14	35	9	35	7
Air <sup>2</sup>	0.2	0.1	1.3	0.5	2.4	0.6	3.0	0.6
Pedal Cycle	17	9	6	2	4	1	5	1
TOTAL <sup>3</sup>	196	100	265	100	403	100	497	100

<sup>1</sup> car, van, taxi and motorcycle.

<sup>2</sup> includes Northern Ireland and the Channel Islands.

<sup>3</sup> totals may not add due to rounding.

Source: Department of Transport

5. The municipal undertakings are those run by certain district councils (in Scotland, regional councils) whose powers to operate services derive from local Acts passed before 1930. The number of buses run by the 49 councils (37 English, 9 Welsh and 3 Scottish) which have such operations varies considerably as shown by Table 3.

Table 3

Municipal Bus Operators in Great Britain 1983:

No. of Operators	No. of buses
9	less than 41
15	41-70
8	71-100
7	101-150
3	151-200
5	201-240
2	over 250

Source: Department of Transport

6. The nationalised sector comprises the National Bus Company (NBC) and the Scottish Bus Group (SBG). Both Groups operate in urban and rural areas. They provide a very high proportion (over 75%) of stage bus services in rural areas throughout Great Britain.

7. In the private sector there are about 5,500 operators who generally own a few vehicles each as shown by Table 4.

Table 4

Private Bus Operators in Great Britain 1982

<u>No. of vehicles</u>	<u>No. of operators</u>	<u>% of operators</u>
less than 5	3432	62
5-14	1650	30
15-24	281	5
25-49	111	2
50+	23	1

Source: Department of Transport

Activities of Industry

8. The main activity of the bus industry is the provision of stage carriage bus services (which provide for local travel) as indicated by Table 5.

The industry's non-stage activities are long-distance express coach services, contract operations (particularly school buses and works services), private hire work, and excursions and tours.

Table 5: Bus Services and Patronage: Great Britain 1982

(million)	Stage services	Non-stage services
Passenger journeys	5,490 (90%)	593 (10%)
Vehicle kilometres	2,113 (65%)	1,119 (35%)

Source: Department of Transport

9. Table 6 shows the pattern of provision of services by the four sectors of the industry. The provision of stage bus services is dominated by the public sector operators who accounted for 92% of the mileage operated and 97% of passenger journeys made on such services in 1982. Private operators play a greater role in the provision of express services although again public operators (NBC and SBG) have the larger share of the market. The contract, private hire, and excursion and tours markets have traditionally been and still are dominated by the private sector.

#### Turnover by Activity

10. The turnover of the bus industry in 1982/83 was approximately £2.4 billion. Provision of stage carriage services accounted for nearly 80% of the turnover. Table 7 gives a breakdown of turnover as between the main sectors and stage and non-stage services.

Table 7: Turnover\* of Bus Industry (£ million) 1982/83

	Stage services	Non-stage services	Total
Nationalised			
NBC	567(30%)	87(17%)	654(27%)
SBG	123( 6%)	14( 3%)	137( 6%)
Transport Executives			
LTE	401(21%)	2(0.4%)	403(16%)
PTEs	546(29%)	7(1.4%)	553(23%)
Municipals	213(11%)	6(1.2%)	219( 9%)
Private Operators	65( 3%)	393(77%)	458(19%)
	<u>1,915(100%)</u>	<u>509(100%)</u>	<u>2,424(100%)</u>

\* income including grants and subsidies for stage carriage services, but excluding fuel duty rebate.

Source: Department of Transport

TABLE 6 : THE IMPORTANCE OF EACH OPERATOR GROUP IN THE PROVISION OF BUS SERVICES: GB

Vehicle kilometres by type of operator and service : 1982

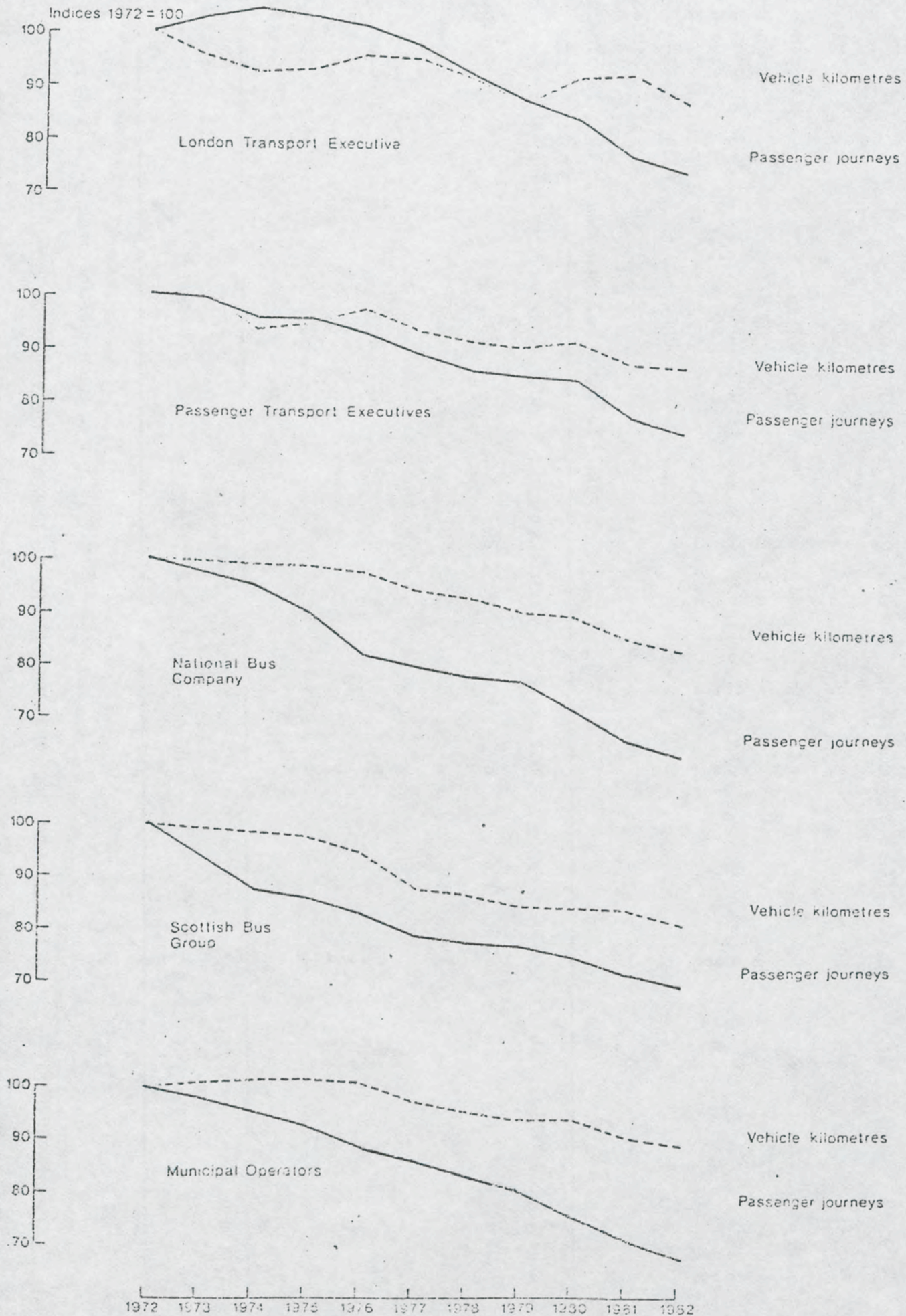
	Stage		Express		Excursions and tours		Contract		Private Hire		All Services	
	million	%	million	%	million	%	million	%	million	%	million	%
Public Operators:												
London Transport Executive	264	12	-	-	1	1	-	-	-	-	265	8
Passenger Transport Executives	474	22	-	-	1	1	6	1	3	1	485	15
Municipal operators	222	11	-	-	1	1	4	1	5	1	232	7
National Bus Company	821	39	84	64	18	14	25	6	24	5	972	30
Scottish Bus Group	169	8	15	12	2	1	11	3	3	1	200	6
All public operators	1951	92	100	76	22	18	47	11	35	8	2155	67
Private operators:	163	8	32	24	100	82	399	89	383	92	1077	33
All operators	2113	100	132	100	123	100	445	100	419	100	3232	100

Passenger Journeys by type of operator and service: 1982

Public Operators:												
London Transport Executive	1042	19	-	-	1	3	-	-	1	1	1043	17
Passenger Transport Executives	1722	31	-	-	-	-	10	3	4	2	1736	29
Municipal operators	839	15	-	-	-	-	10	3	5	3	854	14
National Bus Company	1417	26	12	67	6	18	33	9	10	5	1479	24
Scottish Bus Group	298	5	1	6	-	-	13	4	2	1	314	5
All public operators	5317	97	13	72	8	24	66	19	22	12	5426	89
Private operators:	173	3	5	28	26	76	289	81	164	88	657	11
All operators	5490	100	18	100	34	100	355	100	186	100	6083	100

Source: Transport Statistics Great Britain 1972-1982

# CHART 9 TRENDS IN STAGE SERVICE PATRONAGE AND LEVELS OF SERVICE: GB



## Demand for Bus Travel

11. Over the last 30 years there has been a continuous decline in the proportion of passenger transport accounted for by buses and coaches from 42% of all passenger kilometres in 1953 to only 8% in 1983, during which time the total distance travelled by this mode has halved. This has occurred simultaneously with an increase in total travel of 154%. From 1973 to 1983 bus and coach passenger kilometres have declined by nearly 25% and their share from 13% to 8%. A major contributory factor has been the growth in car ownership (Table 8). Private transport now accounts for 84% of all passenger kilometres, having grown 7 times in volume over 30 years. (Table 1). The reduction in stage bus service patronage was of the order of 2-3% per annum in the 1970s and was accompanied by decline in vehicle kilometres, though the former declined more rapidly than the latter. Chart 9 shows these trends for different operators. Evidence for 1983 suggests that there was a slight increase in stage journeys of 1-2%, accounted for by a significant increase in journeys on London Transport, and an increase in PTE journeys. NBC stage journeys were slightly reduced.

12. There are indications that following the Transport Act 1980 there has been a significant growth in express services, though the redefinition of "express" and "stage" makes interpretation of the statistics difficult. There have been marked improvements in the variety and quality of services on offer, including luxury coaches with refreshments, video entertainment and toilets making possible faster non-stop journeys. The NBC "National Express" services have been dominant in this area, the numbers of passengers carried increasing by 45% between 1980 and 1983.

Table 8: Trends in Car Availability 1962-1982: Great Britain

Household with regular use of a car <sup>1</sup>	% of all households		
	1962	1972	1982
No car	67	47	39
One car only	30	44	45
Two or more cars	3	9	16
All households	100	100	100
-----			
Numbers (m)	16.6	18.6	20.3

<sup>1</sup> Car or van available for private use.

Source: "Transport Statistics  
GB 1972-82"

## The Pattern of Stage Bus Travel

13. Tables 10 - 12 review the purposes of stage bus travel, the users and the differences between urban and rural areas. Patterns of usage have been changing. In 1965 work-related journeys



accounted for 40% of bus trips and shopping for 18%. By 1978/79 the respective percentages were 28% and 29%. Two thirds of bus journeys are made for work, education and shopping, whereas just over one-half of journeys by other modes of transport are for these purposes. Less than one-quarter are for leisure purposes compared with more than one-third of the trips by other modes.

14. Bus usage is above average for adult women in all age groups and for men between 16 and 20 years and over 65. Children between the ages of 11 and 15 also make above average use. People living in households headed by semi-skilled and non-skilled manual workers make two and a half times as much use of the bus as those in the households of managers and professional groups. This is partly due to the interrelationship between socio-economic groups, household income and car ownership, all of which influence bus usage.

15. Reduced fares also influence use by children and old age pensioners in many areas. In 1978/79, three in four stage bus journeys by OAPs were at a concessionary rate or free. One in five stage bus journeys by children were also free and a 1978 survey of operators found that most offered children reduced rate fares. Many journeys by children to and from school are in buses provided by local education authorities.

16. Residents of rural areas travel more by all modes each week (187 km per person) than those of urban areas (146 km per person) but make less use of stage bus (10 km compared with 16 km). Consequently although 15% of the population live in rural areas they account for only 10% of bus travel. However in rural areas the works and school bus is used more and clearly provides an alternative to the stage bus for this type of journey. Rural areas tend to have higher levels of car-ownership than urban areas and the rural use of the car/van/motorcycle is almost 50% greater than in urban areas.

Table 10: The Purpose of Stage Bus Journeys: Great Britain

	Bus		Other modes of transport 1978/79	Percentage
	1965	1978/79		All modes of transport 1978/79
Work	40	28	22	22
Education	9	10	9	9
Shopping	18	29	21	22
Personal business	7	9	11	11
Leisure and other <sup>(1)</sup>	26	24	37	35
All purposes	100	100	100	100

Source: National Travel Surveys

(1) Other includes escorting and journeys not classified under any other heading.

TABLE 11 CHARACTERISTICS OF BUS TRAVELLERS 1978/79 : GB

Stage bus journeys/persons/week			
Age of individual		Socio-economic group of head of household	
0 - 4	1.3	Managerial	1.4
5 - 10	1.1	Professional	1.3
11 - 15	3.2	Clerical	2.2
Males		Skilled	2.5
16 - 20	3.9	Semi-skilled	3.2
21 - 29	2.2	Non-skilled manual	3.6
30 - 59	1.5	Other (1)	2.2
60 - 64	2.3	Total	2.4
65+	2.5	Rest (working status or SEG not available)	2.6
Females			
16 - 20	5.6		
21 - 29	2.6		
30 - 59	2.7		
60 - 64	3.2		
65+	2.8		
All ages	2.4		

Source: National Travel Survey

(1) Other includes members of the armed forces, full-time students and those whose SEG was inadequately described.

TABLE 12 DIFFERENCES BETWEEN URBAN AND RURAL AREAS IN USE OF BUS 1978/79: GB

	Percentage	
	Population	Bus passenger kilometres
Urban	85	90
Rural	15	10
Total	100	100

Source: National Travel Survey

URBAN AND RURAL DIFFERENCES IN THE VOLUME OF TRAVEL BY ALL MODES: GB

	Kilometres/person/week			
	1965	1978/79		
		All areas	All areas	Urban
Car/van/motorcycle	71	109	101	149
Stage Bus	19	14	16	10
Works/school bus	2	2	2	5
Rail	10	11	- 11	8
Other*	11	18	18	16
Total	113	153	146	187

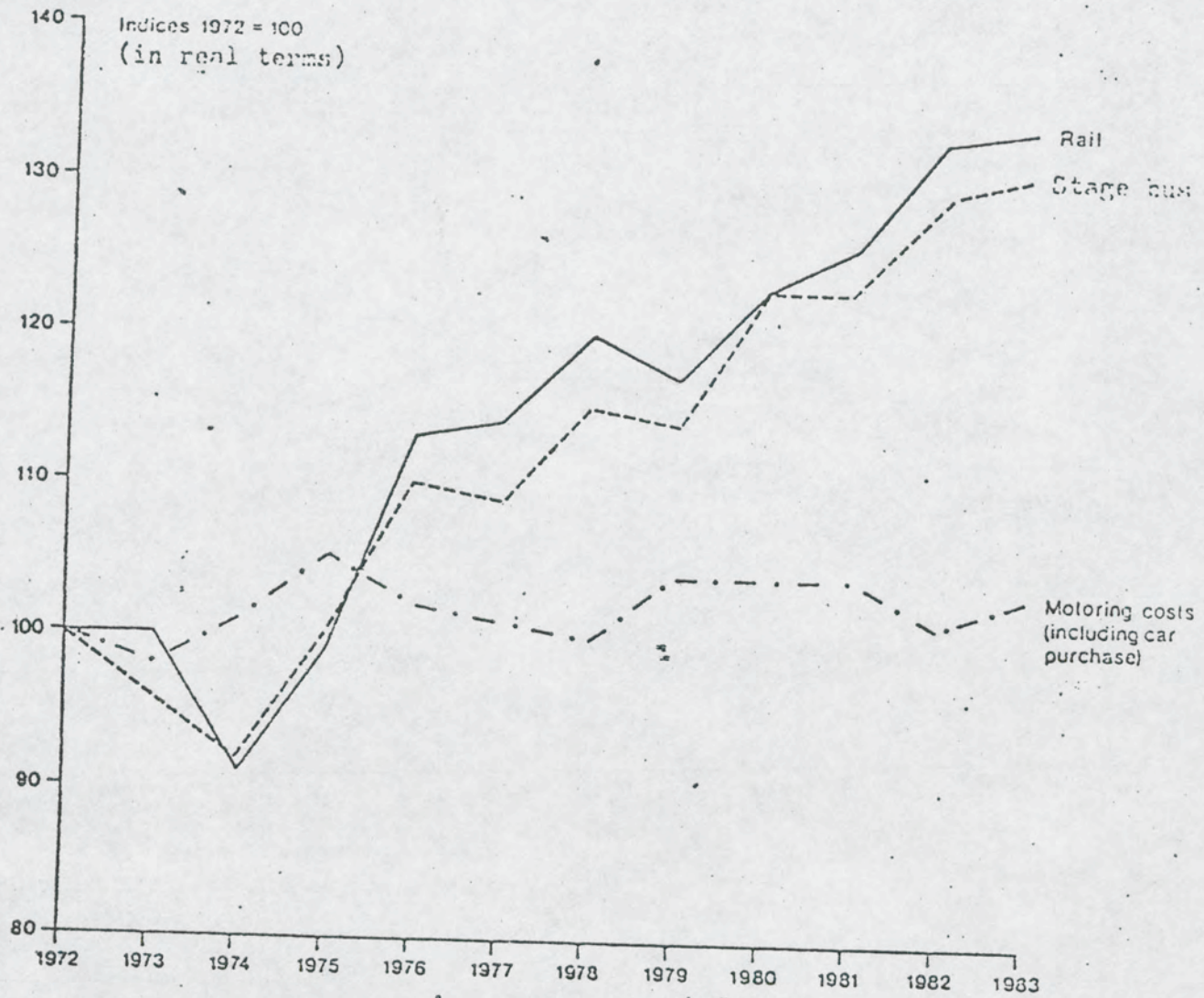
Source: National Travel Surveys

\*Other includes walk, bicycle, taxi and buses other than stage carriage and works school bus, express bus, private hire bus.

Note: Urban areas are generally defined as those with a population density of at least 0.6 persons per acre at the ward or parish level and a population of more than 3,000.

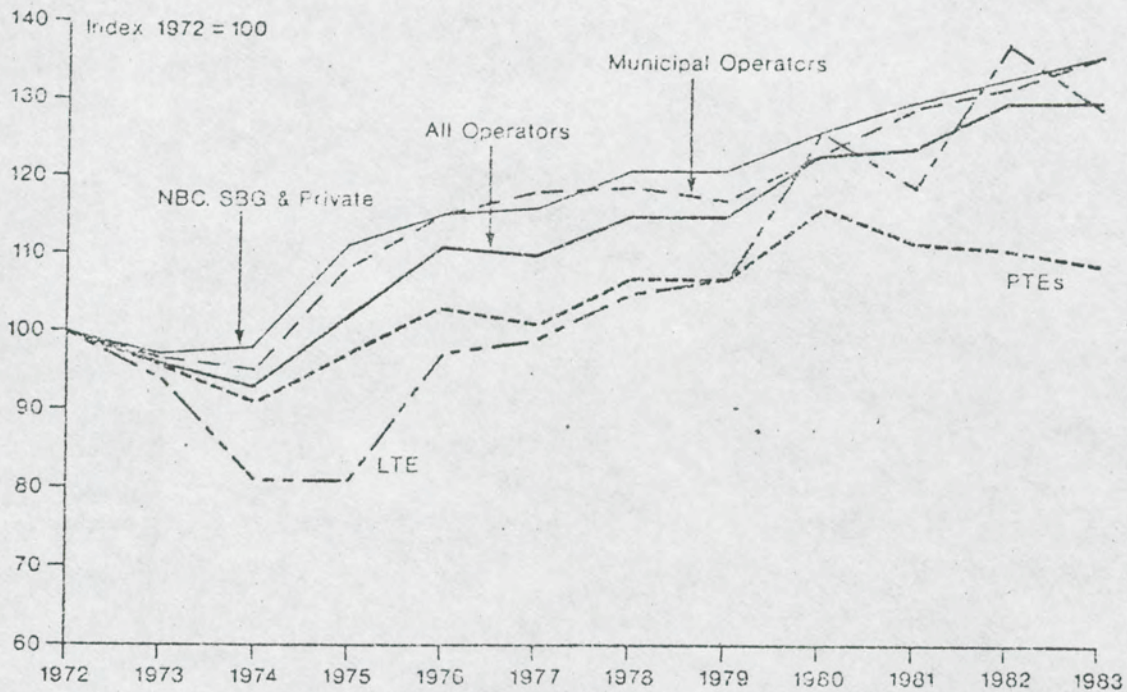
CHART 13

# COMPARISON OF PUBLIC TRANSPORT FARES WITH MOTORING COSTS GB



Source: Department of Employment:  
Retail Prices Index  
Department of Transport  
Stage Bus Fares

# CHART 14 TRENDS IN REAL STAGE SERVICE FARES GB



Source: Department of Transport

## Fares

17. One of the factors that has contributed to the decline in public transport use has been the upward trend in real fares. Between 1972 and 1983, stage bus fares rose by over 30% above the rate of inflation, while motoring costs grew by only 3% (see Charts 13 and 14). An exception to this upward trend in recent years has been in the PTE sector, where the maintenance of low fares has been a policy objective of the controlling authorities.

## Subsidies to the Bus Industry

18. The two principal types of bus subsidy are revenue support and payments towards the cost of concessionary fares schemes: both payments are made by local authorities to operators of local services. Some authorities also make capital grants. The GLC in particular has given 100% grants to London Transport for capital expenditure. Other counties cover depreciation of capital assets in their revenue support payments. Some make capital grants to infrastructure projects such as bus stations and repair depots. Bus operators also receive fuel duty rebate direct from Central Government. New bus grant, formerly paid by Central Government, has now been discontinued.

19. Table 15 shows the contribution of revenue support and concessionary fares subsidies to the income of public operators in Great Britain in 1982/3. The income of the private sector of the bus industry given the limited amount of stage carriage work it undertakes, comes almost wholly from the farebox. The staple income of many private operators will be received from local education authorities for contract school transport services. Table 16 provides a more detailed breakdown of subsidies including fuel duty rebate. Tables 17-20 show the rising trend in the provision of subsidy for stage bus services over the past decade.

20. In 1983/4, expenditure on revenue support was 96% above the public expenditure provision, and in 1984/5 authorities budgeted to spend more than 83% above provision. The overspending occurs almost entirely in England, and here the bulk of the overspend is accounted for by the GLC and the metropolitan counties. This is shown in Table 20.

## Costs and Productivity

21. The pattern of parallel growth in real fares and subsidy needs to be related to what has happened to the costs of providing bus services, as well as the declining trend in passengers per bus illustrated by Chart 9.

22. The bus industry is labour intensive and wage costs account for as much as two-thirds of total costs for the main public sector operators. Real earnings in the road passenger transport industry have risen over the past decade (Chart 2). Increasing labour productivity by introducing one man operation of buses has been a key objective within the industry over the past 15 years. New Bus Grant, introduced by the Government in 1968, was paid only for buses suitable for one man operation. One man operation is now prevalent, the main exception being London where about half the bus mileage is crew operated. In 1982, the industry employed 186,500 staff, 15% below the 1972 level. Most of this reduction

is accounted for by a 74% decline in the number of conductors to just under 11,000. Drivers' numbers have fallen by 4% to 92,000 whilst there has been a slight increase in other staff.

24. There has been a general trend within the public sector of the industry in recent years of improving staff productivity in terms of vehicle kilometres operated. This is shown by Chart 22. Overall real costs per kilometre operated have risen since 1972. The trend is illustrated in Chart 23. The growth in real costs per vehicle kilometre was particularly fast in the early 1970s, especially for London Transport. In recent years NBC, SBG and the municipals have been successful in reducing real costs per vehicle kilometre. One factor underlying the trend has been growth in maintenance costs in real terms associated with the introduction of the rear-engined one man operated buses.

#### Taxis and Hire Cars

25. Taxis and hire cars are playing an increasingly important role in passenger transport. Their number has grown rapidly in recent years as shown by Table 24. During the period 1972-1982 real passenger expenditure on taxis and private hire cars increased by 30% whereas on stage bus and coach services it has fallen by 13%. Trends in real taxi fares, compared to stage bus fares, are shown at Chart 25. Taxi and hire car passengers are drawn from a wide range of social and economic groups and in addition to business journeys taxis are widely used for shopping and social purposes and for travel to and from work and school.

#### Other public transport services

26. School transport services play an important role in meeting transport needs, particularly in rural areas. Total payments on education transport for educational purposes in England in 1981/82 were £221m, of which £175m was for home to school journeys. Shire counties typically spend significantly more on school transport than they do on public transport.

27. Unconventional and innovatory forms of public passenger transport are playing an increasing role in rural areas. Although not typical of all rural areas, a study in Lewes showed that unscheduled services provided 4.5m journeys compared with 4m by rail and 10m by bus. The Department has sought to act as a catalyst in the development of such services. The main forms are social car schemes, post buses and community buses. There are a large number of social car schemes throughout the country co-ordinated by individuals and voluntary organisations such as the WRVS. Approximately 20 community bus schemes have been established since the first commenced operation in 1975 at Sharrington in North Norfolk. The Post Office operates some 150 post buses, the majority of these operating in Scotland. In England, there are post bus services in a number of counties including Devon, East Sussex and Surrey.

TABLE 15 THE CONTRIBUTION OF SUBSIDIES<sup>1</sup> TO OPERATORS' INCOME FROM STAGE SERVICES  
1982/83: GB

	Percentage				
	LTE Bus	Passenger Transport Executives	NEC and SBG	Municipal operators	All public operators
Passenger and other receipts <sup>2</sup>	46	55	76	65	62
Concessionary fares payments	11	13	7	14	10
Revenue support	44 <sup>3</sup>	32	17 <sup>4</sup>	21	28
TOTAL	100	100	100	100	100

Sources: Annual Reports and Accounts of operators  
Returns by operators and local authorities  
to the Department of Transport, the Department  
of the Environment and Scottish Office,

1 Excludes fuel duty rebate.

2 'Other' receipts are from advertising and carriage of parcels etc.

3 Includes depreciation and renewal grant.

4 Includes reimbursement of expenses under operating agency agreements.



TABLE 16 SUBSIDIES AND GRANTS BY TYPE OF OPERATOR AND TYPE OF AUTHORITY : 1982/83

Great Britain					£ million
	Revenue Support <sup>1</sup>	Concessionary fares payments	New bus grant	Fuel duty rebate	Total
Type of operator					
London Transport Executive	201	49	7	15	272
Passenger Transport Executives	180	72	9	25	286
NFC and SEG	118 <sup>3</sup>	52	8	47	225
Municipal operators	48	31	3	11	93
Private	11	16	3	5	35
Total	558	220	30	103	911
Type of authority <sup>2</sup>					
Central Government	-	-	30	103	133
GLC and London Boroughs	201	49	-	-	250
Metropolitan Counties	225	82	-	-	307
Shire counties	30	)49	-	-	144
District Councils	15		-	-	
Scottish Councils	38	41	-	-	79
Total	558	220	30	103	911

Sources: Annual Reports and Account of operators  
Returns by operators and local authorities to the  
Department of Transport, the Department of the  
Environment and Scottish Office. Estimates by  
the Department of Transport

- 1 Includes LTE depreciation and renewal grant of £39 million (estimated).
- 2 Subsidies and grants paid by local authorities and the Department of Transport
- 3 Includes re-imbursment of expenses under operating agency agreements

TABLE 17: EXPENDITURE ON SUBSIDIES AND GRANTS: 1972 - 1982 : GB

£ Million

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Fuel duty rebate	21	20	32	38	45	57	59	60	78	93	93
New bus grant <sup>1</sup>	18	21	23	31	39	43	52	62	80	56	40
Price restraint (National Bus Company)	7	-	-	-	-	-	-	-	-	-	-
Payment to operators in respect of concessionary fares	12	20	37	79	95	109	124	137	162	190	235
Infrastructure <sup>1</sup>	1	1	2	2	2	1	1	1	-	-	-
Revenue Support from local authorities	10	14	76	185	191	166	165	185	250	400	490
Depreciation and renewal from GLC	-	6	7	8	10	13	14	25	28	27	39 <sup>2</sup>
Capital grants from GLC <sup>1</sup>	2	-	-	-	7	-	-	-	1	14	-
All Grants	71	82	177	343	389	389	415	470	599	780	897

Source Transport Statistics Great Britain 1972-1982

<sup>1</sup> Capital grant<sup>2</sup> Change in accounting procedure

TABLE 18: REVENUE SUPPORT AND RECEIPTS PER PASSENGER JOURNEY 1972-1982: GB

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Revenue Support (£m)	10	20	83	193	201	179	179	210	278	427	529
RPI (1980 = 100)	32.5	35.5	41.1	51.1	59.6	69.0	74.7	84.8	100.0	111.9	121.5
Revenue Support at 1980 Prices (£m)	31	56	202	378	337	259	240	248	278	382	435
Stage Receipts (including commissionary fare contribu- tions) (£m)	440.3	464.0	509.0	667.9	813.3	895.7	983.9	1069.9	1266.4	1320.9	1438.1
Stage Receipts at 1980 Prices (£m)	1354.8	1307.0	1238.4	1307.0	1364.6	1298.1	1317.1	1261.7	1266.4	1180.4	1183.6
Stage Passenger Journeys (million)	7873	7839	7682	7498	7112	6833	6596	6443	6200	5685	5490
Revenue support (p) per stage passenger journey at 1980 prices	0.4	0.7	2.6	5.0	4.7	3.8	3.6	3.8	4.5	6.7	7.9
Receipts (p) per stage passenger journey at 1980 prices	17.2	16.7	16.1	17.4	19.2	19.0	20.0	19.6	20.4	20.8	21

Source: Transport Statistics Great Britain 1972-1982

Note: Fuel duty rebate is excluded, but revenue support includes depreciation and renewal payments from GLC to LTE.

TABLE 19: TRENDS IN REVENUE SUPPORT BY TYPE OF AUTHORITY: 1978/79 TO 1984/85: GB

£ million

	1978/79	1979/80	1980/81	1981/82	Provisional 1982/83	Estimated Outturn 1983/84	Budgeted Expenditure 1984/5
Bus, underground, metro and ferries <sup>1</sup>							
England: GLC <sup>2</sup>	58.0	52.0	94.0	86.0	162.6 <sup>3</sup>	193	190
Metropolitan counties	58.9	79.4	124.6	188.6	227.6	207	206
Shire counties and districts	51.0	66.0	61.3	89.6	88.0	91	96
Wales:	6.0	7.7	8.5	9.5	9.6	11	11
Scotland: <sup>4</sup>	13.3	18.9	40.2	38.7	38.6	34	39
GB Total	187.2	224.0	328.6	412.4	526.5	536	542

Source: Department of Transport, Welsh Office, Scottish Office

1 Revenue support for underground, metro and ferries is relatively small (less than £10m).

2 Excludes depreciation and renewal payments from GLC to LTE.

3 Includes the cost of the "Fares Fair" policy incurred in 1981/2.

4 Buses and ferries only

Table 20: LOCAL AUTHORITY REVENUE SUPPORT FOR BUSES<sup>1</sup> COMPARED WITH PUBLIC EXPENDITURE PROVISION GB

£ million

	1983/84		1984/85	
	Provision	Estimated Expenditure	Provision	Budgeted Expenditure
England				
GLC	)	193	)	190
Metropolitan	) 153	207	) 166	206
Shires	90	91	94	96
Total	243	491	260	492
Wales	10	11	11	11
Scotland <sup>2</sup>	24	34	26	39
GB Total	277	536	292	542

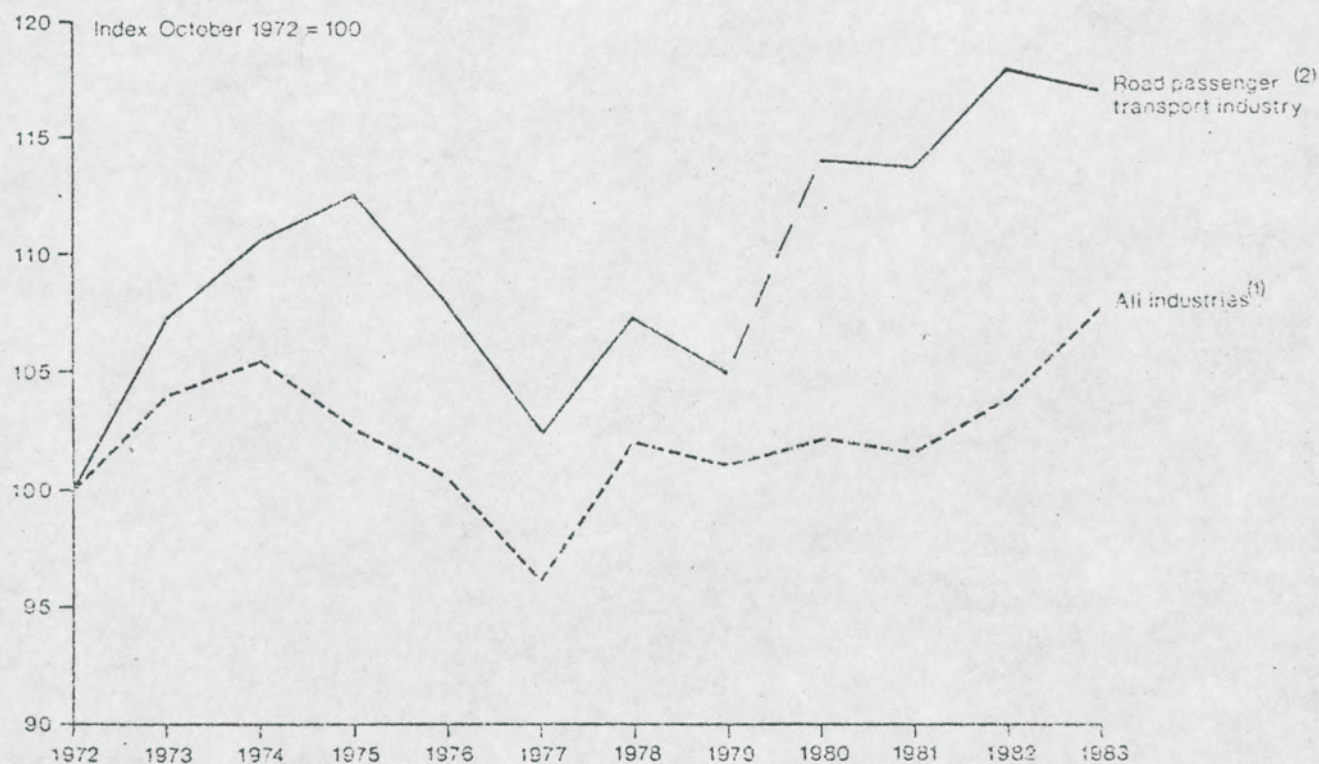
1 Includes expenditure on underground, metro and ferries

2 Buses and ferries only

Source: Department of Transport,  
Welsh Office, Scottish  
Office.

# CHART 21 TRENDS IN REAL EARNINGS: U.K.

Male manual workers on adult rates



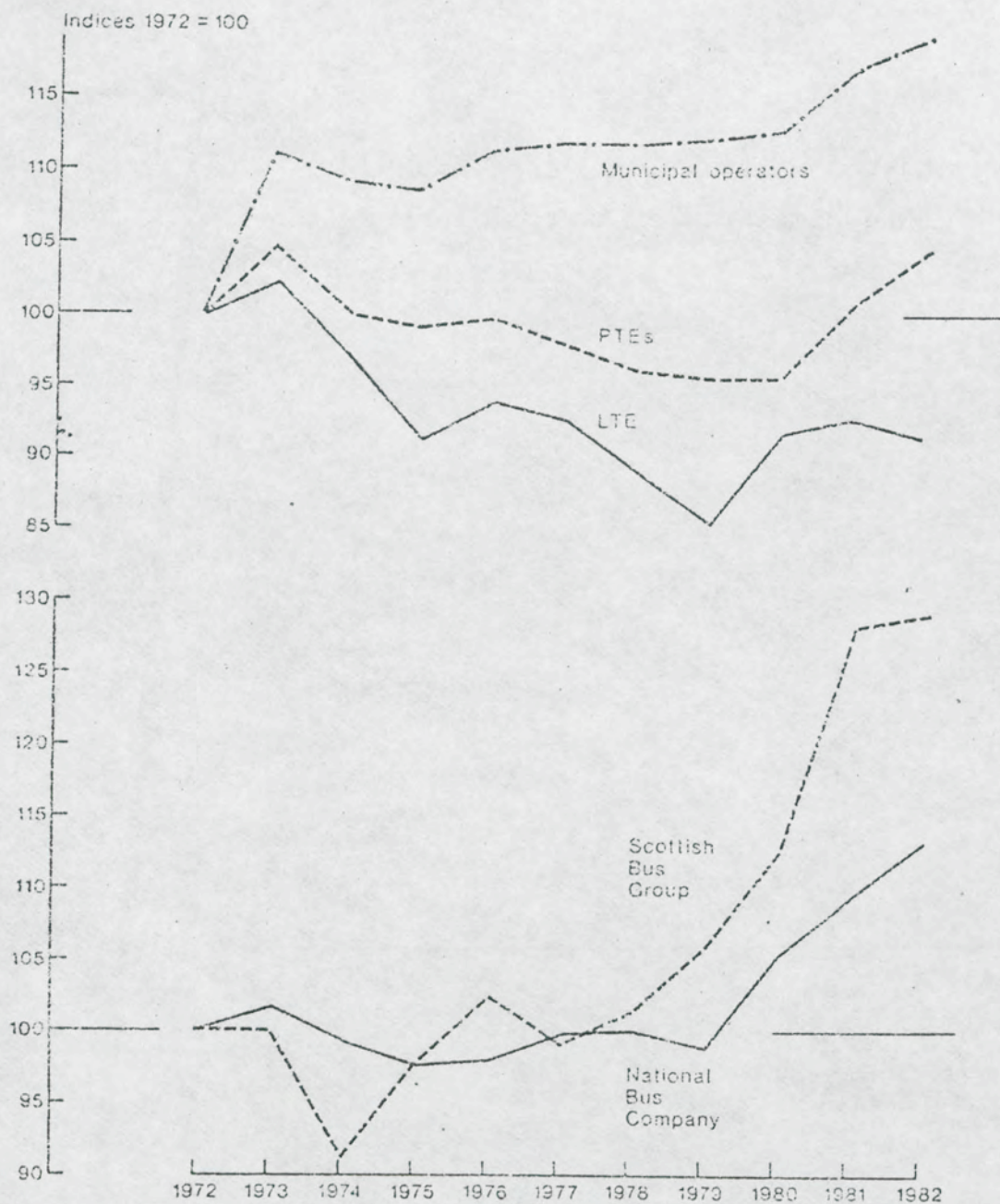
(1) All industries in survey: generally all manufacturing, mining & quarrying (except coal mining), construction, gas, electricity & water, transport & communication

(2) Figures for 1972-1979 exclude LTE staff; for 1980-1982 LTE staff are included. Figures for 1972-1979 relate to full-time male workers aged 21 and over.

Source: Department of Employment annual survey

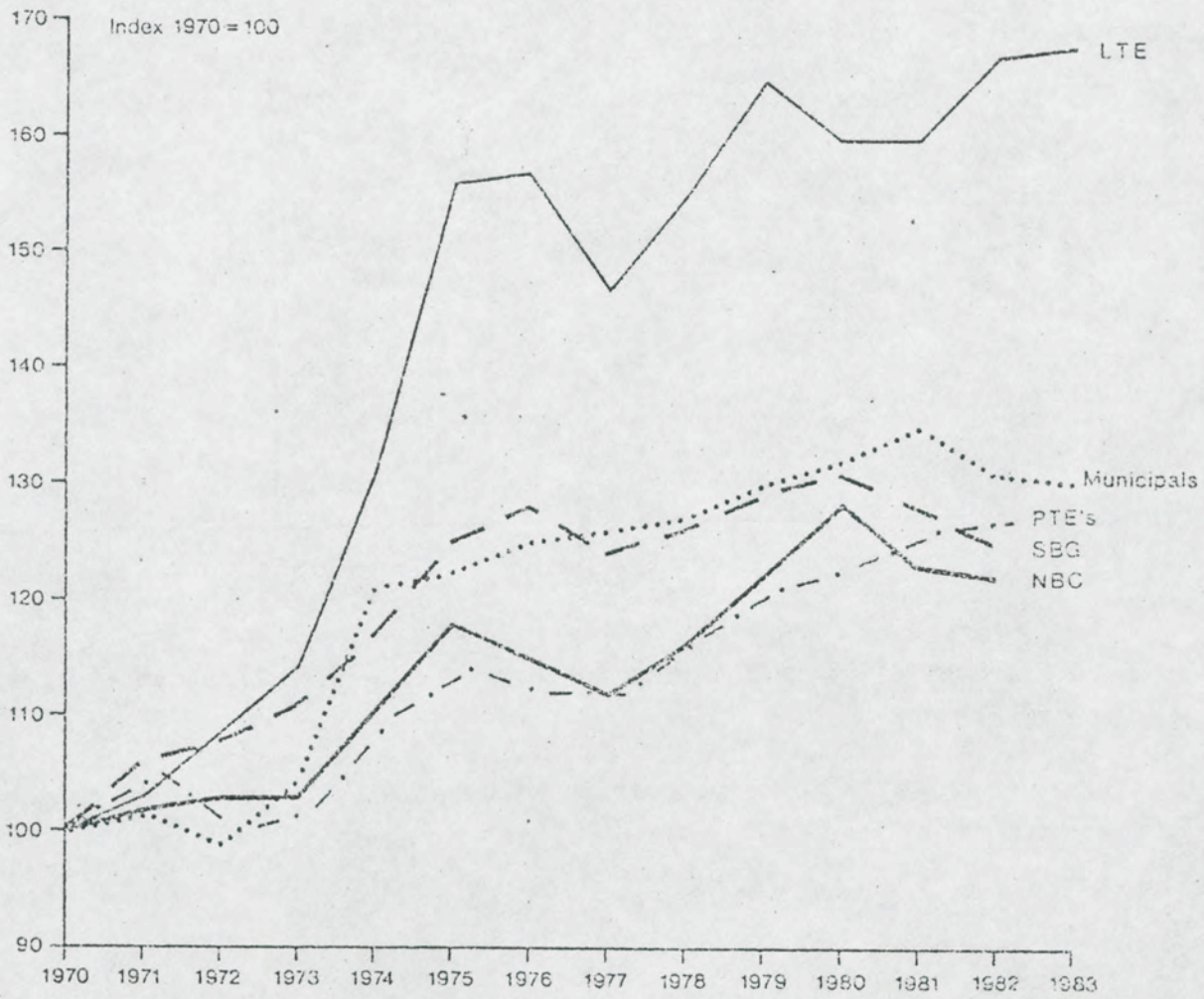
# 22 TRENDS IN VEHICLE KILOMETRES/STAFF EMPLOYED

GB



Source: Department of Transport

CHART 23 TRENDS IN REAL COSTS PER  
VEHICLE-KILOMETRE GB



Source: Department of Transport

1983 figure is provisional.



TABLE 24: THE TAXI AND PRIVATE HIRE CAR INDUSTRIES 1980 : ENGLAND AND WALES

	OUTSIDE LONDON			LONDON	
	Taxis	Licensed Private Hire Cars	Unlicensed Private Hire Cars	Taxis	Private Hire Cars
No. of licensed vehicles	17,000	19,300	6,000 (E)	12,300	27,000 <sup>3</sup> (E)
Mean no. of vehicles/ proprietor	1.4	1.5		1.6	
No. of licensed drivers	47,200 <sup>1</sup>	41,300 <sup>2</sup>		17,100	
Mean no. of drivers/ vehicle	2.8 <sup>1</sup>	2.1 <sup>2</sup>		1.4	
% increase in no. of licensed vehicles					
1972-1980	37	46		22	
1976-1980	10	25		N/A	

Source: Transport and Road Research  
Laboratory Report 1011

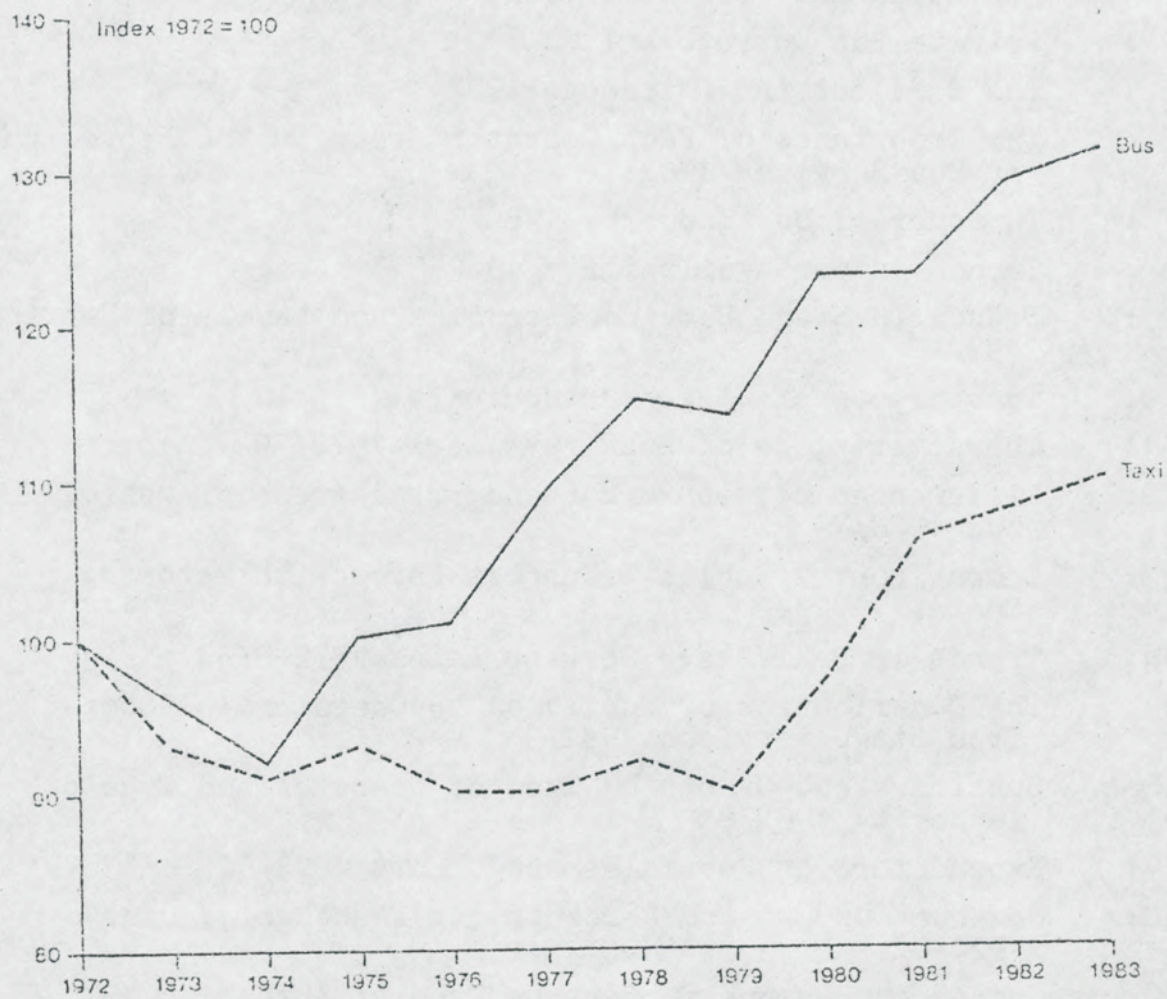
<sup>1</sup> Excluding 5,300 persons eligible to drive taxis by virtue of holding a private hire car driving licence.

<sup>2</sup> Excluding 10,800 persons able to drive private hire vehicles by virtue of holding taxi driving licences.

<sup>3</sup> 1975

(E) estimated

# CHART 25 TRENDS IN REAL TAXI FARES AND STAGE BUS FARES<sup>1</sup>



Source: Department of Transport

<sup>1</sup> England (excluding London) and Wales.

<sup>2</sup> Great Britain

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All tables and charts cover Great Britain unless otherwise stated.

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## REGULATION, SUBSIDY AND CROSS-SUBSIDY - A CRITIQUE

## PREFACE

The main part of this critique is an assessment of some of the advantages and disadvantages of the present regulatory system that has governed the bus industry for the last fifty years and also, as far as the evidence permits, of the consequences that would follow from the radical changes that the Government is proposing. It examines three main subject areas - the scope for greater efficiency in bus operations, the potential for greater innovation in a competitive environment and the implications of the loss of cross-subsidy that would follow. It draws on evidence from a range of sources including some analysis undertaken specially for this review.

There is rather more evidence in relation to the first and third of these subject areas than to the second. In respect of each of the former there is a separate appendix analysing the available evidence in rather greater detail. In respect of the second subject area, innovation (both its potential and its possible problems), there is no separate appendix, but the assessment which follows draws on Annex 3, which describes and analyses the changes that have followed the limited relaxations of licensing for local bus services under the Transport Act 1980 - especially the experience in the three trial areas, where licensing has been suspended.

This critique has been prepared through the joint efforts of the Department's economists and three external advisers, Professor Michael Beesley of the London School of Economics, and Dr Stephen Glaister of the London School of Economics, and Mr Malcolm Buchanan of Colin Buchanan and Partners, who have been assisting the Government in its review of bus policy.

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INTRODUCTION

1 Since 1930 local scheduled bus services have been provided under a comprehensive system of regulation administered on a quasi-judicial basis by the traffic commissioners. This system comprises both quality regulation - of the operators, of the vehicles and of drivers - and quantity regulation of the number and types of services that are operated. This assessment is concerned only with the effects of the latter. Under the current provisions the operator of any service requires a licence, which will be granted unless the commissioners are satisfied that the service would be against the interests of the public. It is open to operators (including British Rail), local authorities and others to object to applications or to seek to persuade the commissioners to impose restrictive conditions to limit their competitive effect. In recent years, most arguments have turned on whether and to what extent new services would take revenue from an existing operator and so reduce that operator's ability to finance other unremunerative but, <sup>in some cases,</sup> socially valuable services from that surplus: that is to cross-subsidise. The traffic commissioners have had to balance their judgement of the effects of the loss of such cross-subsidy against the loss of benefit to potential passengers on the new service if a licence were refused. An understanding of the operation and effects of cross-subsidy is therefore important when assessing the consequences of deregulation.

2 Since 1930 there have been such profound changes in transport that the experience of the 1920s is of limited relevance to present conditions. In the 1920s buses, both in town and country, were rapidly opening up new local markets for which there was no effective competitor to the bus. The industry, although then already consolidating fast, still had far more independent units than it has today. It neither needed

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nor got public subsidy - the only way in which unremunerative services were financed was from the profits of the rest of the business.

3 With a fully unregulated system so far in the past, there is little direct British evidence for what would happen now if quantity regulation did not exist for stage carriage bus services. There are some recently initiated examples of bus deregulation in OECD countries, but these have so far yielded little useful information. Substantial successful examples can be found in major cities in some other countries. Relevant also is the success of complete deregulation of inter-city coach services in reducing costs and fares while improving services. These examples of course do not constitute direct evidence of what would happen - whether in town or country - if local bus services were not regulated. The only such evidence relates to the three <sup>largely rural</sup> ~~trial~~ areas deregulated under the 1980 Act. The experience there is examined in Annex 3. Its conclusions are on balance favourable. Many of the fears previously expressed about the adverse effects of deregulation were seen to be misguided and major cost savings have been achieved.

THE MAIN ISSUES

4 Regulatory systems cost money and resources to run. Apart from the direct costs of public administration, they impose costs and delays on operators, which have eventually to be paid by users or through subsidy. There should therefore be a general presumption that it is up to the defenders of regulation to show that its benefits exceed its costs. On the other hand, as any major change is bound to produce some transitional problems, it is not enough for the opponents of regulation to show that, in principle, the system is harmful.

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They have<sup>also</sup> to show that the disbenefits of regulation are so substantial that they outweigh the risks and transitional costs associated with implementing the change.

5 The general case against regulation is that of consumer sovereignty. In principle, consumers should be free to choose what they will buy and existing producers should not be protected from competition from those who believe they can offer services that give better value for money to consumers. With control over entry existing high cost operators are protected from challenge by cheaper operators and innovation is discouraged. Critics of regulation argue that the results of this have proved especially damaging in the period of the declining market that has characterised the bus industry for over two decades.

6 Against this, defenders of the present system argue that the disadvantages are outweighed by the support the system gives to the provision of a network of services and in particular, to the ability to sustain many unremunerative services through cross-subsidy. Some of their other less fundamental arguments are discussed later.

#### UNIT COSTS AND COMPETITION

7 In the simplest aspect of value for money - the general level of fares - bus users have done badly in recent years. During the decade 1972-82 unit costs (measured in terms of costs per bus mile) among public sector operators outside London rose by between 15 per cent and 30 per cent more than the general level of inflation, much of this due to the growth in relative wages in the industry since the supply of bus services was reduced less than patronage, real costs per passenger mile rose even more. So in spite of rising subsidy, real fares also rose by about 30 per cent.

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8 If subsidy had not been allowed to rise, would unit costs have risen so steeply? Certainly the rise in both has been greatest in urban areas where counties have been least willing to contain subsidy. Also the differential movement in unit costs between metropolitan and shire counties has been greater than can be explained solely by the greater unwillingness of the former to see services cut back as patronage fell. Evidence from the U.S. and from international comparative studies of subsidy lends support to the contention that subsidy 'leaks' into costs.

9 In Great Britain, there is evidence that present costs are substantially higher than they need to be. This is analysed in detail in Appendix A, but in summary is as follows.

10 First there are major differences in unit costs within each of the main public sectors. Simply to achieve the best practice within each separate sector would substantially reduce average costs.

11 Second, there are also similar wide differences between the main public sectors. Generally NBC unit costs are much lower than those of municipal and PTE operators. And these differences persist when PTE costs are compared with those of NBC operations within their own areas and seem too large to be accounted for simply by differences in the types of services provided.

12 Third, costs of public sector operators are 30-40 per cent higher than those of private sector operators. Because private sector operators in this country are usually small, these cost comparisons are not of like with like. But Australian experience, where a direct comparison can be made between some private operators and public sector ones, shows even larger differences.



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13 These comparisons of unit costs relate to costs per bus mile (comparisons in terms of seat miles, a better measure of supply, are not explicitly available).

Equally important for fares are the average numbers travelling in each vehicle. Again, there are wide variations between PTEs deriving largely from the greater willingness of some areas to restructure their pattern of services to reflect falling patronage. But the experience of NBC and of other operators such as Southampton has shown that major economies in vehicle mileage can be made without correspondingly substantial reductions in patronage and revenue.

14 The latter gives an indication of what can be achieved within the present system if subsidy is strictly controlled and if management is determined. But the full achievement of the potential for cost saving, which could bring public sector costs much nearer those of the private sector, seems most unlikely to be achievable without the spur of competition, because of all the institutional barriers and inertia that currently exist.

**INNOVATION: POTENTIAL AND PROBLEMS**

**The Potential of Innovation**

15 Regulation discourages innovation by its very nature. Under regulation the incumbent operator protected by his effective monopoly over existing services, has less incentive to pioneer new ones. It discourages the challenger by placing

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additional costs and risks on the way to his potential market. The regulator has to consider for any proposed new service whether it would be in the interests of users, but the more radical the proposal the harder it is to judge. Ultimately there is one critical test, that of the public's response to the entrepreneur's willingness to risk his resources in innovating. Innovatory services will not be introduced without the operator doing his best to find out what the market for them is likely to be and the operator's own desire to earn profits will be the most effective deterrent to providing services users do not really want. In this industry change should not be difficult because the capital costs of innovation are low.

16 It must always be remembered that the bus is only one of the ways in which the demand for personal travel can be met. While bus travel has been declining, not only personal motoring, but also the use of taxis and private hire cars has been growing. These are much more expensive public transport modes, but are not solely for the rich and the business traveller - they are used by many without access to private cars, often for essential journey purposes. But in Britain - mainly because of the regulatory system and the entrenched position of the big bus - there has been only limited development of the intermediate alternatives to both taxis and buses that have flourished in many other countries. Not all of these are likely to prove popular in Britain; but the growth of taxi and hire car use suggests that there may in Britain be a substantial market for mini-buses, shared taxis and other intermediate modes. With rising prosperity the demand for personal travel is bound to continue growing. This will mainly take the form of higher car ownership, but the public transport industry, as long as it offers new and attractive services, can also tap this growing market.

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17 Such potential demand exists in towns and cities; in some cases people will be prepared to pay a premium above the conventional bus fare for faster or more convenient or more comfortable journeys. But there should also be scope elsewhere for offering new kinds of service where conventional types are only sustainable by heavy subsidy.

18 Smaller vehicles are far from the only potential means of innovation. Fare structures are another. It has all too readily been assumed that a uniform fare structure (which has obvious merits of convenience) makes sense; but, as has been observed in other industries and other modes of transport, forms of selective fare differentiation that reflect the costs of provision can help to improve the utilisation of services and so keep costs per passenger down. Similarly too there will be increased scope for innovation in types of service: limited stop, express, flexible routing etc. Although important innovations can and have been made within the present regulatory system, full deregulation would substantially speed up the pace by allowing management greater freedom to experiment with new types of service and fare structures. Free entry to the industry will also enable new sources of capital and entrepreneurial skill to be tapped.

#### Possible Problems with Deregulation

##### a) "Wasteful" Competition and Unreliability

19 Many defenders of regulation argue that, without the protection for incumbent operators from competitors, the provision of services will be both excessive and unduly volatile. In part, this may reflect a distrust of small operators, who, it is argued, will have neither the financial resources nor the tradition of public service to sustain reliable services of the kind the public has come to expect. Given the retention, and in some respects enhancement, of effective controls over the competence and financial standing of operators such fears are exaggerated. Operators of any size out to make a profit will not hazard the goodwill of travellers by unreliability or by over-frequent changes in

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timings, routes or fares and the market test will provide an effective check on additional services for which there is inadequate customer demand.

20 Indeed, the bus industry is an industry in which the risks of over-provision should prove less than in most industries and services. Just because in buses costs of entry are low, sunk costs are comparatively small in relation to operating costs and economies of scale are limited, there are few reasons in principle for fearing that competition will lead to frequent and unsettling changes in the supply of services. In the absence of regulation any operator will know that, in respect of any service he is providing, he is liable to challenge from other operators or potential operators who think they can offer better value for money. The bus market is therefore a highly contestable one.

21 Substitution of one operator for another will not be frequent once markets have settled down after deregulation. In practice, the actual degree of competition on the ground - and therefore the amount of change travellers will have to face - will be much less than the potential degree of competition. Incumbent operators will be kept up to the mark by this consideration.

22 Consider, first, the case of heavily-used routes. On such routes intending passengers do not need to arrange their journeys to catch a specific bus on the timetable. Knowing that buses run frequently enough for waiting times to be short they go to catch the next bus available. This is the kind of route on which, in the absence of regulation, competition on the ground is likely to develop. There will be opportunities for several operators to survive. With deregulation much of the competition will take the form of new types of service. For this reason, the total market should expand and on many services fares will fall.

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23 In order to test this prediction, Dr Glaister was asked to investigate ~~by simulation~~ <sup>a computer model</sup> what might happen on a range of urban bus routes if mini-buses were free to operate in competition with conventional double-deckers, under some reasonable assumptions about cost structures and the spread of values of time among travellers.<sup>1</sup> On a heavily used route a pattern of two types of differentiated service emerged, with the mini-bus providing a faster service at a higher fare than the conventional bus. This gave better results both financially and in terms of overall benefits to passengers than the conventional service and the market was substantially expanded. The work merits further development; but what has been done so far does provide some confirmation for the thesis that regulation has led to a comparative neglect of good routes. This result also emerged from earlier work<sup>2</sup> which showed that, even under the regulated regime, much better value for money for users was achieved by concentrating economies on less heavily used routes.

24 On less heavily used routes, there are rather more prima facie grounds for concern. On such routes, intending travellers will benefit from a regularly spaced service. So, it is argued, passengers have a direct interest in a regulatory system that ensures that competing operators will work to a co-ordinated timetable designed to minimise waiting times for passengers. Without regulation, it is argued, services

1 Unpublished. Available on demand from the author.

2 M.E. Beesley, P. Gist, and S. Glaister. Cost-benefit Analysis and London's Transport Policies. Progress in Planning Vol. 19 Part 3.

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will be bunched, since, if there are competing operators, each will have a financial incentive not to let his competitor get in just ahead of him and so cream the traffic.

25 But this is not what will probably happen with totally free entry. If two competitors were to behave like that, the profitability of both would be at risk. So one of the two ~~might~~ decide to offer a different type of service and the market would then be differentiated. Otherwise, one ~~might~~ be forced to withdraw. But if there is enough demand to support two operators of the same kind of service, they will usually, in practice, agree to co-ordinate their services (subject to the provisions of the Restrictive Trade Practices Act). By so doing service to passengers will be enhanced, and financial returns will be greater. Instability, excess provision and deliberate fare-cutting below cost occur when only parts of the market are effectively contestable.

b) Ease of Interchange

26 Many journeys by public transport, though not the majority, involve an inter-change - sometimes between modes, and sometimes from one bus to another. PTEs and other operators have put much effort into this aspect of their co-ordination responsibility. Lack of through-ticketing arrangements and common fare schedules can pose problems for such travellers even under the present system.

27 It is argued that, with several independent operators and without regulators to insist on proper provision for co-ordination and interchange sensible arrangements could prove harder to make. But this need not be the case, because the commercial

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incentive will be there for operators to cater to the needs of such passengers. Informal measures of co-operation between operators will develop to ensure that their services connect, especially as under competition there should be more flexibility in the type of service that can be provided. Through-ticketing, which involves transaction costs, may be less common; but even in this, arrangements can be expected to arise through the market where such are clearly to everyone's advantage.

28 Some other issues concerned with the use of cross-subsidy to sustain networks are discussed below (paragraphs 35-41).

c) Congestion

29 Serious concern is also expressed that free entry will add to congestion, especially in town and city centres in the peak, to the detriment of all road users (and of the environment). The particular fear is that, if new entry leads to the introduction of many new mini-bus services, then the demand for road space will go up - especially for road space in which to stop in order to put down or pick up passengers. It is also argued that the local authority and the police will find it harder to fulfill their traffic management responsibilities if they have to deal with a large number of competing operators.

30 However, other factors serve to counter-balance these effects. Not all travellers on new types of services will have transferred from conventional buses or railways or walking. Some may have been car drivers and their transfer will positively assist the flow of traffic. The congestion caused by any new service will depend on the frequency with which it wants to stop in areas where congestion is a real problem. And at least in most parts of the country, even within the cities, severe congestion is limited in both time and place.

31 Over most of the country no significant addition to congestion or traffic management problems need be feared. After all, buses and coaches form a very small proportion of all vehicles on the road; even if their number were to double, they would represent 2.4 per cent of all traffic. A small minibus, even if only partly loaded, is more economical in its use of road space than a private car with only the driver or a taxi with only one passenger. There may be some local problems requiring local solutions, especially in the centres of towns and cities. But even here simple appropriate actions, such as the designation of stopping areas and the provision of stopping bays, should suffice. In those rare cases where severe congestion or problems of road behaviour develop, the reserve powers described in chapter 4 can be applied.

#### NETWORKS AND CROSS SUBSIDY

32 Now we turn to the final group of issues - that of the relation between networks and cross-subsidy. Twenty years ago there was little direct subsidy from public funds for unremunerative services and operators sustained comprehensive networks of services only through the power of cross-subsidy. As demand weakened and real unit costs rose, that power was reduced. So in almost all areas direct subsidy was brought in to help maintain the networks.

33 Subsidy grew most sharply in London, Metropolitan counties and some municipal areas. Many authorities proved unwilling to adjust their services as demand fell, so the pattern of services has in many places become outmoded in relation to the present day. Although few services now earn substantial surpluses, cost recovery rates vary widely between different routes and times of day. So, as external support is reduced within the existing framework of regulation, it is to be expected that once again the good services would be developed to generate surpluses to sustain the less remunerative parts of their network. So the issues related to cross-subsidy are relevant to all types of area - and not just to those where it is now currently the main source of support for unremunerative services.



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34 Some evidence relating to the scale and distribution of cross-subsidy is presented in Appendix B. It is drawn from a limited number of NBC operating units, all in shire counties. It suggests that in these areas cross-subsidy measured on a route by route basis could be three or more times as important as direct subsidy as a source of support for unremunerative routes. Further details about its distribution are given later.

35 Because of its importance, many fear that without cross-subsidy it will no longer be possible to sustain a comprehensive range of transport services, operating an inter-linked network along the lines of the present planning ideal. This is often seen as an important component of local authorities' planning duties. As argued above (paragraphs 26-7), the fears that without comprehensive planning inter-change will be much harder are misguided. Some authorities have also felt that the promotion of common fare scales was an integral part of their planning duties but the main fears relate to the effects on unremunerative services, especially as many local authorities understandably see cross-subsidy as a valuable means of augmenting their limited resources for direct subsidy.

36 It would be possible to increase competition in the supply of public transport services while still retaining a system of regulation and therefore cross-subsidy. Perhaps the best idea is that of competitive franchising, under which periodic bids would be invited for the supply of specified services within an area. The successful bidder would then be protected for the period of the franchise from competition on both profitable and unprofitable services, but would be contractually obliged to sustain the latter by cross-subsidy from the former.

37 Although such a system would exert some competitive pressure on operators, it would do so much less than full deregulation. Although perhaps suitable in other contexts, one must doubt how effective would be the threat of competition in practice were franchising introduced for the provision of local bus services. The incumbent operator would be strongly placed in the bidding, particularly vis-a-vis the small operator. The latter, however efficient, would find it hard to grow enough to emerge as a genuine challenger and would be wary of incurring the costs and the effort needed to mount such a challenge. There would be much less room for innovation and experiment. Moreover

there would be some danger of unrealistic bidding. If operators failed to fulfil the terms of their contracts, the authorities could be faced with difficult decisions whether to allow contract revision or to risk disruption of services - on a scale that would not arise if bidding is confined to the loss-making services where public support is required.

38 But the case against the practice of cross-subsidy is more fundamental than this. It has two main grounds. First, users of good routes are being penalised by being made to pay excessive fares in relation to the costs of providing the service they use. This is not to deny the social case for subsidising some routes because otherwise those who live along or near them would be deprived of a valuable service. But the merits of such expenditure need to be judged against the social value of other forms of public expenditure. There is no reason why other travellers who happen to live along well-trafficked routes should in effect be taxed. The argument is not just about equity. Through the regulatory system, the development of public transport has been held back where it has a comparative advantage, so that overall there has been a needless encouragement of personal transport.

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39 One particular result is worth mentioning. When people buy cars, they usually give up using public transport for journeys for which they would previously have used it. Other things being equal, the demand for public transport is likely to be more buoyant in areas of low car ownership even though such areas will usually be of lower income levels. So the principle of cross-subsidy, rather than of direct subsidy from public funds, to support loss-making services can mean that the public transport services of the less prosperous areas are being taxed to cover deficits in more prosperous areas. This can happen both within and between operating companies under common ownership.

40 The second main argument against cross-subsidy is that it leaves to operators for decision matters which should not be so left. Where operators can finance their services through the fare-box, what is provided should be left to be determined in the market. Services which the market does not provide and which therefore need subsidy if they are nevertheless to continue should get that subsidy only by decision of elected representatives after proper testing that they constitute good value for public money and within the resources available to them. Part of that test relates to the social needs that will be so met. But an equally important part relates to the efficiency of meeting them. The latter requires that they too be put to the test of the market eg. through competitive tendering by potential operators.

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41 -In this way there will in future be a sharp distinction between the core of the system consisting of viable services determined under commercial competitive pressures and the additional services provided with external support to meet specific needs. But a comprehensive system of services can be expected to emerge. In particular, many of the features of networking that are often claimed to depend on <sup>regulation and</sup> cross-subsidy will still be found because they will be justified by normal commercial criteria. An apparently loss-making service is only genuinely loss-making if its withdrawal will improve the overall financial results of the operator i.e. if the costs that will be avoided exceed the revenue that will be lost to his network as a whole. Management will have good grounds for believing that using a measure of apparent cross-subsidy to sustain the network will, for example, influence passengers' decisions regarding their choice of mode, allow the economic provision of through-ticketing and season tickets, reduce administrative costs and facilitate co-ordination of linking services. None of this involves cross-subsidy in a strict economic sense and should not therefore be at risk.

42 What does evidence in Appendix B from the existing pattern of subsidy and cross-subsidy tell us about the services that will continue to need external support?

43 First, as regards different routes. Most rural services, comprising perhaps a fifth of bus mileage (much less of passenger mileage) outside the major urban complexes are unprofitable. Town and, even more, inter-town services usually contribute to the support of the rural services. With the gains in efficiency brought about by competition some of these rural services and <sup>most of</sup> the relatively few loss-making urban services should become commercially viable. External support will

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then be focussed on the remaining, <sup>particularly</sup> rural services where it is most needed.

4 4 Second, as regards the times of day and week. Cross-subsidy in this context is harder to measure. Early morning, late evening and Sunday services mostly lose money. Saturday services, especially those to shopping centres, are mostly profitable and competition should result in a better provision and possibly lower fares for these important journeys. During weekdays service between peaks often subsidise the peak services so inter-peak fares are likely to fall (relative to peak fares) and the level of provision on major routes could well increase. Again competitive pressures should lead to low costs and a greater variety of service provision. Independent operators and novel forms of transport may provide a substantial amount of the capacity at peaks and force incumbent operators to improve labour flexibility and tackle the problems of high peak costs.

4 5 In a deregulated system it will be seen to be inappropriate to attempt to subsidise large networks as such. Rather public support will be directed to the attainment of specific objectives meeting defined social needs by the most cost-effective means possible. Local authorities will need to re-examine the ends to which subsidy is to be applied and the means of evaluating them within their limited resources. Many have been developing their skills in this task but the new context will make the <sup>of this work</sup> realisation/ easier and more effective. They will no longer be dealing with a single dominant operator. Instead they will be able, through open tender, to gain the advantages of competition to let contracts to the operator best placed to provide them economically and efficiently. With some limited exceptions, which could arise in both town and country, there is no reason to suppose that the availability of local bus services will be radically affected by the loss

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of cross-subsidy implicit in opening up the industry to competition. Its loss should be offset by the gains from the more effective use of direct subsidy made possible.

CONCLUSION

46 The present system of regulation gives cause for concern because it has detrimental effects. It has allowed growth to occur in real operating costs; it has inhibited innovation and suppressed demand on the better routes. As a result, the consumer has a less good service than he could and the public cost of subsidy has soared.

47 If bus licensing is abolished, major changes are likely to occur. Much of the present cross-subsidy will disappear, as fares on better routes go down in the face of competition. But at the same time, new income will be generated by increased demand and there will be significant reductions in costs as management and staff face up to the pressures of operating in the competitive market.

48 Local authorities will be able to buy in the services they currently support at a lower price; the savings will be available to put towards other services which will have lost the benefit of cross-subsidy. Overall, the loss of cross subsidy and the cost reductions through greater efficiency may be not far out of balance. Although some individuals will gain and some will lose, the community as a whole will benefit, since the loss of cross-subsidy and lower fares will balance, while the efficiency related cost reductions will remain a significant benefit.

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49 On the demand side, it is impossible to forecast how many people will use buses more as fares decline and service improves. There is little direct British experience of what might happen, particularly in urban areas. But the various strands of evidence - on unit costs, on the experience abroad, on the inter-city coaches and of deregulation

in the trial areas, on the continuing competitive success of the taxi and car hire trades - all point to the conclusion that with better services and with lower fares more people are likely to go by bus or other forms of public road passenger transport.

5.0 As to the services themselves there will be substantial changes in their pattern. Existing and new routes will be developed commercially and there will be new forms of provision.

Inevitably, some poorly used services, already at risk may be lost.

The outcome will depend on the skill with which individual councils fulfill their new remit and on the priority they choose to accord to local transport as against other social needs. There are no grounds for expecting widespread deprivation of service - and genuine grounds for suggesting that overall, once the new regime has settled down, those who now depend on services subsidised either directly or by cross-subsidy will have no significant worsening of their access to public transport.

5.1 There is however likely to be a period of uncertainty as the various parties adjust to the new rules. Perhaps the hardest thing to foresee is how fast change will come on the ground. There is bound to be resistance to change when a 50-year old system of restriction is removed. But

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change came with less fuss than feared in the trial areas and in the inter-city coach network - one major factor being the confidence that reliance on the market, rather than on political decision taking, brings to business decision, since judging accurately what the market wants and then setting out to produce and market it efficiently and economically constitutes the essence of business skill. Most bus operators have the skills to respond to this challenge; the transition should therefore prove less troublesome to travellers than might have been feared.



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## APPENDIX A

### THE SCOPE FOR IMPROVED EFFICIENCY

#### INTRODUCTION

1. One of the purposes of deregulation is to improve the efficiency of the bus industry so that costs are reduced. The extent to which this will be achieved will depend on the scope for such savings. Such information as is available, from a variety of sources, indicates that this scope is substantial. This appendix surveys this information and attempts to assess the savings which might be achievable. Most of the material deals with productive efficiency, that is the extent to which the same services can be operated at less cost. Substantial cost savings can also be made by changing the pattern of services so that buses are more fully used. The scope for such restructuring is also addressed. Lower costs also make new services more likely to be viable. An important purpose of deregulation is to stimulate innovation and the material thus bears on this indirectly.

#### Trends in Unit Cost

2. Unit costs per vehicle kilometre in the public sector bus industry have increased substantially since 1970 (chart 23, annex 1). Overall for operators outside of London they have increased by 15-30 per cent above the rate of inflation between 1972 and 1982 whereas over the same period motoring costs grew in real terms by only 3 per cent (chart 13, annex 1) and provincial taxi fares by 10 per cent (chart 25, annex 1). In the case of taxis it is reasonable to assume that fares

increases place an upper bound to the increase in cost since no subsidy is paid to taxi operators. It is also important to note that this lower cost growth has been achieved in a sector where there is a fairly fixed ratio between "platform" operators and vehicles and hence where the benefits of increased one-person operation were not available. The growth in bus costs has been associated with a large increase in revenue support. The index of real stage bus fares has grown by 30 per cent (chart 25, annex 1) and revenue per journey (including concessionary fares grant) has grown by 26 per cent. The reduction in patronage, not fully offset by reduced service levels, has meant that receipts per vehicle mile have only increased by 2% in real terms. The result is that revenue support in 1980 prices has increased from 1.3p to 20.5p per vehicle kilometre (Table 18, annex 1) between 1972 and 1982.

#### Variations within Sectors

3. Within each of the sectors of the publicly-owned industry (PTEs, municipals and NBC) there is significant variation in the level of operating costs. Thus, in the case of the PTEs' operations the costs per vehicle mile in 1982/3, excluding asset utilization charges, varied between £1.56 and £1.81. Bringing all operators down to the level achieved by the best operator would reduce average costs by approximately 6%. This range is likely to be even greater on a cost per seat mile basis as the cheapest operator had the second highest proportion of double-decker buses in its fleet while the highest cost operator had the second lowest proportion. The analysis of

Higginson and White 1 identifies "the very wide range of performance between different operators" in the local authority sector, including both PTE and municipal operators, as "perhaps the most notable feature" of the industry's performance. In 1979/80 for these operators the cost per vehicle mile varied between 84p and £1.88 around an average of £1.22. Even excluding extreme results as possibly reflecting special circumstances, the central  $\frac{2}{3}$  of all operators' costs covered a range of  $\pm 16\%$  of the average. Thus there is considerable scope for improvement in performance simply by achieving best practice in the sector.

#### Variation Between Sectors

4. As well as variation within each sector there are considerable variations in the average cost levels between sectors. Thus in 1982 the reported cost per vehicle mile achieved by the NBC was 74% of the average of the English municipal operators and 66% of that of the PTEs, as shown in Table 1. Provisional 1983 results are similar. These are obviously very significant differences, even though the services provided by NBC contain a much higher proportion of rural, and thus less expensive, routes. An estimate of the difference in cost per seat mile can be obtained by interpolating values of relative costs for buses of different sizes, as estimated in 'Commercial Motor' 2, to reflect the average number of seats per vehicle in the different operators' stock. This suggests that NBC cost levels are about 78% and 71% of municipal and PTE levels respectively. A more limited comparison of the costs of PTEs' own operations with those of NBC which are provided within the PTE areas, as identified in the PTEs' Three Year Plans 1984/5, also shows substantial differences (though of course

it is still possible that some of the NBC services will more rural.) Data for 1982/3 in the four PTE areas where NBC provide a significant proportion of the services (ie. excluding Manchester and West Midlands) show NBC costs per vehicle mile to be on average more than 25% below the PTE level. \* The possibility of considerable savings is confirmed by the statements of the Merseyside PTE 3 that "progress in the field of productivity has been slow as despite determined efforts by the Executive, there has been resistance by the Trade Unions to enter into meaningful discussions ..." Further, there is a reference to "the wide variation which exists between garages in the context of scheduling" and an acceptance of the view that "the potential for financial savings ... is at least theoretically substantial".

5. An even greater difference seems to exist between public sector and private operators. There is some limited evidence from this country about their relative costs which suggests that private operation is much less costly. A TRRL study 4 which compared the fares charged by NBC and private operators providing a similar type of stage service in two trial areas concluded, on the assumption that private firms break even on average, that private sector costs were about 30-40% below those of NBC. There was little difference between comparisons made on an area-wide basis or a more local one. Initial evidence from the trial areas, following the 1980 Act, while still fragmentary, is consistent with those results.

\* A direct comparison of Strathclyde PTE with Central SMT (Scottish Motor Traction), a member of the Scottish Bus Group, which operates primarily in the PTE area, shows a considerably greater difference.

6. There still remains the question as to whether these cost levels in the private sector could be maintained as it came to play a greater role. While there is no direct UK evidence some guidance can be obtained by considering a study<sup>5</sup> of private urban bus operators in Australia, in towns where they accounted for 46% of buses in use which compares their costs with publicly owned services. Average costs per vehicle mile for the private operators were, in general, substantially lower than those for the public sector operators. When allowance is made for the differences in the types of services operated by the two sectors, the authors conclude that on average unit costs of private operators in <sup>these</sup> Australian urban areas were between half and two-thirds of those of public operators. Even if such evidence is not directly applicable it is strong support for the claim that private sector costs are considerably below public costs and can remain so with growth in the role of the private sector.

## Sources of Cost Differences

7. In a regulated and subsidised environment there is reason to expect that costs will be higher as there is less pressure to restrict them. There is a growing body of evidence which suggests that this is the case in the field of urban bus operations. International comparisons carried out by TRRL 6 and several studies of U.S. operations 7 8 9 found a positive relationship between the level of subsidy and cost levels among bus operators. While these do not actually prove causality there is reason to believe that higher subsidies do lead to higher costs. Both the TRRL study 4 and the Australian research already mentioned sought to identify factors contributing to these cost differences. Inevitably, in an industry where the largest single cost is for labour (usually about 70%) the main focus is on unit labour costs. These are determined by employees earnings, add-on costs and labour productivity. A survey by the Advisory Conciliation and Arbitration Service in 1978 10 of the coaching industry, which should be of direct relevance here, concluded that the earnings of a substantial number of drivers in the private sector were lower than those generally prevailing in the public sector.

8. There is also some evidence that work practices provide a greater element of 'slack' in the public sector than in the private sector. This shows up differences in the ratio between crew paid-hours and bus-hours operated. We have some information for Australia where this ratio was between 87% and 95% for private firms as against a public sector range of 71% to 74%. This more efficient use of platform staff combined with the differences in labour costs identified above, was estimated to be responsible for a 15-20 % difference in cost per vehicle mile between the public and private operators. The Monopolies and Mergers Commission 11 in its report on four British public sector companies estimated a maximum achievable scheduling efficiency (scheduled bus hours divided by scheduled platform staff attendance hours), given existing agreements, of between 80% and 90%. In no case did actual scheduling efficiency approach the maximum, averaged across undertakings, with West Midlands PTE and Trent Motor Transport coming closest. Further, for the single case where data was available which allowed actual operating efficiency to be calculated, it was 66% for urban services and 71% for rural. As already mentioned, there is a paucity of UK evidence on the private sector but one earlier study of bus services in rural Wales 12 suggested that private operators used their labour more flexibly, thus reducing costs.

9. Further evidence on the importance of labour contracts can be derived from the Joint Report by NBC and the Institute for Transport Studies on 'Cross- subsidy in Urban Bus Operations' 13. As part of its analysis it considered the level of crew costs which would result from four different labour agreements which currently exist. Further, each agreement was costed over a range of possible patterns of bus service provision. The results showed that for each such pattern of services there was a significant difference in crew/<sup>cost</sup>between the different labour agreements. In fact over the range of policies tested, the variation in cost caused by varying the labour agreement (expressed as a percentage increase of the more expensive agreements over the cheapest) lay between 23% and 77%. This indicates that, whatever the pattern of services being provided, there is significant scope for savings even within the range of existing labour agreements.

10. Recent experience shows that competition enhances the incentive to examine the effect of labour agreements on cost. A Regional Director of the NBC has recently reported, in a speech to the Association of County Councils: "In Hereford the pressure caused by the trial area enabled Midland Red (West)'s management to negotiate a local improvement in productivity of 25-30%".



11. The previous paragraphs relate to the labour costs of direct operations. There is also scope for major reductions in service, Repairs and maintenance costs which Higginson and White [1], in their study of British urban bus operations, estimated to amount to 26% of costs of the highly integrated local authority operators in 1979/80. Further, this proportion had been increasing. In Australia the differences in such costs accounted for 9% of the overall difference in cost per vehicle mile between the public and private operators, even though costs in this category are a lower proportion of the total there than in the UK (where they are about 20%). Further, in this country the cost of service, repairs and maintenance for the PTE operations is approximately twice that quoted by 'Commercial Motor' [2] for large buses. While this is likely to exaggerate the savings achievable on average, because of the extra wear and tear of operating urban bus services, it does suggest that there is considerable scope for such savings and that the potential for cost reduction might exceed the 9% difference measured for Australia. Finally, there is likely to be scope for savings in administration as the planning and co-ordinating role of PTEs declines and as the size of company operating in the industry falls, though there will be some offset to this due to the need to deal with tendering.

#### Bus Usage

12. There is also a potential saving to be obtained from the restructuring of services to better reflect the pattern of demand, which will increase bus loadings. Within the PTEs' own operations there is considerable variation in average load per

bus between a high of over 18 and a low of under 13 which can not be explained by differences in bus size (as proxied by the proportion of double-decker buses in their fleets). Some further idea of the scope for improvement is given by Table 2 below and chart 9, annex 1 which compare the changes in demand (passenger journeys) with changes in the service offered (vehicle stock and bus kilometres). The table shows that from 1972-82 for local authority bus operators the decline in demand was far in excess of any corresponding reductions made in service. For operations as a whole, passenger journeys fell by 28% but bus kilometres were reduced by only 12% and the stock of buses by 8%. The effects were most severe in the municipal sector where the fall in passenger demand was highest and the reduction in mileage was least. Therefore there is a strong prima facie case that in most urban areas there is potential for major improvements, through getting better utilization of buses by adjusting the pattern of services to the pattern of demand. The case of Southampton City Transport, where a Market Analysis Project was conducted in 1980/81, illustrates that with a detailed knowledge of passenger demand major economies in the provision of services can be achieved without much inconvenience to passengers. In the eleven years up to 1980/81, passenger demand on Southampton City buses had declined by about 18% and the bus service provided had been reduced by only about 7%. During the same period, real fares had been increased by nearly 80% ahead of inflation but despite this, subsidies had risen from nearly zero to account for about 15% of total operating costs. This was expected to amount to £1.2 million in 1982/3, and the County Council set an initial target of totally eliminating

the need for this subsidy. The study they set up estimated that this financial saving could be achieved by reducing the vehicle kilometres operated by 18.5% and the total number of vehicles by 27% (ie 45 buses). It was forecast that this would result in a passenger loss of only 7% and an even smaller revenue loss of 3%. In the event, after lengthy discussions, the financial criteria were relaxed and about 8 buses were put back into the fleet. Nevertheless, substantial economies were achieved.

13. In its report 11 the MMC placed considerable emphasis on the benefit of this kind of tailoring of service to demand, although of course in the context of maintaining cross-subsidy and regulation. It approved the efforts of Bristol Omnibus Co., where Market Analysis Projects had proposed a fleet reduction of 37.2%, subsequently negotiated to 30.4% in discussion with the County Councils. The MMC also approved the service planning efforts of the West Midlands PTE although the reductions in resources required (up to 10%) were generally much less significant than those achieved in Bristol. However, the MMC were critical of Cardiff where it was pointed out that the peak vehicle requirement had changed little over the period 1967/1981. Cardiff were accordingly recommended to adopt the methods of the other operators.

14. Thus there is obviously scope for savings from such restructuring of services. While some of these improvements could be obtained through management action under the current regime, deregulation will ensure that the pressure for such adaptation is universal and continuous and that the benefits obtained are passed on to travellers.

## Conclusion

15. Thus the broad facts seem to be as follows:

- a) private sector costs both here and in Australia are much lower than public sector costs - by 30% more;
- b) costs within the public sector show considerable variations. In particular NBC costs are much lower than most PTEs and unicipals.
- c) the possibilities for economy relate to direct operating costs<sup>and</sup> to costs of service, repairs and maintenance as well to general overheads.
- d) it would be possible to reduce the cost of service provision through a more efficient structuring of services to meet the pattern of demand.

16. Thus there is major scope for economy in the bus industry. Some can be achieved by stricter financial control and by tighter management but the differences between private and public sector costs, even allowing for the fact that they may not be completely comparable, suggest that under competition the incentives will be much greater. While it is not possible to make estimates in detail of the effects of such a radical change there is good reason to suppose it should be of a scale that would eliminate much of the difference between the present costs of the public and private sector.

TABLE 1: COST PER VEHICLE MILE 1982 (excluding asset utilization)  
(England and Wales)

	£
London Transport	2.24
PTE	1.64
Municipal operators	1.45
National Bus Company	1.08

Source: Department of Transport

TABLE 2: TRENDS IN LOCAL AUTHORITY BUS OPERATIONS

	% changes 1972-82			
	LT	PTEs	Municipals	Total
Passenger journeys	- 26.2	- 26.1	- 31.8	- 27.6
Vehicle stock	+2.5	- 13.3	- 10	- 8.4
Bus km	- 13.4	- 12.9	- 9.4	-12.2

Source: 'Transport Statistics Great Britain 1972-82,  
Department of Transport.

TABLE II: REVENUE SUPPORT AND RECEIPTS PER PASSENGER JOURNEY 1972-1982..

	at 1980 prices	
	<u>1972</u>	<u>1982</u>
Revenue support per stage journey (p)	0.4	7.9
Receipts per stage journey (p)	17.2	21.6
Stage journies vehicle km.	3.2	2.6
Receipts per vehicle km (p)	55	56.2
Revenue support per vehicle km (p)	1.3	20.5

Source: Transport Statistics Great Britain 1972-82, Department of Transport.

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## CROSS SUBSIDISATION IN STAGE BUS OPERATIONS

1. In broad terms, cross-subsidisation has been described<sup>1</sup> as the practice of using surpluses obtained from parts of a system to offset deficits incurred elsewhere, thus allowing operations to continue which might otherwise be cut back or withdrawn. Cross subsidy has, by a mixture of accident and design, been a long standing characteristic of stage bus operations. There is considerable evidence<sup>2 3 4</sup> suggesting that, in some shire counties at least, internal cross subsidy is far more important than external revenue support.
  
2. The practice of cross subsidisation has its origins in the Road Traffic Act 1930. The traffic commissioners appointed under the Act came to interpret their remit as firstly to maintain 'standard charging' of a uniform per mile fare for profitable and unprofitable services alike and secondly to protect operators who provided services, unremunerative in themselves, to help maintain a comprehensive network. This interpretation has had a strong continuing influence on the discussion and nature of public transport policies. Its context was a rapidly expanding industry; profitable routes were growing and the scope for cross subsidy increasing. This context has changed drastically in the last two decades.
  
3. Measurement of cross-subsidy is subject to numerous difficulties and these become more acute as analysis is disaggregated more finely. These difficulties centre on the problems of dealing with 'joint' costs and revenues and 'units' of output and of defining these units in terms of whole or part routes and services. The difficulty is enhanced particularly at present, by the existence of significant inflexibilities in many aspects

of bus operation, notably in manning arrangements and pay agreements. The significance of this is that costs and revenues can only be allocated to an activity if a feasible change in output can be postulated. The scope for this is reduced by these arrangements. The scale of the problem of joint costs and revenues is largely related to the structure of the incumbent operators who use centralised facilities to service large fleets of vehicles running on integrated networks. Problems of "jointness" would be much less notable in a competitive industry structure, partly because more services will be provided within a separate ownership pattern.

4. It is however not the case <sup>that</sup> /measures of cross-subsidy are too dependent upon choice of accounting convention to be of great value. A number of studies have shown that it is possible to derive useful conclusions from an examination of cross-subsidy. The problems of allocating costs and revenues by route, or by broad geographical grouping of routes, are in practice fairly tractable. That is to say, associated with a decision to expand or contract say a whole route, reasonably clear statements about costs and revenues can be made. The main difficulties arise in attempting to allocate costs by time of day, in particular in assessing the costs of supplying peak services. Most cost allocation methods load the peak heavily on the ground that total capacity is largely determined by the need to meet demand at these periods. Hence the bulk of overhead costs including engineering and maintenance costs is attributed to the peaks. In the absence of part-time manning

the number of full-time crews employed is also determined by the level of peak operations. Existing costing methods may or may not reflect realistic options available to operators; most of them attribute a greater hourly labour cost to peak operations. But, to repeat, despite these difficulties useful conclusions can be drawn from the available evidence, and some of these turn out to be surprisingly robust.

5. The analysis of cross subsidy gives:

- (i) a measure of the distribution effects of existing practices and an identification of the main groups of losers and gainers;
- (ii) an indication of the resource losses involved in the practice of cross subsidy;
- (iii) an estimation of changes likely as the industry becomes more competitive and the degree of cross-subsidy declines.

6. A study of bus services in and around Taunton in 1978 <sup>2</sup> concluded that internally generated surpluses, mostly from inter-urban and inter-peak services, dominated external subsidy as the means of support of unremunerative operations. The recent study carried out by the <sup>NBC and the</sup> Institute for Transport Studies of Leeds University <sup>4</sup> applied a more detailed analysis to other NBC operating centres and tested the conclusions under differing cost conventions. The study also employed more complex approaches to cost calculation designed to show the full incremental cost of postulated service changes.

7. Table 1, taken in part from the NBC - ITS study, illustrates a pattern of inter-urban routes supporting rural ones which show persistent losses. None of these cases is in the highly subsidised conurbations.

Table 1 Average Operating Ratio\* by Type of Service

	Urban	Inter-urban	Town-rural	Rural	Overall
Taunton	1.08	1.28	0.82	0.46	0.95
Bridgend	0.73	1.15		0.48	1.03
Hawick	1.05	1.41		0.58	1.19
BOC**	0.77			0.65	0.76
Cheltenham	0.81 (0.94)	-	-	-	
Bristol City	0.75 (0.9 )	-	-	-	
West Wiltshire	-	0.74	-	0.65	0.69
Swindon	-	(0.85)	-	(0.7)	(0.78)
East Avon		0.8		.66	0.72
		0.78		(.72)	(0.74)

\* Operating ratio =  $\frac{\text{Allocated revenue}}{\text{Allocated cost}}$

\*\* Total for the Bristol Omnibus Company. The lines below the total give results for the Company's four main operating areas for the period November 1980 - October 1981. Figures in brackets indicate the improvements following on the subsequent MAP (Market Analysis Project) service reorganisation. Here, although no single group is in surplus the urban and interurban services perform significantly better than the rural.

8. In general, the route by route pattern of cross subsidy is not greatly affected by the cost convention employed and is similar in a number of separate cases studied. Although variation in profitability by time of day is sensitive to the considerations mentioned above, using a wide variety of assumptions suggests that the interpeak periods (and, under some allocation methods, Saturday services) are the main surplus generators in most situations. Greater flexibility of operation particularly in manning arrangements would modify this conclusion. It would add options to management's repertoire.  Similarly a more flexible fare scale, allowing higher fares in the peaks, would affect relative profitability. Current knowledge of fares elasticity variations by time of day does not permit confident quantification of the effects of peak pricing regimes on the pattern of cross subsidy. However preliminary results from Bristol City<sup>5</sup> where some flexibility has been introduced into the fare structure suggest that <sup>there</sup> urban peak services are surplus generating and off peak as a whole are not.

9. The relationship between internally generated surplus and external subsidy as sources of support for unremunerative services is also subject to problems of definition and analysis. The finer the degree of disaggregation the more important internal subsidy will appear. For example in the case of Taunton the ratio of internal surplus to external support is about 3:1 if measured at the route level. Further

disaggregation, breaking down each route by time of day and week yields a higher measure of cross subsidy in a ratio of 5:1 with respect to external support. This dominance of internal subsidy persists over a wide range of different assumptions in most cases studied. The exception is Bristol where only a few urban routes generate surpluses and overall cross-subsidy in route terms is apparently negligible.

10. Table 2 compares these sources of support for various operating centres. Column 1 shows the percentage of total operating costs covered by revenue support payments under Section 1 of the Transport Act. Column 2 shows the total of cross subsidy at the route level as a percentage of such costs while Column 3 shows the effect of further disaggregation by time of day and week. The fourth column shows the proportion of costs covered by surpluses made from weekday interpeak operations.

Table 2: Source of Support

% of cost covered under 'Taunton Study' costing assumptions

	1	2	3	4
	<u>External Support</u>	<u>Inter Route</u>	<u>Route x Time Split</u>	<u>Inter Peak</u>
Bridgend	2.8	13.8	14.2	6.7
Cheltenham	12.0	n.a.	9.0	5.7
Hawick	0	21.0	28.1	7.7
Taunton	5.0	15.6	26.2	16.1

11. It is clear that a significant degree of cross-subsidisation between routes and times of day can be identified. Although

results by time of day are particularly sensitive to the method followed for the allocation of costs, the broad conclusion that rural services are largely unprofitable holds in the areas studied. It is clear that, however defined, cross-subsidy is often substantially more important than revenue support in the shires. But it should be remembered that only a small number of cases have been studied, and the preliminary evidence from Bristol<sup>5</sup> already indicates that there may, in other cases, be significant departures from the pattern adduced for the shires. The relative importance of cross-subsidy and its broad direction from urban to rural areas may not be the same elsewhere and cannot be taken as a fully proven universal fact. The evidence concerning cross-subsidy in the conurbations is limited, but does show wide variation between routes in profitability. This pattern is confirmed by the evidence from the study of Bristol which also indicates the particular unprofitability of Sunday, early morning and late evening services.

12. Some indication of the effects of reducing cross-subsidy in urban areas comes from the study of Cheltenham, although it should be remembered that this is a small scale operation involving at the peaks fewer than thirty vehicles on the town services. The NBC-ITS study applied demand modelling and sophisticated costing techniques to develop a number of alternative network and service patterns. This allowed identification of a 'Viable Network System' in which revenue covered costs and which

accommodated as much of the existing demand as was economically possible. It also minimised cross-subsidy except to the extent that supporting 'unprofitable' services was commercially justifiable on more general grounds and assumed no revenue support. The 'VNS' showed a notably coarser pattern of routes than currently operated (and particularly with respect to the much finer network operated by NBC before the revision of services in November 1981). However average frequencies on the coarser network would be higher and indeed total patronage (measured in passenger miles) would be slightly higher, about  $1\frac{1}{2}\%$  greater than on the unrevised system. This does not suggest that moving to the 'viable' network causes great deprivation although there will be some losers as well as <sup>gainers from</sup> such a change. In the case of Cheltenham it also does not appear that access, in terms of walking distance to a bus route, is greatly worsened for more than a small number of passengers. The VNS leaves practically every residential area of Cheltenham within half a mile of a route.

#### Cross subsidy and Competition

13. The above observations on cross-subsidy obviously relate to existing institutions, with single operators supplying services under a framework of regulation. They will not therefore fully reflect the changes in revenue and cost patterns which would be observed under competitive conditions but can be used to give an indication of likely changes. In particular even the most flexible of existing labour agreements with the centralised pattern of operation using large-scale termini, garaging and maintenance facilities may give rise to unnecessarily high costs of peak operation. New entrants by contrast may benefit by



having small scale, decentralised facilities, allowing greater utilisation by reducing 'dead time' running between central depots and outlying route termini. It has already been mentioned that the NBC-ITS study particularly emphasised the importance of manning agreements, not only on total crew costs but on the peakiness of those costs.

14. In attempting to outline the possible impact on services of introducing competition into bus operations it is necessary to bear in mind the mutability of the assumptions on which the cross-subsidy analysis rests. Greater flexibility of manning and variety of different fare structures will modify these findings. However, it is difficult to avoid the conclusion that under present operating arrangements, many services to rural areas depend on both internal and external subsidy to cover a significant proportion of their operating costs. These services comprise perhaps 20% of bus mileage and carry about 12% of total passenger miles on buses operating outside the major urban complexes. The cost reductions possible under competitive conditions should enable some of these to become self-supporting and the others to cover a much greater proportion of their costs from fares. But Sunday services appear vulnerable at present and many share with the rural services the distinction of revenue/cost ratios of 0.5 or less. Low levels of demand and high labour costs of Sunday operation suggest that few Sunday services could be made fully profitable, although their financial performance may improve considerably. Despite the loss of cross-subsidy it should however be possible to redirect external subsidy to maintain a reasonable system of rural and Sunday services within acceptable levels of expenditure.

15. The encouragement of more competitive conditions will modify substantially the pattern of cross subsidy within week-days. Some differential pricing is likely to emerge, and there may be ways in which part-time independent operators and novel means of transport will augment capacity at peaks. Together with improved labour flexibility this would allow major operators to mitigate the problems of high peak costing. The effects on the pattern of service provision by time of day must be predicted with caution. It may be reasonable to speculate that inter-peak fares will fall (relative to peak) and that service levels will increase as competitors move in, attracted by the prospectively high margins to be earned between the peaks. Such changes obviously depend on the extent to which competition increases labour flexibility and on the availability of vehicle capacity.

16. The Cheltenham study does give an interesting pointer to the way in which the route pattern of services may change and reinforces conclusions drawn from earlier studies 6 that the level of provision on the more densely trafficked routes will increase. To the extent that the 'viable' network described in the NBC-ITS study was one in which cross-subsidy was minimal it is reasonable to speculate that a 'competitive' network might be similar in many respects. Under fully competitive conditions no significant components of a system would be operated for long at a loss or at above normal profit levels. The viable network, as described above (paragraph 12), actually has a higher patronage than existing operations with lower route penetration but higher service frequencies.

### Cross Subsidy and Equity

17. It has been observed that the practice of cross subsidy effectively redistributes benefits. Compared to a competitive system, or indeed an administered one where cross subsidy is deliberately minimised, certain groups of users now pay higher fares and receive lower levels of service in order to maintain services for other groups. It seems clear that the users of rural bus services benefit, as a whole, at the expense of urban and interurban passengers. Passengers in the peaks appear in most cases to benefit at the expense of interpeak users. With only slight caricature it has been said that under the present system women doing the shopping subsidise men going to work 4 It appears likely that passengers living on or near busy (radial) routes in urban areas suffer higher fares and lower service levels to help subsidise those living in less accessible neighbourhoods. The practice of supporting the poorer routes also means that the total benefits achieved for any given level of external subsidy are lessened. This is demonstrated in a study 6 of London bus routes which compared the net social benefit effects of varying service levels on routes showing different financial returns. Benefits were enhanced by supporting the route showing the best cost recovery ratio. .

18. There is ample evidence therefore to support the conclusion that the current practices of cross subsidy redistribute benefits between passengers in a manner which appears arbitrary and which is not subject to rational scrutiny nor explicit justification 7,8

Competition and tighter financial constraints on incumbent operators will result in a much lower level of cross-subsidy and hence modify these redistributive effects. On the basis of the limited evidence available it cannot be claimed that such changes are generally undesirable.

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## THE EFFECTS OF THE TRANSPORT ACT 1980 ON LOCAL BUS SERVICES

## INTRODUCTION

1. The Transport Act 1980 modified the regulation of local bus services and made provision for certain "trial areas" in which road service licensing would be abolished. This annex describes in Part I general developments in the period immediately following the Act (largely based on published Transport and Road Research Laboratory (TRRL) reports). Part II examines developments in the trial areas based on a TRRL study shortly to be published.

## PART I: LOCAL BUS SERVICES THROUGHOUT GREAT BRITAIN

Introduction

2. The Transport Act 1980 eased the criteria against which road service licences for local services were granted. Previously, the burden of proof was on the applicant to demonstrate the case for the proposed service, against objections. From 1980 the traffic commissioners have been required to grant licences unless they were satisfied that to do so would be against the interests of the public. So the burden of proof changed from applicant to objector. The Act also removed fares control by the traffic commissioners, save as a reserve power to be used in exceptional circumstances.

3. This part of the annex assesses the effects of these measures on local bus services and fares. It also discusses the growth of commuter coach services.

Local Services

4. The Act coincided with a sharp acceleration in the rate of decline in the demand for local bus services and in the level of provision, attributable to the general economic recession. This had the effect of masking, and perhaps inhibiting, developments resulting from the new licensing arrangements. During the first year the Act was in force, some 2800 licences for local services were surrendered or not renewed - roughly five times as many as in the last complete year before the Act for which statistics are available. However, some 1700 licences were granted for new services - an increase of nearly 50 per cent. A significant proportion of these new services were essentially replacements for withdrawn services. On some, independent operators replaced public sector ones.

5. The majority of objections to new licence applications were to those made by independent operators and many of these objections were by public sector operators. Nevertheless, applications achieved a success rate of 92 per cent - significantly higher than before the Act. That does not necessarily mean that operators can easily obtain licences. Applications to run services on profitable routes have been vigorously opposed by established operators, sometimes at considerable cost.

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6. The traffic commissioners' interpretation of the "public interest" has been crucial. In several cases in the early months established operators objected to licence applications on the grounds that the proposed new services would abstract revenue from their existing ones, reducing their ability to cross-subsidise unremunerative, but socially desirable, services. Although the supporting evidence for such arguments was often meagre, objections were upheld by the traffic commissioners in some cases (but not all). The argument was given considerable public exposure in the case of Yeowart's Coaches, whose application for a licence to run a service to Whitehaven in competition with Cumberland Motor Services was refused by the commissioners, but granted on appeal by the Secretary of State, a decision ultimately reversed by the courts.

7. Since that appeal, there has been some re-appraisal by the traffic commissioners of the "public interest". Cross-subsidy, the interests of ratepayers and taxpayers and the demands of passengers for subsidised services must be weighed against the benefits to people who would use the proposed new services. Objectors are now being called upon to support their cases in a more analytical and quantitative manner and are doing so successfully.

8. In the few cases where operators have obtained licences allowing them to compete with established operators, they have faced formidable resistance, in the form of predatory pricing, increased service frequencies and other means. Such tactics tend to be successful, especially when the resources of the established operator greatly exceed those of the newcomer.

9. So despite the relaxations of the 1980 Act, operators wishing to offer new services are in practice limited to those very few routes not covered at all by existing operators but where reasonable returns can be made on investment.

Stage Carriage Fares<sup>1</sup>

10. Since the first years of bus licensing, fares had been fixed in detail for almost all licensed services. The 1980 Act abolished that control other than in exceptional circumstances where it might be necessary, in the public interest, to prevent an operator exploiting a monopoly position by overcharging, or to regulate the terms of competition on a route (ie to stop undercutting).

11. Observations over the period January 1978 to January 1983 indicate that:

- (a) the rate of increase in bus fares appeared to have declined. This was probably attributable to the combined effects of a falling rate of inflation, heavy patronage losses arising from economic recession, the fares policies of local councils elected in May 1981 and possibly the threat of competition;
- (b) there have been some moves away from uniform pricing. These have taken various forms, and none appears to have been a direct result of the emergence of competition. Nevertheless, in January 1983 some form of overall fare scale still dictated the level of most fares;

- (c) the majority of fare agreements reached before the Act between public and private sector operators seem to have been maintained. Most unilateral fare reductions by private operators have been matched and some form of equilibrium has generally returned;
- (d) by January 1983 there had been only a few examples of the use of traffic commissioner reserve powers to control the terms of competition. In no case have the commissioners been known to use their powers to prevent overcharging.

### Commuter Coaching<sup>2</sup>

12. Commuter coach services have developed significantly since the Act. Demand was effectively suppressed before 1980 by the difficulty of obtaining the necessary licences - particularly when there were objections by British Rail. Just after the Act, the majority of the new services catered for journeys of 30 miles or more and so avoided licensing but gradually a substantial number of shorter, licensed services were introduced. Some shorter services have also avoided licensing by being organised as clubs (though the law here is not entirely straightforward). Most services ran into London, only a few into other cities. This reflects the unique volume of long-distance commuting into the capital.

13. By January 1983, 22 private sector operators were using about 76 vehicles to move about 3000 commuters into London daily on publicly advertised services. In the public sector, 7 operators with about 91 vehicles carried some 3700 passengers. 4 commuter clubs (employing private sector operators) were using about 18 vehicles to carry approximately 800 passengers daily. It is estimated that about 6800 of the overall daily total of 7500 were regular commuters. In January 1983, commuter coaches carried roughly 5-6 per cent of the total long-distance commuter market into London, but with a substantially higher market share from some locations. The potential market from some areas may not yet have been fully exploited.

14. A high proportion of London coach commuters previously travelled by train. The low fares (compared with rail) were the major attraction, offsetting the generally longer journey times. The convenience of coach stops nearer to homes and places of work is also appreciated, as are other features like comfort, reliability and a more friendly atmosphere.

15. Overall, the main financial effects of long-distance commuter coaching developments until January 1983 may be broadly summarised as follows:

revenue gain to operators (peak only)	about £5million per annum
saving to London commuters	about £3million per annum
revenue loss to British Rail	about £6million per annum
revenue loss to London Transport	about £1million per annum

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reduction in expenditure on petrol      about £1million per annum  
revenue loss to buses outside London      about £1.4million per annum

PART II DEVELOPMENTS IN TRIAL AREAS

Introduction

16. The Transport Act 1980 made provision for the Secretary of State to designate, at the request of the local authority, trial areas in which road service licences are not required and bus operators may run whatever services they choose. So far three trial areas have been designated, in parts of Norfolk, Hereford and Worcester and Devon. This is the only experience in this country of full deregulation of local services.

17. All three County Councils selected mainly rural areas though there were some interesting differences between them in the comprehensiveness of existing local services, in the extent to which private operators were prepared to expand their stage carriage activities and in the degree to which they were encouraged by the County Councils to do so.

18. The general relaxation of licensing caused by the Act and economic conditions since it came into effect (October 1980) have brought about many changes in bus services and fares throughout the country. Considerable care is therefore needed to distinguish their effects from those of trial area deregulation. Further, there has not been time to assess longer term effects of deregulation. With those caveats, this part of the annex reviews developments in each area from its inception to the present time (June 1984) and assesses the extent to which they are due to deregulation or to other factors.

The Norfolk Trial Area

19. This was the first trial area to come into effect, on 6 April 1981. It is a sparsely populated area in the north-west of the county, containing a number of small towns. There is also a small detached part of the area in the centre of Norwich which allows operators to run unlicensed services into the city from the trial area. King's Lynn and Cromer were excluded from the trial area.

20. Before the trial area began, most of the stage carriage bus services in Norfolk were provided by Eastern Counties Omnibus Company, an NBC subsidiary. Before 1980, revenue support payments by the County Council represented a substantial proportion of the company's operating deficit. But the shortfall began to increase; in 1980-81 the company received £0.5 million in revenue support and £0.5 million in concessionary fare reimbursement, but still lost £0.8 million.

21. The independent operators were less involved in stage carriage operation, concentrating on contract work and private hire. Their few stage carriage services received very little support from the County Council. The Council's purpose in seeking a trial area was to encourage private operators but it continued its revenue support policies unaltered and did not intervene to stimulate new or competitive services beyond circulating information to independent operators.



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22. At first there was little change that could be attributed to deregulation. It appeared that many of the independent operators did not fully understand the information they received; others were not especially interested in expanding their stage services to provide new services or to compete with each other or Eastern Counties on existing routes. There were some marginal changes in services not made as a response to deregulation.

23. In the period April 1981 - November 1983 Eastern Counties reduced services by some 10 per cent and increased fares throughout its operating area, including the trial area, in attempts to reduce operating deficits. In November 1983, Eastern Counties sought again to improve its financial situation by submitting proposals to the County Council for various networks of bus services the Company could provide for different levels of revenue support. The existing level of service would have required an annual subsidy of £1.3 million but the Council opted for a lower level of service costing £0.5 million and has instead contracted with independent operators to provide most of the services withdrawn by Eastern Counties. The resulting pattern of services is still subject to minor adjustments and it is not yet possible to evaluate the overall savings in revenue support.

### The Hereford Trial Area

24. The Hereford trial area (comprising much of the old county of Herefordshire) is of particular interest for three reasons. First, the County Council have at the same time applied a new system of competitive tendering for subsidy; second, there has been very active competition between independent operators and the local NBC Company (Midland Red (West)); third, this is the only trial area which included a sizeable town (Hereford).

### Subsidised services

25. The tendering system principally affected rural areas where most services are unprofitable and subsidised. The Council began by inviting tenders for 53 services which, it appears, no operator was willing to continue without subsidy. 15 of these were being run by NBC Companies which decided to continue 12 of the services (or parts of them) without subsidy. There was competition for 32 of the contracts, and 19 changed hands. The resulting contracts started in September 1981 initially for 18-month periods. During this time there were a few changes in the pattern of bus services, some operators replacing others and new contracts being awarded for previously unsubsidised services - all by competitive tender. When the original contracts expired in April 1983 the process was repeated, but over several months in order to moderate the administrative workload. 38 contracts were awarded, fewer than before because some had already been re-let, some operators opted to continue services without subsidy, some services were grouped together and some carried so few passengers that the Council decided not to continue subsidising them. Competition for these contracts was fiercer than in 1981 and several new operators made bids.

26. The 1981 round of tendering resulted in an annual saving of £62,000 (38%) in revenue support and there were savings of

CONFIDENTIAL

£ 65,000 in education transport payments (for season tickets on stage carriage services) which were also subject to the tendering process .

27. The main NBC Company, Midland Red, reduced services in the trial area by about 170,000 vehicle miles per annum, but more than 85 per cent of the mileage withdrawn was replaced by independent operators, the net loss, 25,000 miles per annum (mostly in Hereford City) being considerably less than the annual mileage of an NBC bus (42,000 miles). These services were not replaced because the County Council felt they were too little used to justify subsidy.

28. There have been a few speculative services in rural areas designed to cope with special demands. These modest developments would probably have been licensed under regulation but the new competitive atmosphere may have encouraged operators to seek new opportunities and the redistribution of contracts may have produced spare capacity to be redeployed.

Town services

29. Before the trial area, town services were provided by Midland Red and Yeomans Motors, and were supplemented by the urban sections of longer-distance services provided by these and other operators. Since the trial area, four independent operators have competed with Midland Red in Hereford and three are still doing so. Midland Red have responded by making substantial fare reductions, introducing more buses (timed to run just in front of those of their competitors) and, on occasion, free buses. There have been questions about the quality standards of operators competing in Hereford. One lost his Operators' licence and another only secured licence renewal on a limited basis, subject to review.

30. Demand for bus travel in Hereford has increased as a result of this competition, but not sufficiently to support all the additional buses, especially at the current low level of fares. Surveys on two routes in Hereford in the autumn of 1983 indicated average (weekday/daytime) revenues, of half the NBC 1983 average cost per vehicle mile.

Inter-town services

31. Competition, or the threat of it, has also affected some of the inter-town services in the area. There have been increases in service frequency and fare reductions on four main routes with independent operators stimulating existing operators to compete. Passenger demand has increased on one route surveyed by about one third. It is uncertain whether this is sufficient to cover the additional costs incurred by the operators.

The Devon Trial Area

32. Devon County Council applied for trial area designation after a Market Analysis Project network revision by Western National, the local National Bus Company subsidiary. The results of this exercise were disappointing, with substantial reductions in services not leading to the anticipated savings in revenue support. The

CONFIDENTIAL

County Council sought the assistance of independent operators to maintain much of the network of rural services before the trial area came into effect (October 1982).

33. The Devon trial area consisted of the East and Mid Devon Districts (a large rural area) and an "island" in the centre of Exeter which allowed unlicensed services to operate into the city. The area contained a number of small towns and coastal resorts with perhaps more suitable opportunities for bus operators than the Norfolk or Hereford areas. Existing revenue support arrangements were continued and the Council devoted considerable effort to informing operators of the new opportunities and encouraging initiatives.

34. The main operator in the trial area is Devon General<sup>+</sup>. Independent operators still play a minor role in providing local bus services. Since the trial area came into force, both Devon General and independent operators have made some changes and introduced some innovations. Some of these may have been prompted by potential competition but few of the independent operators are inclined to provide competitive services: they appear reluctant to risk the goodwill of Devon General who subcontract work to the private sector and who operate the bus station in Exeter, providing facilities there for some of the independents. There is also doubt whether additional services on existing routes would be profitable. Only two operators have attempted to compete, neither establishing a permanently successful service.

35. Since the trial area was introduced, some services have been withdrawn or reduced because of dwindling patronage and in some cases this has been prompted by the Council's withdrawal of revenue support for poorly used services.

36. The changes resulting from deregulation in Devon have thus been rather limited in scale. Nevertheless the County Council is encouraged by the fact that slightly more new services have been made available in the trial area than in other similarly rural areas in the County during the same period. Since designation has had no apparent disbenefits, it is currently considering whether further trial areas might be appropriate.

Conclusions

37. Any conclusions drawn from experience in the three trial areas must be qualified by the fact that they are based on a limited set of largely rural areas over a limited period of time.

<sup>+</sup> Western National was reorganised into smaller operating companies on 1 January 1983. Devon General was the successor company in the trial area.

## CONFIDENTIAL

Furthermore, the trial areas have not been isolated from economic factors (eg. pressure on financial resources, declining demand) which have influenced the provision of bus services everywhere.

38. The gradual decline in rural bus services in the trial areas simply reflects the general pattern and is not demonstrably a consequence of deregulation. In all three counties, Councils have been able to replace services formerly provided by NBC companies with privately operated services, thus preserving basic networks with substantially smaller amounts of revenue support. In Hereford and Worcester, this was achieved by a formal system of tenders for contracts operating only in the trial area. Norfolk and Devon used more conventional county transport co-ordination procedures in and outside the trial areas, but the results appear to have been less dramatic.

39. Deregulation has provided opportunities for operators to experiment with new services. It is arguable that some of those which have been tried in the more rural areas would have been allowed under the licensing system; but the procedures for obtaining licences can be a deterrent to small operators in marginal cases. Deregulation has not been sufficient to halt the overall decline in rural bus services, but neither has it worsened the situation. Operators have benefitted marginally from simplified administrative procedures.

40. The effects of deregulation are more discernible in urban areas and on inter-town routes, where bus services may still be profitable. Independent operators have provided new services, sometimes complementary to those run by established operators and sometimes in direct competition. Where there is competition, established operators have responded by reducing fares, increasing service frequencies, adjusting schedules, running free buses or various combinations of these actions. The public have consequently enjoyed lower fares and better levels of service. Demand has increased but not necessarily by enough to cover the costs of the additional service provision. The eventual outcome in Hereford is unpredictable. Under present conditions, deregulation in itself may not be sufficient to allow small operators, however efficient, to compete successfully with established operators with greater resources.

## REFERENCES

1. G A Coe and R L Jackson. Developments in stage carriage bus fares before and after the Transport Act 1980. Department of the Environment/Department of Transport TRRL Report LR1093. Crowthorne 1983 (Transport and Road Research Laboratory).
2. R D Fairhead, R L Jackson and P F Watts. Developments in long-distance commuter coaching following the Transport Act 1980. Department of the Environment/Department of Transport TRRL Report LR1038. Crowthorne 1983 (Transport and Road Research Laboratory).



DEPARTMENT OF ENERGY  
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*With the Compliments of*  
the Private Secretary to  
the Secretary of State

IMMEDIATE

MONDAY 2 JULY 1984

*Atti*  
*Privatisati*  
*RTZ/17* *File*  
THE RIO TINTO-ZINC CORPORATION PLC

LONDON

THE RIO TINTO-ZINC CORPORATION PLC (RTZ) AND ENTERPRISE OIL PLC  
(ENTERPRISE OIL)

As a result of the allocation of shares in Enterprise Oil RTZ acquired approximately 10 per cent of the ordinary share capital of that company.

RTZ wishes to enlarge its holding to no more than 29.9 per cent which it believes is in the best interests of its own 91,000 predominantly UK shareholders. At the same time, RTZ is confident that the independent management of Enterprise Oil and the company as a whole will benefit from the strength and support which RTZ can provide as a substantial minority shareholder.

RTZ has today purchased at 105p per share 10 million ordinary shares (100p paid) in Enterprise Oil, thereby increasing its holding to approximately 14.7 per cent of Enterprise Oil's ordinary share capital.

Following these purchases RTZ proposes to make a Tender Offer for up to 32 million ordinary shares (100p paid) in Enterprise Oil at a maximum price of 110p per share. If the tender is successful, RTZ's holding in Enterprise will increase to a maximum of no more than 29.9 per cent of Enterprise Oil's ordinary share capital.

RTZ recognises the desire of the Secretary of State for Energy that Enterprise Oil should remain an independent company at this stage of its development. In the event of this Tender Offer succeeding, RTZ does not intend to acquire any further ordinary shares in Enterprise Oil in the foreseeable future so as to increase its percentage interest to more than 29.9 per cent of the issued ordinary share capital for the time being of Enterprise Oil.

It is intended to publish full details of the Tender Offer in national newspapers tomorrow morning.

ENDS

CONTACTS: RTZ: MR PETER DEAN  
N M ROTHSCHILD & SONS LIMITED: MR MICHAEL RICHARDSON



R/c

C. B/V.

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

29 June 1984

D Barclay Esq  
10 Downing Street  
LONDON  
SW1

Dear David,

You asked us to provide some briefing notes for the Prime Minister's lunch with Sir John Baring on Monday 2 July. This is attached. It comprises a short background note on Baring Brothers, and more detailed notes on two specific issues which might be raised at the lunch. Please let us know if you require anything further.

Yours ever,

*J.C.S.*

MISS J C SIMPSON  
Private Secretary

## BACKGROUND NOTE

### Baring Brothers & Co Ltd

Baring Brothers is one of the smaller merchant bankers. It is a member of the Accepting Houses Committee and a recognised bank under the Banking Act 1979. It offers the usual merchant banking services such as wholesale banking and corporate finance. In a list produced by the Daily Telegraph, Barings ranked tenth in the merchant banking league for underwriting rights issues in 1983. The total amount underwritten by the bank in that year was only £20m (compared with £485m underwritten by the league leader, Morgan Grenfell). Barings has had only a marginal involvement in the privatisation exercises. It carried out some preliminary feasibility studies on the privatisation of Cable and Wireless in 1979. It acted as one of the underwriters in the Britoil issue and more recently, the Cable and Wireless share issue in December last year. It also tendered unsuccessfully for the Amersham International and British Telecom privatisations.

On the international side, Baring Brothers has strong connections in the Far East, principally Hong Kong, where it recently expanded its operations by acquiring Henderson Crosthwaite (Far East) (HCFE) from the UK stockbrokers Henderson Crosthwaite. HCFE acts as a broker in Japanese and other Far East securities on behalf of institutions and fund managers world wide and has offices in Tokyo as well as Hong Kong. Barings hope to develop the Tokyo operation. They see the deal as a complement to their underwriting and distribution facilities. The bank also recently set up a venture capital management company in Japan called Orient Capital with Japan's largest leasing company, the Orient Leasing Company, and other Japanese institutions.

Other recent developments include a venture capital link-up with Hambrecht & Quist. The new company, called Baring Brothers Hambrecht and Quist, will manage venture capital funds with a particular emphasis on high technology industries in the UK and Europe. Baring Brothers recently acted as a lead manager in a 25 year £50m bulldog bond issue for Finland.



## Special Issues

In addition to general economic matters, the following issues might be raised:-

### (1) Developments on the Stock Exchange

Several merchant banks, including Warburgs and Rothschilds, have recently taken minority stakes in member firms of the Stock Exchange. The purpose of these acquisitions is to enable the banks in question to be well placed to take advantage of the expected changes in the Stock market after the abolition of minimum commissions. The Stock Exchange recently issued a Consultative Document setting out possible alternative market structures after the abolition of minimum commissions.

As far as we know, Barings have so far shown no interest in buying into a UK broker or jobber. It is possible that they may be considering the alternative route of, in due course, becoming a member of the Stock Exchange themselves. They have, for example, questioned the Bank on the implications of the impending changes for dealing in gilts - giving the impression that if single capacity (ie. separation of brokers and jobbers) were to go, they might be interested in moving into gilts dealing.

The Chart at Annex A summarises the position on City "weddings".

### (2) Gower Report on Investor Protection

As a former chairman of the Accepting Houses Committee, Sir John may raise this subject. The AHC have also submitted their comments on the Gower Report to the Department of Trade and Industry. The DTI are digesting the AHC's comments, and are consulting other interested Government departments including ourselves, on them. Briefly the main points are:-

- (i) the AHC share Gower's views that the Prevention of Fraud (Investments) Act 1958 is inadequate and needs to be modernised;
- (ii) the AHC prefer self-regulation and advocate a limited number of self-regulatory agencies (SRA) which would cover certain defined areas ie. portfolio investment management, commodity investments. They are opposed however to Gower's view that the Council

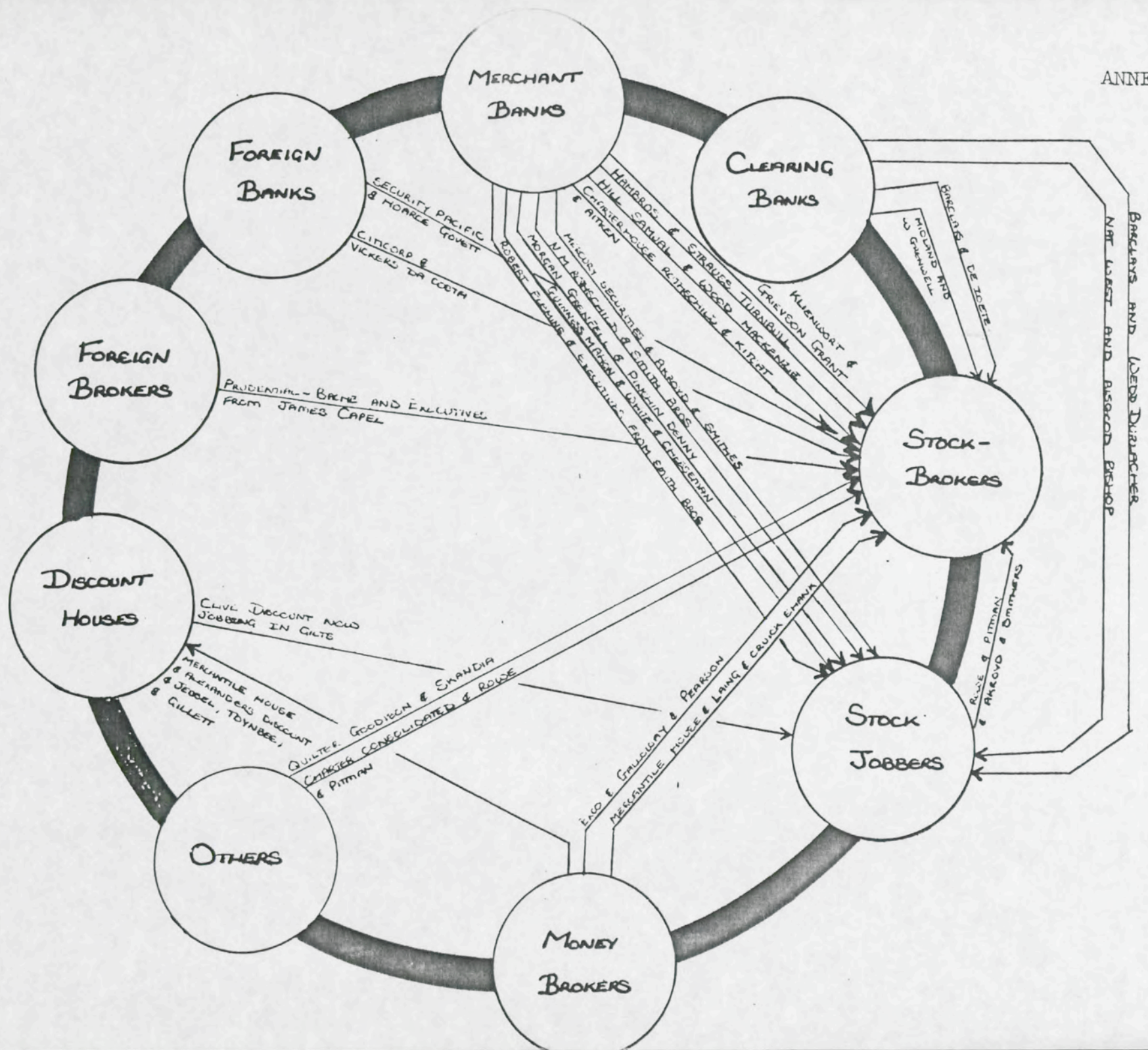
for the Securities Industry should become the umbrella body for the SRAs. Their preference is for a new small body to be appointed by the Bank; and

- (iii) the AHC believe that primary responsibility for the application of the law relating to investor protection should be vested in the DTI, with the SRAs acting as agents of the DTI in administering the new regulatory system.

The Governor of the Bank of England announced on 23 May that he has appointed a group of ten senior city figures to advise on how a system of self-regulation might be established.

The Who's Who extract for Sir John Baring<sup>is</sup> attached at Annex B, Sir John is a member of the Court of Directors of the Bank of England.

THE CITY'S  
WEDDING-  
RINGS



BARING, Hon. John Francis Harcourt, CVO 1980, Chairman, Baring Brothers & Co. Ltd. since 1974 (a Managing Director, 1955-74), Receiver-General of Duchy of Cornwall, since 1974; b 2 Nov. 1928, *et s* and heir of 6th Baron Ashburton, *gr*; m 1955, Susan Mary Renwick, *e d* of 1st Baron Renwick, KBE, and Mrs John Ormiston; two s two d. *Educ* Eton (Fellow, 1982); Trinity Coll., Oxford (MA). Director, Trafford Park Estates Ltd, 1964-77; Pye Holdings Ltd, 1966-79; Ourwich Ltd, Johannesburg, 1967-77; Dep. Chm., Royal Insurance Co. Ltd, 1975- (Dir, 1964); Chm., Ourwich Investment Trust Ltd, 1966-; Director, Dunlop Holdings Ltd, 1981-; British Petroleum, 1982-; Vice-Pres., British Bankers' Assoc., 1977-; Pres., Overseas Bankers' Club, 1977-78; Chm., Accepting Houses Cttee, 1977-81; Chm., Cttee of Finance for Industry, NEDC, 1984-; Mem., British Transport Docks Bd, 1966-71, Mem. Council, CBI, 1976-80 (Mem. President's Cttee, 1976-79), Rhodes Trustee, 1970; Trustee, Nat. Gall., 1981-; Hon. Fellow, Hertford Coll., Oxford, 1976. *Address* Lake House, Northington, Alresford, Hants SO24 9TG. *T.* Alresford 4293, Fax 7, 34 Bryanston Square, W1H 7LQ. *Clubs* 'Pratt's Flyfishers'.



10 DOWNING STREET

THE PRIME MINISTER

29 June 1984

Dear Mr. Siddler,

Thank you for your letter of 14 June about European Ferries' proposal to acquire Sealink.

I understand that after giving careful consideration to your suggestions, Norman Tebbit remains of the view that European Ferries should not be released from its undertaking not to acquire Sealink. He has written giving you his reasons, which concern the issues of competition identified in the Monopolies and Mergers Commission report.

Yours sincerely  
Margaret Thatcher

K. Siddler, Esq.

JS

JS VSC

C DTI Dispt

MR TURNBULL

PRIME MINISTER

Lunch with Baring Brothers  
8 Bishopsgate, at 1300 hours

I attach:

- (i) Guest List (Flag A)
- (ii) Topics for discussion (Flag B)

*CR.*

28 June 1984

Baring Brothers & Co., Limited

8 Bishopsgate, London EC2N 4AE

TELEPHONE: 01-283 8833

TELEX: 883622

SECRET/6

A

27th June 1984.

Dear Miss Ryder,

Further to your telephone call of today, I write to advise you of the directors here who will be at the lunch for the Prime Minister on the 2nd July. Sir John Baring will be accompanied by his six most senior colleagues, who in total form the Executive Committee of the bank, and they are as follows with their principal areas of responsibility alongside, and mention of one or two of their outside appointments beneath.

Mr. Nicholas Baring - Investment Group

Chairman, City Capital Markets Committee.  
A Vice Chairman of Commercial Union.  
Chairman, Finance Committee National Trust.

Mr. Peter Baring - Corporate Finance, domestic.

Director, W.H. Smith.

Mr. Robin Dent - Banking Group.

Chairman, British Bankers Association  
Executive Committee.  
Treasurer, King Edward's Hospital Fund.

Mr. Robin Broadley - Corporate Finance, domestic.

Chairman, Issuing Houses Association.  
Director, Royal Insurance plc  
Director, Ferranti plc.

Mr. Andrew Tuckey - Corporate Finance, international.

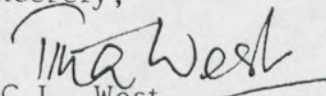
A Director and Treasurer, Friends of Covent  
Garden.

Mr. Miles Rivett-Carnac - Corporate Finance, international.

Chairman, Hampshire & Isle of Wight  
Association of Boys Clubs.

The topics for discussion have been agreed directly with Mr. Turnbull.

Yours sincerely,



Mrs. C.L. West

Secretary to Sir John Baring.

Miss Caroline Ryder,  
10 Downing Street,  
London S.W.1.

COVERING CONFIDENTIAL



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A Turnbull Esq  
No 10 Downing Street  
LONDON

28 June 1984

*Dear Andrew*

PRIME MINISTER'S LUNCH AT BARINGS

I attach as requested a note showing Barings' involvement with the privatisation programme. As you will see, they have done very little. My impression is that they have rather sat back and hoped the business would come to them rather than making any effort to obtain it.

You might like to know that when Alan Bailey had lunch at Barings in April, he remarked subsequently that they seemed less than ecstatic about the fairness of beauty contests. We had a look earlier this year at arrangements for appointing advisers and subsequently Peter Middleton circulated the enclosed note to Permanent Secretaries. If Barings ask about current arrangements, there is no reason why they should not be given a copy.

*Yours ever*  
*G E*

G E GRIMSTONE

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BARING BROTHERS & CO

Adviser to Government : Cable and Wireless (1981  
feasibility and early stages)

Tendered Unsuccessfully for : Amersham International  
British Telecom

Adviser to Company : NIL

Underwriter : Cable and Wireless (1981 & 1983)  
BP (1977)

## ARRANGEMENTS FOR APPOINTING ADVISERS TO WORK ON THE PRIVATISATION PROGRAMME

### Note by HM Treasury

It is important - in the interest of obtaining the best available advice at the lowest appropriate cost - that the appointment of City advisers to work on the privatisation programme is subject to satisfactory competition. This note sets out the procedures which should be followed by Departments and lists the broad selection criteria that should be observed. Departments may also find it useful to consult the Cabinet Office (MPO) publication Code of Practice for the Employment of Management Consultants by Government Departments.

2. The following general procedures should be adopted once Departments have decided that advice needs to be sought from merchant banks or stockbrokers on major aspects of the privatisation programme.

- (i) A short Departmental announcement should be issued, aimed at the financial press, stating an intention to commission work from advisers in a particular area and inviting those interested to make that interest known; a parallel notification should where appropriate go via the Bank of England to the Accepting Houses Committee and the Issuing Houses Association.
- (ii) Respondents (and any non-respondents whom the Department wish to interest) should be sent a list of questions relevant to the work.
- (iii) A shortlist should be drawn up on the basis of the replies (in consultation with the Treasury and the Bank of England).
- (iv) Competitive interviews should be held.
- (v) Results of the interviews should be notified to the Treasury and the Bank of England in those cases where the Treasury and the Bank were not members of the interviewing panel.

3. Where advisers are appointed to offer preliminary advice on a privatisation, there should be no presumption that those appointed initially should see a sale through to its conclusion. Provided, however, that the adviser's performance has been satisfactory Departments may, subject to Treasury agreement, reappoint without further competition.

4. The procedures in paragraph 2 may not be fully appropriate in cases where confidentiality is an important factor (eg where market-sensitive information is at stake) or when limited advice is being sought on a specific issue. Departments should consult the Treasury in such instances and agree revised arrangements.

5. Corresponding arrangements to those set out above will normally be appropriate for appointing advisers other than merchant banks and stockbrokers to work on the privatisation programme. There should be a similar presumption in favour of competition and in Departments obtaining the best available advice at the lowest appropriate cost. Departments should consult the Treasury Solicitor before appointing solicitors to conduct a major issue and the Government Accountancy Service before appointing reporting accountants.

6. The detailed selection criteria to be followed in appointments are the responsibility of individual Departments. The following general principles should however be observed:

(i) The adviser's familiarity with the company concerned or the sector within which the company operates may be an important factor (particularly when selling shares in a company already privatised).

(ii) The selection process should take into account the need to avoid over-concentrating the programme as a whole on too few advisers. It is unlikely for example that many advisers are equipped to handle concurrently more than one major project.

(iii) Departments should satisfy themselves, in consultation with the Treasury, that prospective appointments will not jeopardise work on existing privatisations (which may be the responsibility of other Departments).

(iv) The appointment should be conditional on identified key individuals being available to carry out the work, and arrangements should be open to review by Departments if such individuals are diverted to other tasks and are no longer available.

HM TREASURY

23 February 1984

②  
PRIME MINISTER

Mr. Walker's Statement on Enterprise Oil

What could have been a difficult occasion for the Government proved to be very successful. The Opposition attack was feeble and predictable. Mr. Walker's explanation of his decision to cut RTZ's allocation was put across convincingly and he hammered home that the issue was a success in the sense that a new, well managed, well financed, independent oil company had been created; that underwriting had again proved its worth. The main danger was criticism from Government benches about the treatment of RTZ but this did not happen. Virtually the only critical note was from Jonathan Aitken who argued that the Government had allowed its timing to be dictated by PSBR and legislative factors.

AT

28 June 1984



DEPARTMENT OF TRADE AND INDUSTRY  
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LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 422

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JU633

Secretary of State for Trade and Industry

28 June 1984

K Siddle Esq  
Chairman  
European Ferries plc  
Enterprise House  
Avebury Avenue  
Tonbridge  
Kent TN9 1TH

*D M Siddle,*

Thank you for your letter of 31 May about my decision not to release European Ferries from its undertaking not to acquire Sealink. As you know, I have been giving careful consideration to your letter, and am now in a position to reply substantively.

The decision not to release European Ferries from the undertaking was taken in accordance with the advice of the Director-General of Fair Trading who has a responsibility to keep under review undertakings given following Monopolies and Mergers Commission reports. As you know, the 1981 report concluded that the proposed merger between European Ferries and Sealink might be expected to operate against the public interest because it would confer a market dominance on the resultant company which would bring about a major reduction in competition, and would also concentrate ownership of the ports. The Commission considered that there was no way of preventing the adverse effects of the merger other than by preventing it altogether. The then Secretary of State accepted this view, and an undertaking was sought from European Ferries not to acquire Sealink. I do not consider that there has been any change of circumstances which would justify waiving that undertaking.

Your proposal to bid for Sealink, after which European Ferries would undertake to divest itself of parts of the operation, was considered in the Director-General's advice to me, on the basis of which I decided that the undertaking not to acquire Sealink should not be lifted. Your proposal is still to bid for Sealink as a whole in the first instance; the British Railways Board have made clear from the outset, in accordance with the privatisation programme agreed with the Government, that they will not consider offers for part only of Sealink's business. Accordingly, I am advised by the Office of Fair Trading that



unless the Board are prepared to separate the ports from the rest of Sealink's business, it is difficult to reach the view that a merger involving the ports only is in contemplation and should be considered by me under the Fair Trading Act.

You raised a point about Sealink's borrowing arrangements with the British Railways Board. Since Sealink is being sold to a commercial buyer, the future capital structure of the company will be a matter for the new owner. The question of a subsidy from the British Railways Board would only arise if it sold its interest in Sealink for less than the company's market value or if Sealink was provided with soft finance by the British Railways Board after privatisation. The British Railways Board has stated its intention of judging all offers on a strictly competitive basis and has said that it wishes to dispose of its entire interest in the company.

*g s h*  
*Norman Tebbit*

NORMAN TEBBIT

ELON Pd: Privatisation  
PLC

23 JUN 1984  
10 50 AM '84





NB PM AT 2/16 XENO

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JU632  
Secretary of State for Trade and Industry

28 June 1984

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

*D. Nicholas,*

SALE OF SEALINK

Thank you for your letter of 22 June in reply to mine of 19 June about the privatisation of Sealink.

The timetable and basis for the sale are ultimately a matter for you; you are aware of my views, but I accept that it would be difficult to reconsider your approach when formal bids are about to be invited. However, I am pleased to note that you are prepared to reopen the question if a satisfactory bid is not forthcoming.

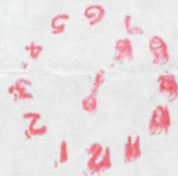
Copies of this go to the recipients of the earlier correspondence.

*Norman Tebbit*

NORMAN TEBBIT

León For Privatization

#10



29 JUN 1984

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ  
01 211 7214

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 0AA

28 June 1984

*Dear Andrew*

ENTERPRISE OIL

As discussed at Cabinet this morning, my Secretary of State is this afternoon to make a statement to the House on this subject. I attach his proposed text.

Copies go to Roger Bone (FCO), David Peretz (Treasury), Charles Marshall (Lord Privy Seal's Office), Callum McCarthy (DTI), Murdo Maclean and David Beamish (Chief Whips' Offices), and Lindsey Wilkinson (Cabinet Office).

*Yours sincerely  
Michael R;*

M F REIDY  
Private Secretary

CONFIDENTIAL



With permission, Mr Speaker, I will make a statement about the sale of shares in Enterprise Oil.

The application list opened and closed yesterday for the sale of 212 million shares at a minimum tender price of 185p a share, payable in two instalments.

The issue was underwritten successfully and in full on 19 June by a wide range of institutions. The share market generally, and the oil market in particular, have substantially weakened between the underwriting of the issue and the opening of the list. Applications were received for 66.4 per cent of the ordinary share capital. Rio Tinto Zinc have announced that they applied for 49 per cent of the shares. All their applications were made through nominees.

At the outset, the Government clearly stated its intention that Enterprise should be an independent oil exploration and production company. The Board and the staff of the company were recruited on that basis.

The Government's intention to ensure the continued independence of Enterprise for an initial period was clearly stated in the prospectus. To secure this the Government took two special steps.

First, it retained complete discretion to reject in whole or in part any application for shares on flotation of the company; and second, it retained a special share which, in effect, gives the Government a majority of shareholders' votes in the event of a take-over or attempted take-over of the company, for as long as such a situation continues.



These steps were designed to enable the Board and management to establish Enterprise as a new independent British oil company.

In keeping with this approach the Government has decided to exercise its power of rejection with a view to ensuring that no single individual or company, directly or through nominees, should hold beneficially more than 10 per cent of the equity as a result of the flotation.

On this basis applications for over 56m ordinary shares from more than 13,000 applicants have been accepted as valid and allocations will be made at the minimum tender price of 185p per share. The remaining shares will be taken up by the underwriters and sub-underwriters at the minimum tender price.

Finally, the Government wishes to make it clear that it is its firm intention to use the powers available to it to ensure the independence of Enterprise at this stage of its development consistent with the objectives specified in the prospectus.

## PRICING OF THE ENTERPRISE OFFER

A minimum tender price of 185p, capitalising the company at £392.2 million, was proposed by Kleinwort Benson at a pricing meeting on Friday 15 June on behalf of the underwriting team. This was agreed <sup>provisionally</sup> to by Energy and Treasury Ministers after taking independent advice from Wood McKenzie and hearing from Kleinworts that they had difficulty in holding their team at that price. The price was confirmed on Monday 18 June, the day before the offer, against a background of an uncertain and weakening market.

2. Press comment at the time (extracts attached) indicate that the price was thought to have been set about right if not a little on the low side. The FT said it thought successful offers would have to be at about £2. The LEX article on 20 June said,

" .. a minimum tender price of 185p looks as nicely pitched as anything in the privatisation calendar to date : low enough to prevent 185p being taken as a surrogate striking price but high enough in today's volatile market to make the underwriters earn their money. "

3. Over the following week however spot oil prices dropped further and share prices were shaky as the table below shows:

	Spot price of Brent	FT actuaries oil index	FT all shares index
Mon 11 June	29.65	1123.70	501.98
Mon 18 June	29.05	1057.92	488.91
Mon 25 June	28.30	1036.76	485.55
Wed 27 June	28.20	1037.98	486.01

4. This is the reason most analysts believe that there was so little demand for the shares rather than any problem with the company or the method of sale (while recognising that the City is always a bit unenthusiastic about tenders).

PE 1 division  
28 June 1984

f

**THE GUARDIAN**  
Oil caution 18

THE newest member of the clutch of former subsidiaries of Her Majesty's Government, Enterprise Oil, is duly priced and on the stocks for its launch. The price makes sure that the stock will be attractive to the financial institutions, though less so to the widows and orphans.

The reason for sounding caution is basically that this is an exploration and a production company, not an integrated enterprise like Shell or BP. Put crudely, with the integrated companies the two sides of the business balance each other out.

If the oil price goes up the production side does well and the distribution side badly; if it goes down the reverse happens. If a company is solely at the sharp

end, it is inevitably exposed to changes in the oil price, foreign exchange fluctuations, and exploration and production mishaps. By the same token, it can be a money spinner if it hits things right.

Enterprise Oil now sits on mature reserves, thanks to British Gas's entrepreneurial zeal. (British Gas is much better at finding oil than it is servicing your central heating).

Its future however depends on whether it can now find oil on its own. Most of the board are proven BP or Shell stock, but the new chief executive, Mr Hearne, comes from Tricentrol, and Carless Capel, companies whose only experience in finding oil is in the North Sea.

Enterprise Oil, faced with falling production, has to find more oil. It may well transpire that this mix of talent will pull together in an exciting way, and do so. On the other hand it may not.

**Daily Telegraph**  
**ENTERPRISE OIL VENTURE LAUNCHED**

By ROLAND GRIBBEN  
Business Correspondent

THE biggest disposal of State assets by the Government so far in its privatisation programme got under way yesterday with the launch of Enterprise Oil, formed from the North Sea oil assets of British Gas.

The Government will raise at least £392 million from the sale of the company, which starts life with interests in five North Sea oilfields and plans to expand.

But Mr Lawson, Chancellor, is looking to raise at least £2 billion this financial year from the sale of State run or controlled businesses to help fund Government borrowing.

City institutions say that the sheer weight of State stock could disrupt the market.

Mr Lawson has opted for the controversial tender route for Enterprise, with a minimum price of 185p a share. Analysts feel that advisers have set their sights too low.

City Report—P21

**DAILY Mirror**

**1/6 Sell-off for oil firm**

PLANS to sell off the Government shares in Enterprise Oil were announced yesterday. The company which was set up to take over the oil interests of British Gas, is valued at £392 million.

Daily Telegraph

**Enterprise Oil**  
**'issue that must succeed'**

21

By DAVID BREWERTON

THE Government has gone as far as it needs to avoid the offer for sale by tender of 212 million shares in Enterprise Oil suffering the same ignominious fate as the Britoil tender—provided the market holds firm.

That was the almost unanimous view of City analysts and fund managers yesterday following publication of the full prospectus for Enterprise and the sub-underwriting of the issue at the 185p minimum tender price was completed before the market closed.

Enterprise had been judged in both the City and Whitehall as the issue that must succeed. It was under the shadow of the Britoil flop, and any difficulty with Enterprise would have undermined underwriters' confidence when British Telecom is floated later this year.

In the event the terms for Enterprise are hard to criticise, except in the respect of the forecast yield. That amounts to 5.41 p.c. based on the minimum tender price, but would fall to 5 p.c. on the 200p which is generally reckoned to be the target striking price.

Some investors would have preferred a yield in the same area as the 6 p.c. available on Lasso and Britoil or the 7.4 p.c. on Tricentrol. Anthony Bellingan, oil analyst with Phillips and Drew commented that the dividend was "a bit tight."

Enterprise's chief executive the £90,000-a-year Graham Hearne, said that he believed shareholders were entitled to a dividend, but the company was anxious to project the image of an exploration and production company rather than a collection of producing assets.

Little adverse comment was found in the City yesterday afternoon on the discount to assets on which Enterprise is being offered. The prospectus

contains no asset valuation but ample information on reserves, and on that basis the general view is that the discount is about 25 p.c.

David Gray, James Capel's oil expert, said the terms were reasonable and that the Government had given Enterprise "a fighting chance of success." He pointed out that the merchant bankers are not leaving underwriters exposed for long—the lists open and close next Wednesday.

The prospectus is backed up with a profits forecast of a pre-tax £113 million, but the City regards that, too, as conservative bearing in mind that production and prices will both be higher than on the "annualised" eight months historic accounts.

Despite yesterday's satisfaction with the terms, however, both the oil and the stock markets are in a volatile and nervous state, and potential subscribers are likely to wait as long as possible before coming to a decision about whether to subscribe for shares and at what prices.

Applicants for up to 2,500 shares can apply "at the striking price" and be sure of an allocation at whatever striking price is fixed. The big investors, however, will have to state the price at which they are prepared to buy shares.

Enterprise, which comprises the production assets formerly owned by British Gas, is keen to expand both in the United Kingdom and overseas to keep up its reserves. It comes to market with no cash, a tax position beneficial to exploration and appraisal effort and £84.5 million of cash.

The production will peak, on current estimates, in 1985 and will then begin to decline unless new discoveries are made or additional production purchased. A dividend of 7p a share is forecast for the current year.

Full details of the prospectus will appear in Friday's editions of THE DAILY TELEGRAPH.

3/4

FINANCIAL TIMES  
THE LEX COLUMN

# Reward before Enterprise 36

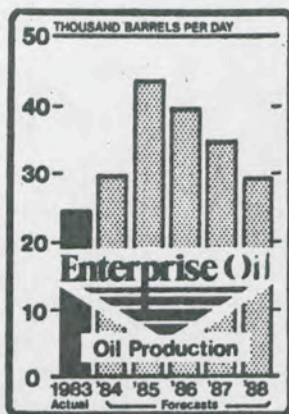
*fl*

Enterprise Oil was presumably still knee-deep in eurodrafts of its flotation prospectus when oil shares began to slide a month ago. Since then, the sector has fallen almost twice as fast as the rest of the market, so yesterday's unveiling of a minimum, initial market capitalisation well below earlier speculation of £450m or so was as widely anticipated as most other details of the final offer document. In fact, the base line capitalisation of £392m—representing a minimum tender price of 185p—looks as nicely pitched as anything in the privatisation calendar to date: low enough to prevent 185p being seen as a surrogate striking price but high enough in today's volatile market to make the underwriters earn their money.

City estimates of the discounted cash flow value of Enterprise's assets, including net cash of roughly £100m, broadly range between £520m and £590m. Relative to the rest of the sector, this is not too difficult a figure to quantify since Enterprise has only five main fields to evaluate. In settling on a discount to asset value which might best reflect the group's potential, however, the market faces a problem of quite unusual complexity.

Weighed against its evident financial strength, Enterprise's existing production curve shows one of the steepest declines in the sector after 1986. It has an urgent need to find new acreage for both exploration and development, possibly by swapping some of its present production. Its tax position in the North Sea is as good as any, while the group also has a eye on corporate acquisitions in the U.S. But success in either direction will depend critically on the management's performance. With no bid premium available and little likelihood of any exploration news big enough to move their price, the shares will be hypersensitive on this front where investors will be looking for more than a simple reduction in Enterprise's tax bill.

Index rose 11.0 to 832.2



The management's acknowledgement of this and discussion of its strategy has so far been well-received in the City. The group's senior executives include several with sound reputations within the industry and no doubt the joys of prospectus writing have done wonders for their cohesion as a team. City nerves will certainly be tested by any major foray into the U.S. But in general the group may well be setting out with enough goodwill to warrant an initial discount to asset value on the shares rather narrower than that of either Tricentrol or Lasmco.

The group will not be short of cash to fund its aspirations: cash flow between now and 1990 could be £700m or thereabouts on present projections. If confidence in the management falters, the initial yield just over 5 per cent will be unfavourably compared with 6-8 per cent yields on the competition. Yet if the value added by good management is apparent by 1986, early investors will have stolen a march on the group's former owner.

THE TIMES  
**Enterprise £392m sale!**

The Government assured itself of raising at least £392m yesterday when it formally launched the flotation of its latest privatization venture, Enterprise Oil.

The share capital of the company, set up to take over the North Sea oil assets formerly owned by British Gas, is being offered to investors at a minimum price of 185p a share. Mr Peter Walker, the Energy Secretary, announced the go

ahead yesterday despite the recent fall in share values. Stockbrokers had originally estimated that the sell-off could raise between £400m and £475m.

The Treasury's final proceeds from the issue - a tender offer - could still top £400m

The Government has made sure of raising at least £392m by having the issue underwritten by merchant banks for fees of £6m.

Page 19

3/2



# Enterprise goes to market in cut-price £392m sell-off <sup>19</sup>

By Jonathan Davis, Financial Correspondent

The Government yesterday shrugged off the recent weakness of the stock market and pressed ahead with the planned flotation of Enterprise Oil, putting a minimum value on the business of £392m.

This is some way below most market estimates, which until the last few days at least had valued Enterprise, a new company set up to take over the North Sea oil assets of the state-owned British Gas corporation, at anything from £400m to £475m. The sharp slide in share values during the last few weeks, particularly in the oil sector, has left the Government with the awkward choice of either postponing the issue or settling for lower proceeds.

Mr Peter Walker, the Energy Secretary, confirmed in the Commons yesterday that the sale was going ahead, with 212 million shares being offered to investors at a minimum tender price of 185p. Apart from the single "golden share" which the Government is to retain until 1988 as a protection against unwanted foreign takeover, the entire share capital is, as

expected, being sold in one go. Prospectuses will be published later this week, with the closing date for applications set for next Wednesday.

By opting for what was generally seen in the City last night as a conservative minimum tender price, the Government could still get closer to its original £425m sale target if enough investors submit tenders above the minimum level, or if the market in general recovers.

The issue was underwritten on Monday by Kleinwort Benson, the merchant bank which has advised the Government on the privatization of Enterprise from the outset, and three other leading banks, Schroders, Morgan Grenfell and S. G. Warburg. Sub-underwriting by City institutions was successfully completed yesterday.

The prospectus shows that Enterprise is forecasting pretax profits this year of £113m, and net income after tax of £47m. At the minimum tender price of 185p a share produces a yield of



Graham Hearne: salary of £90,000 a year

5.41 per cent at the minimum tender price.

Production for Enterprise's proven North Sea fields is projected to rise from 24,410 barrels a day last year to a peak of 43,860 bpd in 1985, before starting to decline. The prospectus confirms that likely oil production from one of its key fields, North West Hutton, has

been downgraded. Total estimated reserves in the field have also been downgraded from 280 million to 130 million barrels.

Enterprise's directors say the company has further oil and gas discoveries in the exploration acreage inherited from British Gas, four of which could be developed in the next 10 years. This could add between 20 million and 80 million barrels of oil to existing commercial reserves of 117 million barrels.

The prospectus also confirms that Enterprise has no real debt, and £80m of cash to help pursue plans for expansion in the North Sea and overseas. It discloses that Mr Graham Hearne, the chief executive, is being paid £90,000 a year, and three other directors £60,000 a year. A share option scheme for senior executives is planned.

Mr John MacArthur, a director of Kleinwort Benson, dismissed the recent suggestion by the Public Accounts Committee, that shares in privatized companies should be sold in a series of tranches, like a gilt-edged stock, as unrealistic.

THE GUARDIAN

## Enterprise minimum price below City forecasts

# Oil sell-off to raise £392m <sup>18</sup>

By James Erlichman

Enterprise Oil, created by the government to privatise the North Sea oil assets of British Gas, will raise at least £392.2 million for the Exchequer when it is sold by tender on the Stock Exchange next Wednesday.

The sale price is less than some City forecasts and is certainly well below the £500 million price tag which British Gas originally put on the oil assets, which chairman Sir Denis Rooke was reluctantly forced to sell.

But the government has two reasons for caution. It wants to avoid a repetition of the embarrassment faced when its 51 per cent sale of Britoil by tender for £548 million flopped in 1982. And with Jaguar, Sealink and British Telecom being primed for sale, the government will have no difficulty reaching its annual £2 billion privatisation target in this financial year.

The terms of the enterprise

tender require investors to make a minimum offer of 185p for each of the 212 million shares, representing 100 per cent of Enterprise's equity, which are up for sale.

In keeping with past policy, the allotment procedure will favour small shareholders if the tender is oversubscribed. Alternatively investors can opt to buy up to 2,500 shares at the "striking price" which will be determined by the tender. City opinion yesterday was that the "striking price" was likely to be between 190p and 195p. One analyst said: "The Enterprise sale will go all right, but it will not be a raving success."

Enterprise Oil is Britain's fifth largest producer and by conventional oil industry standards the £392.9 million price tag is conservative. The company has taken over four producing North Sea oil fields from British Gas (Beryl, Fulmer, Montrose and NW Hutton) with a fifth field,

Hutton, due on stream this October.

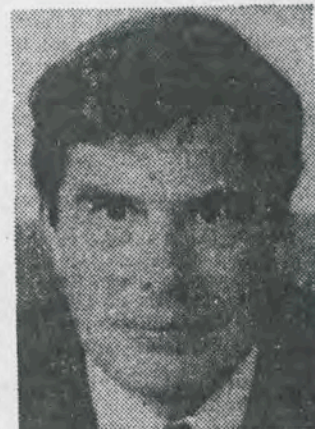
It has total oil reserves of 1.5 billion barrels and the sale price represents a 25 per cent discount on these assets.

But the government is keeping a so-called "golden share" in Enterprise to prevent any takeover it dislikes for the next four years. The Government also has the discretion to extend its veto powers.

There are also question marks over Enterprise's future development. After reaching a peak in 1985, production from its North Sea fields will begin to fall quickly and the company will have to search both at home and abroad to replenish its dwindling reserves.

Although more UK exploration is the first priority, Enterprise's chief executive, Mr Graham Hearne, is eager to explore in Europe and the United States.

Oil properties which Mr Hearne helped to acquire when



Mr Graham Hearne

he was chief executive of Tricentral have recently been sold by that company at a loss. "The United States is very attractive but it is very competitive," Mr Hearne said yesterday. "We will move very cautiously and carefully."

3/3

Lord Rothschild has  
written to me today  
about this. His letter  
is attached.

FEB

PRIME MINISTER

cc: Mr. Redwood 27.6

ENTERPRISE OIL

A difficulty has arisen on the flotation of Enterprise Oil. At the close of applications, 66% of the shares had been applied for, a better result than had been expected. It has become apparent however that RTZ has applied, through various nominees, for 49% of the shares, so in practice only 17% has been taken by the market. RTZ have issued a statement confirming that they had made this bid and that they had no intention of acquiring any further shares in Enterprise, and that such a holding was in line with their previously stated intention to expand their interests in the oil sector. They intend to discuss the implications of their holding with the Secretary of State for Energy and the takeover panel.

There are potential embarrassments for the Government in this. As a deliberate decision, Enterprise, or the Enterprise assets, were not sold to a single company, though it might have raised more money to do so; the aim was to create an independent exploration and production company in the North Sea. RTZ's holding, if allowed to go through, casts doubt on Enterprise's independence.

There are a number of responses:

- (i) Under the Underwriting Agreement, the Government has the right to scale back applications, even where the Issue is less than fully subscribed. RTZ could be scaled back to the 10% level at which a company is required to declare an interest, or the 30% level at which a company is

normally required to make a bid for the whole company. (I believe that because this is an Offer for Sale, the 30% rule does not apply). If RTZ are scaled back to 10%, they could bid for further shares in the market. If it did so, the Government could look doubly foolish. First because its intention of creating an independent oil company was being flouted, and secondly because the price at which these shares were acquired was higher than the 185p minimum tender price. If someone else came in to contest the bid, the price could be significantly higher.

- (ii) A way could be found to require RTZ to bid for the rest. This would again conflict with the intention to create an independent company and if RTZ acquired the whole company at 185p, the Government could be accused of letting Enterprise go too cheaply.

*There is also the question of the Golden Share which I believe can be used where any holding exceeds 50%.*

- (iii) The Government could seek to negotiate directly with RTZ to secure a higher price for sale as a single entity. While this would mean sacrificing the Government's ambitions to create an independent company, at least it would achieve a better sale price.

Discussions have been taking place between the Department of Energy, the Treasury and Kleinwort Benson, the advisers to the Issue. The various parties have agreed to reflect on this overnight before resuming in the morning. Mr. Walker wishes to telephone you at around 1030 to put you in the picture. I suggest you listen to what he has to say,

but do not commit yourself to a view. As yet I do not know what the Chancellor thinks, though I suspect he feels Sir Alistair Frame has behaved appallingly and would like to find some way of preventing him from succeeding in his attempted coup. Another consideration is that if RTZ's bid is scaled down too much, more will be left with the underwriters, which may dampen their enthusiasm for the BT Issue.

AS

27 June 1984

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.  
New Court  
St. Swithin's Lane  
London EC4P 4DU

27th June 1984



*Dear Kelvin,*

It was stupid of me to have got the Thursdays muddled.

During our telephone conversation I said there were two matters I wanted to mention to you. One is not urgent but the other may be and is as follows. We act as financial advisers to Rio Tinto Zinc who had in mind subscribing for 51% of Enterprise Oil. In the present circumstances they might have succeeded but after discussion with us, that percentage was reduced to 49, for obvious reasons.

We have also advised our client that they should discuss this matter with Peter Walker, as Secretary of State for Energy, and they either have or will shortly do so.

The Prime Minister might get a question about this matter so I attach a note about it which I hope may be of use.

*Yours  
Victor*

It became evident on Tuesday that the privatisation of Enterprise Oil was going to be a flop and that this would jeopardise all future privatisation operations which the Government has in mind. In that sense, therefore, the "bid" by Rio Tinto Zinc (the name of this company is, of course, secret) for 49% of Enterprise Oil saves the Government in the medium term from a series of embarrassments. At the same time, the majority of the Enterprise Oil shares will be held by the public.

The method adopted by the Government to privatise Enterprise Oil, flotation, is not conducive in present market conditions to a successful operation and does not produce the highest price. In these circumstances some thought may be needed about future operations of this type.

With permission, Mr Speaker, I will make a statement about the sale of shares in Enterprise Oil.

The application list opened and closed yesterday for the sale of 212 million shares at a minimum tender price of 185p a share, payable in two instalments.

The issue was underwritten successfully and in full on 19 June by a wide range of institutions. The share market generally, and the oil market in particular, have substantially weakened between the underwriting of the issue and the opening of the list. Applications were received for 66.4 per cent of the ordinary share capital. Rio Tinto Zinc have announced that they applied for 49 per cent of the shares. All their applications were made through nominees.

At the outset, the Government clearly stated its intention that Enterprise should be an independent oil exploration and production company. The Board and the staff of the company were recruited on that basis.

The Government's intention to ensure the continued independence of Enterprise for an initial period was clearly stated in the prospectus. To secure this the Government took two special steps.

First, it retained complete discretion to reject in whole or in part any application for shares on flotation of the company; and second, it retained a special share which, in effect, gives the Government a majority of shareholders' votes in the event of a take-over or attempted take-over of the company, for as long as such a situation continues.

These steps were designed to enable the Board and management to establish Enterprise as a new independent British oil company.

In keeping with this approach the Government has decided to exercise its power of rejection with a view to ensuring that no single individual or company, directly or through nominees, should hold beneficially more than 10 per cent of the equity as a result of the flotation.

On this basis applications for over 56m ordinary shares from more than 13,000 applicants have been accepted as valid and allocations will be made at the minimum tender price of 185p per share. The remaining shares will be taken up by the underwriters and sub-underwriters at the minimum tender price.

Finally, the Government wishes to make it clear that it is its firm intention to use the powers available to it to ensure the independence of Enterprise at this stage of its development consistent with the objectives specified in the prospectus.





DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
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JF6786

PS Secretary of State for Trade and Industry

28 June 1984

CONFIDENTIAL

David Peretz Esq  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*Dear David,*

ENTERPRISE OIL

I am writing to confirm what I told you over the telephone at approximately 1.30pm this afternoon, namely that my Secretary of State has had an opportunity, since Cabinet, to consult Martin Jacomb, the Deputy Chairman of Kleinworts responsible for corporate finance. In the light of that advice, my Secretary of State is clear that the Enterprise Oil episode will be damaging to the BT flotation, and that the proposal to limit RTZ's shares must be recognized as likely to lead to an adverse effect on the price of BT shares. A 10 per cent limitation will be regarded by sub-underwriters badly. My Secretary of State hopes that the adverse effects will prove short lived. In the light of this clear advice, he remains of the view that a limitation at 10 per cent is too low. However, as I told you, and as I told Mike Reidy, the Secretary of State will accept whatever decision is made on the level of limitation of RTZ.

2 My Secretary of State is most concerned about the extent of the confusion that existed this morning in relation to the advice being tendered by Kleinworts on the effect on BT of what was proposed for Enterprise Oil. To ensure that there is no comparable confusion in the future, he has instructed Kleinworts that they are to ensure that Kleinworts give advice on matters affecting BT only to my Secretary of State. He would be extremely grateful if



other Departments could respect this instruction, since otherwise Kleinworts will be placed in an embarrassing position.

3 I am copying this letter to Mike Reidy (Department of Energy) and to Andrew Turnbull (No 10).

*Yours ever,*

*Colin McCarthy*

M C McCARTHY  
Private Secretary

horse

PRIME MINISTER

Mr. Walker's Statement on Enterprise Oil

What could have been a difficult occasion for the Government proved to be very successful. The Opposition attack was feeble and predictable. Mr. Walker's explanation of his decision to cut RTZ's allocation was put across convincingly and he hammered home that the issue was a success in the sense that a new, well managed, well financed, independent oil company had been created; that underwriting had again proved its worth. The main danger was criticism from Government benches about the treatment of RTZ but this did not happen. Virtually the only critical note was from Jonathan Aitken who argued that the Government had allowed its timing to be dictated by PSBR and legislative factors.

AT

28 June 1984



JU634

Secretary of State for Trade and Industry

GR pl type to PM: a ps  
signature AF 28/2

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28 June 1984

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Andrew,

Thank you for your letter of 14 June enclosing one to the Prime Minister from Mr Keith Siddle, Chairman of European Ferries plc.

Mr Siddle wished to be allowed to purchase Sealink as a whole subject to an undertaking to sell off the ferries subsequently. As you will have seen from his letter of 19 June to the Secretary of State for Transport; the Secretary of State does not consider this a desirable option. Any such undertaking would be unenforceable, and would risk a situation in which the buyer of Sealink appeared to get a better price for the ports than was reflected in the price for Sealink as a whole. It would be regarded as a tortuous approach to privatisation.

The Secretary of State for Transport does not wish to alter the timing of the privatisation at present, so bids for separate parts of Sealink cannot be considered. The Secretary of State has therefore written to Mr Siddle giving him the reasons for rejecting his proposal; I attach a copy of his letter, together with a draft reply for the Prime Minister to send to Mr Siddle.

✓  
Yours ever,  
Ruth

RUTH THOMPSON  
Private Secretary

PS I am sending a copy of this letter to Dinah Nichols at the Department of Transport.

Enc

JU635

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

K Siddle Esq  
Chairman  
European Ferries plc  
Enterprise House  
Avebury Avenue  
Tonbridge  
Kent TN9 1TH

Thank you for your letter of 14 June about European Ferries' proposal to acquire Sealink.

I understand that after giving careful consideration to your suggestions, Norman Tebbit remains of the view that European Ferries should not be released from its undertaking not to acquire Sealink. He has written giving you his reasons, which concern the issues of competition identified in the Monopolies and Mergers Commission report.



P.01323

PRIME MINISTERBus White Paper

## BACKGROUND

— FLAGA  
 — FLAGB  
 — FLAGC  
 — FLAGD  
 — FLAGF

The Secretary of State for Transport circulated a draft White Paper under cover of a minute to you dated 14 June. Comments have been circulated by yourself (19 June), the Secretary of State for the Environment (21 June), the Secretary of State for Education and Science (22 June) and the Secretary of State for Scotland (22 June). The Secretary of State for Transport sent a further minute on 26 June responding to your comments and suggesting a new paragraph (4.18) on London.

— FLAGG

2. At E(A)(84)12th Meeting on 16 May, the Sub-Committee approved in principle proposals by the Secretary of State for Transport for legislation to deregulate the bus industry subject to satisfying themselves, on the basis of a draft White Paper, that the policy could be presented in a way that was politically acceptable.

— FLASH

3. His proposals, set out in E(A)(84)21, were as follows. To increase competition and bring down costs:

- i. 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:

- iii. replacement of the duties of county councils to plan



and co-ordinate public passenger transport with a power to ensure provision of necessary transport not supplied by the market;

- 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.

4. Since the Sub-Committee's earlier discussion, in order to meet anxieties about the possible effects on services in rural areas, the Secretary of State for Transport and the Chief Secretary, Treasury have agreed

- viii. that a special grant should be paid for three years to operators in rural areas at a cost of £20 million for the first full year, to be reduced in subsequent years to reflect a continuing assessment of the impact of deregulation in the rural areas.

5. A timetable for implementation of the new arrangements is annexed to the minute from the Secretary of State for Transport dated 14 June. It shows that, although licensing

would be abolished soon after Royal Assent in late 1985 or early 1986, the structural changes to the NBC, municipal operators and PTEs to enhance competition would not begin to take effect until 1986 and would not be finished until April 1988. The first year in which the Government will have direct responsibility for levels of precepts (and hence fares) in the metropolitan counties will be 1986/87.

## MAIN ISSUES

6. You will not want to spend time on detailed drafting. Remaining points can be left to be cleared quickly between the Ministers concerned. The main issues are:

- i. Is the general presentation of the policy politically acceptable, particularly as regards the rural areas?
- ii. Is the new transitional grant proposed for services in rural areas:
  - a. desirable; and
  - b. appropriately treated in the draft?
- iii. Is it right that the draft should promise continuation of the fuel duty rebate?
- iv. Does the draft adequately justify the exclusion of London from the proposals?

Presentation, particularly as regards the rural areas

7. There is no indication that any member considers that, in the light of the draft, the provisional approval given by the Sub-Committee to the proposals in E(A)(84)21 should be withdrawn. The Secretary of State for Scotland has said that he considers the passage on Scotland (chapter 7) acceptable.



8. So far as the rural areas are concerned, the presentation will be assisted by the new transitional grant discussed below. Does the draft (notably paragraphs 1.8, 2.6, 3.12-3.14 and 4.6) bring out sufficiently well the benefits for bus users in the rural areas in terms of better value for subsidies, more flexibility, and better use of the special services run by education authorities, the Post Office and others?

Transitional grant for operators in rural areas

9. Only the Chief Secretary, Treasury, the Secretary of State for Transport and the Secretaries of State for the Environment, Scotland and Wales were involved in the correspondence leading to the inclusion in the text of the proposed transitional grant of £20 million in the first full year for operators of services in rural areas. It may seem odd that deregulation justified largely by the need to increase efficiency and reduce subsidy levels should require a new subsidy involving additional expenditure on bus support. Those who have commented have however felt that the proposal will help to gain acceptance for the deregulation policy. It is important in this context that the grant should be seen as transitional and temporary.

10. The White Paper (paragraph 3.12) says very little about the basis on which the transitional grant is to be paid. I understand that the proposal is to base it on arrangements for the payment of Fuel Duty Rebate and that it would go to all operators in eligible areas on an unselective basis. Is this acceptable? If so, should the White Paper say more about the proposed basis for payment of the grant?

Fuel duty rebate

11. In your Private Secretary's letter of 19 June it was suggested that the White Paper might in paragraph 3.9 open consultations on the phasing out of the fuel duty rebate rather than promise its continuation. In his minute of 26 June the Secretary of State for

Transport points out that this would have an adverse effect particularly on rural areas. He suggests as an alternative the "recycling" of the money through County Councils but this would increase the dependence of small private operators on local authority subsidies. Since Ministers have been particularly concerned about the White Paper's reception in rural areas and the transitional grant has been devised for that purpose, it seems doubtful whether the Sub-Committee will wish to take a step in the opposite direction by casting doubt at this stage on the future of the fuel duty rebate.

#### London

12. You felt that the explanation given in paragraph 4.18 was not a convincing account of why London is not included in the proposals. A redraft is now attached to Mr Ridley's minute of 26 June. The main changes are that the redraft lays more stress on the increased competition being introduced into London's bus services and suggests that deregulation in London is merely being deferred while these changes bear fruit.

#### Publication

13. If the Sub-Committee are content, subject to outstanding amendments, with the text of the White Paper, they will wish to hear Mr Ridley's proposals for timing of publication and to invite him to circulate an amended final draft to the Sub-Committee and other members of the Cabinet.

#### HANDLING

14. In view of the part he played at the last discussion, you will wish to ask the Lord President of the Council to speak first on the general balance and acceptability of the draft once the Secretary of State for Transport has introduced his paper. Several Ministers may wish to comment on this also. The Chief Secretary, Treasury will wish to say whether the financial aspects of the proposals are satisfactory.

*Lord Whitelaw will be in the Lords. He has indicated that he is content with the draft.*



CONCLUSIONS

15. You will wish to reach conclusions on:

i. whether, subject to any outstanding points of minor detail, the Sub-Committee is content with the draft White Paper;

ii. if so, what arrangements should be made for publication.

CONFIDENTIAL

*PLG*

P L GREGSON

27 June 1984

u 10

NORM AT 26/2



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

26 June 1984

*Nick*

*with AT*

Thank you for the copy of your minute of 14 June to the Prime Minister covering the draft White Paper 'A Better Way for Public Transport'.

I understand that there is to be a meeting of E(A) Committee to consider the draft, so I shall not comment on it now though my officials are conveying one detailed textual point to yours.

In the meantime you will wish to know that, following the last meeting of E(A) Committee, my officials have been revising my proposed Consultation Paper. My aim is that it should be published at around the same time as the White Paper. A draft is already with your officials and I now enclose a version slightly amended to take account of your intention to announce the bus substitution proposals by means of Written Answer before the White Paper is published. I would be grateful for any comments you may have as soon as possible so that arrangements for its publication (including translation into Welsh) can be finalised.

I am copying this letter to the other recipients of your minute. For Peter Rees, I enclose a copy of the draft Consultation Paper.

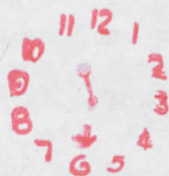
*John*

*Nick*

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport

ECON POL: Privatization

26 JUN 1984





bc JR

10 DOWNING STREET

*From the Private Secretary*

26 June 1984

Airports Policy

brill

At the meeting of E(DL) in April it was agreed that your Secretary of State would give further thought to the possibility of privatising BAA's London and Scottish airports. I would be grateful if you could provide me with a progress report, indicating the nature of the options being considered and the likely timetable for returning to the Committee with proposals.

I am sending a copy of this letter to David Peretz (HM Treasury) and Andrew Hudson (Financial Secretary's Office).

Andrew Turnbull

Miss Dinah Nichols,  
Department of Transport.

CONFIDENTIAL

JR



10 DOWNING STREET

*From the Private Secretary*

26 June 1984

Privatisation

Since E(A) last considered privatisation in January, significant progress has been made - the sale of Wytch Farm has been completed, Enterprise Oil floated, and Jaguar and Sealink brought close to sale. The BT issue is now only a few months away. The Prime Minister understands that the Treasury is compiling a further progress report and looks forward to seeing this before the Recess.

I am copying this letter to Andrew Hudson (Financial Secretary's Office).

Andrew Turnbull

David Peretz, Esq.,  
HM Treasury.

888



E(A)  
Paw needs  
folder

CC/NO  
✓  
F

PRIME MINISTER

BUS WHITE PAPER

We are to discuss at E(A) on June 28th the draft White Paper I circulated on 14 June.

It may be helpful to you and other E(A) colleagues to see in advance of the meeting some revisions I suggest to the text to meet the helpful points made in your Private Secretary's letter of 19 June.

/ I attach revised opening paragraphs and a new piece about London to replace paragraph 4.18. I also agree that the extended reference to the Monopolies & Mergers Commission's report in paragraphs 5.4 and 5.5 may expose us unduly. I suggest omitting paragraph 5.5 and bringing paragraph 5.4 under the heading "Efficiency of public bus operation". I do not think we can leave out a reference altogether, given the importance both we and the industry have attached to the detailed and useful investigation the MMC carried out.

I am sure we should discuss the question of how to tackle fuel duty rebate. I am no advocate of a large indiscriminate subsidy of this kind, but its removal or phasing out now would adversely affect rural areas (where it probably forms a higher proportion of unit costs than elsewhere). We might consider whether we could "recycle" the money through some form of help to County Councils, but the loss of rebate could be a particular blow to small private operators, many of whom have sought to avoid dependence on local authority subsidy and all the paperwork that entails.





I have seen Patrick Jenkin's comments. I suggest these be settled between officials before Thursday's meeting.

I am copying this to the members of E(A), to Norman Fowler and Keith Joseph and to Sir Robert Armstrong.

NICHOLAS RIDLEY

26 June 1984

## LONDON

4.18 The Government does not propose to deregulate completely in London for the time being. The need to take a grip on subsidy has led the Government to take over responsibility for the London Transport Executive from the GLC and reconstitute it as London Regional Transport, with new powers and duties. The legislation requires changes in the way London's buses and tubes are run, requires LRT to contract out work wherever suitable and provides for greater involvement by the private sector in the provision of services both as contractors to LRT and in competition with them. In particular, LRT is required by the Act to invite tenders from private firms to carry on certain of their activities and to accept satisfactory tenders where this would save costs. In addition, for the first time bus operators will be able to apply to the traffic commissioners for a road service licence to run local bus services in London rather than having to depend, as formerly, on obtaining an agreement from London Transport. These are major changes which will bring a measure of competition into the provision of London Bus Services. The Government has decided, in these special circumstances, to defer deregulation in London while the changes so recently instituted, bear fruit.

1.1 Britain needs good bus services. Over 10% of all journeys are made by bus and three quarters of those journeys are for essential purposes - work, school, business, shopping. Most of the people who take the bus are in less well paid jobs or unemployed, women, pensioners or schoolchildren. Most of them come from the 39% of households in this country who do not have the regular use of a car.

1.2 Since the great majority of the population live in towns, the biggest use of public transport is also in the towns, where buses carry large numbers of people to and from work and school in the peak hours. Indeed in our biggest cities, the high level of service by public transport throughout the day means that people can get to all the facilities the city offers without needing a car and so can enjoy all the benefits of city life. But policies for public transport must also take great care of the interests of country dwellers. People who live in the country without a car depend on the bus for access to the local towns and for their social activities; maintaining these public transport links is vital for the future of rural communities.



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Norman Tebbit MP  
Secretary of State  
Department of Trade and Industry  
1 Victoria Street  
LONDON  
SW1

22 June 1984

*Dear Norman*

*Papers with AT*

Thank you for your letter of 19 June about the latest request from European Ferries to be released from their 1982 undertaking not to acquire Sealink.

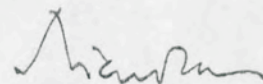

I am frankly puzzled by the fashion in which Mr Siddle and his colleagues pretend to ignore the competition arguments. The acquisition by European Ferries of Sealink's harbours or its shipping activities would result in significant market dominance, as explained in the 1981 MMC report. (Paragraph 8.45 summarised the Commission's conclusions both in relation to Sealink's shipping business and its ports.) In view of that, I find it hard to take Mr Siddle's indignation seriously. We cannot really allow the privatisation programme to lead to monopolies - or near monopolies - in the private sector.

The position of P&O is more understandable. But as I said in my letter to Nigel Lawson of 11 May, colleagues all agreed last December to proceed promptly with the sale of Sealink as an entity and to the timetable the Railways Board are now following. Sale on an entity basis has been the settled and announced policy for years. I was convinced then that proceeding promptly on this basis was the course most likely to result in a successful privatisation of the company in a realistic timescale. I rejected arguments that we should delay on the speculation that the business would improve. I am, I fear, proved more right than I like! The business is doing worse than they predicted.

The Board are very close to inviting formal bids. We should know in a matter of days whether a successful tender can be organised. Within a week or so of that bids will be in, and we will know if an acceptable offer for the company is forthcoming. Given the efforts which British Rail and potential bidders have put into this exercise, it would be absurd to abandon our chosen course at this stage. Nor do we have any sound reason to believe now that a change would result in a better price.

I have always made it clear to colleagues that there can be no certainty that a satisfactory bid will be forthcoming. If we are disappointed we would then have to look at all the arguments afresh. We might have to contemplate splitting up Sealink as the only method of achieving privatisation which would avoid further substantial injections of public money. But it is not a course on which I would lightly embark and the timescale would be a long one.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Defence.



NICHOLAS RIDLEY

22 JUN 1994





NDM CENO  
AT 22/6  
SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

E

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

22 June 1984

Dear Nick,

BUS WHITE PAPER

Thank you for sending me a copy of your minute of 14 June to the Prime Minister.

I confirm that I am content with the draft White Paper and the timetable for implementing the proposals. I also agree that we should aim to publish in the first week of July if at all possible.

It would be helpful if our officials could continue to keep in close touch on the arrangements for the launch and the subsequent stages of the exercise.

I am copying this letter to the Prime Minister, to Members of E(A), to Norman Fowler and Keith Joseph, and to Sir Robert Armstrong.

Yours ever,

George







## DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Nicholas Ridley MP  
 Secretary of State for Transport  
 2 Marsham Street  
 LONDON SW1 36B

22 June 1984

*Dear Nicholas,*

## BUS WHITE PAPER

You copied to me your minute of 14 June to the Prime Minister and invited comments on the draft White Paper.

My ~~main~~ concern is with the implications for rural bus services generally. School children are a main user of these services and where they have to travel from home to school above a certain distance the cost is borne by the local education authority. About £200m is involved *pa.*

Insofar as the proposals in the White Paper would lead to the withdrawal of services by private operators or an increase in fares, local education authorities - in particular shire counties in respect of their rural areas - would have to incur more expenditure and the savings which might be realised in subsidy elsewhere might not flow back to those who had to face this extra expenditure.

I was not able to be present at the E(A) meeting at which your proposals were discussed but I understand that a number of colleagues expressed concern at the effect on rural areas and the reaction of rural interests. I recognise that the proposals for an innovation grant, a premium on fuel duty rebate and the exploration of more effective co-ordination and use of buses provided for social purposes will go some way to help in meeting the criticism which the Association of County Councils is almost bound to level at this aspect of the White Paper. But we should not underestimate the very difficult expenditure position many shire counties are now in, following the savings they have already had to make. It is important not to make life more difficult for them. In addition, since home to school transport also helps to underpin parents' choice of school on religious grounds within the dual system, we may also have to face criticism from the Churches.

cont/d..

CONFIDENTIAL

For these reasons I welcome the suggestion that the reduction in the premium on fuel duty rebate will reflect a continuing assessment of the impact of deregulation in rural areas. In the light of such an assessment we may need to return to the question of doing something more for this sector.

I am copying this letter to the recipients of yours.

Learn,

Kevin

ECON POL: Privatization: Pt 9.



**CONFIDENTIAL**

N/S/P/M  
AT  
22/6

upto

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

C

My ref:

Your ref:

21 June 1984

Dear Secretary of State

BUS WHITE PAPER

Thank you for copying to me your minute *at frag.* to the Prime Minister and your draft White Paper.

I have three interests in the White Paper - the links with abolition, implications for the local government finance system and the implications for rural areas.

On abolition, I am content with paragraph 5.14. We shall, however, still need to ensure that undue turbulence is not created for the PTAs/PTEs by simultaneous pursuit of our two separate policies. Our officials have been in touch about the drafting of paragraph 1.10, where I am concerned that critics may claim that there is a discrepancy between your White Paper and Cmnd 9063.

On finance, our officials are in touch about the need to square your proposals for detailed financial control over both municipal and PTE operations after incorporation with the general rules governing local authority capital expenditure. Paragraph 5.12 will need some amendment to reflect this.

There appears to be no reference in the text to the accounts points mentioned at item 2(v) of the timetable annexed to your letter.

I very much welcome the additional help you propose for services in rural areas in para 3.12 of the draft, which does a great deal to improve the public acceptability of the White Paper. I look forward to my officials being consulted about the definition of the services to benefit.

I appreciate it may be necessary for public expenditure reasons to set a time limit in the White Paper. The new grant will however, rightly, be linked to a continuing assessment of the impact of de-regulation - an assessment which will also need to cover any effects from breaking up the NBC. I think it important therefore that the legislation should not be limited to 3 years in case the assessment should demonstrate a need for help in some areas beyond 3 years.

I also welcome the £1M pa grant to be administered by the Development Commission for new schemes. I think the White Paper should make it clear that the £1M - also to be funded

**CONFIDENTIAL**

CONFIDENTIAL

from Transport PESC as I understand it - is the sum for England, as was the basis of discussions between officials. I also suggest it would make more impact if the words "for community transport" in line 9 were omitted - there may well be scope for imaginative pump-priming operations in the commercial sector which should not be excluded.

Finally, you might want to look again at the balance between what is said about Scottish rural needs in para 7.3 and the simple first sentence of 3.12. I do not want to belittle Scottish needs but everything said there applies equally to many rural areas in England, and no doubt in Wales.

/ I am copying this to the other recipients of your minute.

Your sincerely

A.H. Davis

for

PATRICK JENKIN

Approved by the SFS and signed in his absence  
1 2 3 4 5 6 7 8 9 10 11 12

CONFIDENTIAL



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422

GTN 215)

(Switchboard) 215 7877

17 June 1984

CONFIDENTIAL AND  
MARKET SENSITIVE

Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

*Dear Nicholas,*

SALE OF SEALINK

I am writing to you again on Sealink because I have recently received a request from European Ferries to release the company from its undertaking not to acquire Sealink in exchange for an undertaking to divest itself of the ferries after the acquisition, and retain only the ports. You will now have seen that Mr Siddle has written to the Prime Minister as well (Andrew *With AT?* Turnbull's letter to Ruth Thompson of 14 June). I also understand that P & O have approached the Office of Fair Trading to explore their attitude to the acquisition of the ports only.

2 The Office of Fair Trading advise that, since BRB are not offering the ports separately, they cannot regard proposals to buy the ports alone as proposed mergers on which to advise me. As regards European Ferries' proposal, it is very doubtful that any such undertaking would be enforceable in practice. It would risk a situation in which the buyer of Sealink appeared then to get a better price for the ports than was reflected in the price for Sealink as a whole. And it would be regarded as a tortuous approach to the privatisation.

3 But I remain concerned that we have artificially limited the field for Sealink and are denying ourselves the possibility of considering bids for its separate parts. Of course I want to see an outcome which is satisfactory on competition grounds, but we have excluded the normal investigations to determine where the public interest lies. A bid for the ports only from P & O would be unlikely to raise competition problems; a bid by European

JH1AKU



Ferries for the ports only would be less difficult than a bid by it for Sealink as a whole, though it still might fall foul of the mergers legislation. Other bidders might emerge if the ports and ferries were on offer separately. From your point of view, you may be concerned at the effect on the price of the exclusion of enthusiastic, credible bidders, particularly in the light of the somewhat mixed collection of bidders that have come forward.

4 You know my views on the situation we have got ourselves into, and I would be grateful to know the latest position on the timetable for the sale and whether you feel now that it would be better to reconsider the basis on which the sale is proceeding.

5 I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Defence.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT

FILE

JD

CONFIDENTIAL



cc HMT.  
D/M  
NIO  
D/N  
SO  
WO

DOE  
WPSO  
DTI  
CAL  
MAFF  
CSO  
CO  
DHES  
DES

10 DOWNING STREET

From the Private Secretary

19 June, 1984.

B

Dear Dinah,

Bus White Paper

The Prime Minister has seen the draft White Paper, "A Better Way for Public Transport" attached to your Secretary of State's minute of 14 June. She feels that this is a major subject for which it is vital to get the presentation right, and she would, therefore, like it to come back a further time to E(A). Meanwhile, if Departments have any detailed points which they wish to make, they should try to clear them with the Department of Transport in advance of the meeting.

The Prime Minister would like the following points to be considered. She wonders whether the language of the vital opening paragraph is over-simplified. Secondly, paragraph 3.9 dismisses any change in the Fuel Duty Rebate. This is costing £100 million per annum and becomes harder to justify and administer in a deregulated market. The White Paper could suggest consultations on phasing it out. Thirdly, the explanation given in paragraph 4.18 does not provide a convincing explanation of why London is not included in the deregulation package. She hopes that something can be said which will hold out the prospect for more competition for London's transport. Finally, paragraphs 5.4 and 5.5 referring to the 1981 Monopolies and Mergers Commission's examination of 4 bus companies could provide material which could be turned against the Government. Are paragraphs 5.1 and 5.3 sufficient on their own?

CONFIDENTIAL

/ I am

da



CONFIDENTIAL

- 2 -

I am sending copies of this letter to the Private Secretaries to the members of E(A), to Steve Godber (Department of Health and Social Security), Elizabeth Hodgkinson (Department of Education and Science), and Richard Hatfield (Cabinet Office).

Your sincerely  
Andrew Turnbull

Andrew Turnbull

Miss D.A. Nichols,  
Department of Transport.

CONFIDENTIAL

CCNO

NDP  
8/12/6

PRIME MINISTER

ENTERPRISE OIL

The Financial Secretary and I discussed the terms of the Enterprise Oil issue on Friday June 15 and again this morning with Messrs Wood Mackenzie, our advisers on the pricing of the issue; and with the main underwriters, including Kleinwort Benson who had earlier been our principal advisers on this privatisation. In the light of all these discussions, the Financial Secretary and I agreed in deciding that the issue should be by tender, and should consist of 212 million shares at a minimum tender price of £1.85p. If the issue sold at the minimum price, it would realise £392.2 million.

Saving some major event which triggered the "force majeure" clause in the underwriters' agreement, the issue will be announced tomorrow Tuesday June 19th and, as I said in my minute of ~~13~~ June, application lists will open and close on 27 June.

In reaching our conclusion on the minimum tender price, the Financial Secretary and I had to take account of the weakening of financial markets in the last week or two, including the weakening of the oil sector. Whereas our advisers hoped some weeks ago that a price well in excess of £400 million might be obtainable, Kleinwort Benson had to make an effort to secure underwriting at the price quoted above in the uncertain market conditions of the last few days. The Treasury for their part have been concerned that on wider privatisation grounds, a success was needed with this issue in relation to both the underwriters and the market, even if this meant not pressing the underwriters to their absolute limit. Of course, I fully share with the Treasury the wish to see the issue made a success.

The use of the tender method is in line with a recommendation just made by the Public Accounts Committee. Moreover, it gives us the possibility that if market conditions were to improve



sharply between now and 27 June, we would have the possibility of higher proceeds through tenders above the minimum price. Indeed, Kleinwort Benson were expressing the hope that we would achieve more than £400 million even in conditions similar to the present ones, although I would not myself want to count on this.

I am copying this minute to the Chancellor of the Exchequer, the Financial Secretary to the Treasury, the Governor of the Bank of England and to Sir Robert Armstrong.

A handwritten signature in blue ink, which appears to be "D. G. Williams", is written over the typed name.

THE SECRETARY OF STATE FOR ENERGY

18 June 1984

Econ Pol: Privatization 1+9.





10 DOWNING STREET

Prime Minister ①

A Chapter 1 makes the  
case for radical change  
for the bus industry  
Chapter 2 Summarise the  
proposals.

- (i) Approve the White Paper  
generally, subject to colleagues?
- (ii) Agree Policy Unit  
points be put to D/Tsp?

AT

18/6

1/2 should come back  
to K.

ms

CONFIDENTIAL

MR TURNBULL

cc Mr. Redwood

WHITE PAPER ON BUS DE-REGULATION

At E(A) on 16 May, the Prime Minister and Lord Whitelaw stressed the importance of good presentation and salesmanship in the White Paper which Mr. Ridley promised. By and large, Mr. Ridley's team has done a very good job.

We cavil at a few points:-

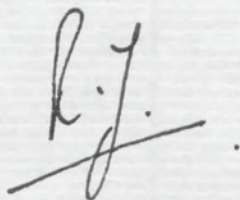
1. The very first paragraph (1.1) uses language which we feel is much too child-like. One senses that Bertie the Bus might be about to drive up! We have already suggested a maturer version to the Department of Transport.
2. Paragraph (3.9) deals dismissively with Fuel Duty Rebate. At nearly £100 million per annum this is no small distortion, which in a de-regulated market becomes harder to justify and administer. We feel that Mr. Ridley should commit to consultations on phasing it out.
3. Paragraph (4.18) is an insufficient attempt to explain why London is not included in the de-regulation package. We need much more cogent prose which also holds out the prospect of more competition for London's transport.
4. Paragraphs (5.4) and (5.5) refer to the 1981 Monopolies and Mergers Commission examination of four bus companies. We seriously doubt the value of these two paragraphs, in that the Monopolies and Mergers Commission's report contains plenty of innocent material which Mr. Ridley's detractors can too easily turn against him. In our view, paragraphs (5.1 - 5.3) are enough on their own.

CONFIDENTIAL

-2-

All in all, the draft White Paper can easily be turned into an excellent work. We recommend the Prime Minister to approve it subject (if she is happy) to the points above.

You should be aware that there is some disagreement at the moment over the Annexes, which are not being circulated to Ministers. Large parts of the Annexes are tedious, off the point of deregulation, and cut right across the 'selling' style of the main paper. Other departments, Policy Unit included, are arguing for improvements which should forestall any need for the Prime Minister to arbitrate.



Robert Young  
18 June, 1984

CONFIDENTIAL



PM/84/99

PRIME MINISTER

Flotation of Enterprise Oil

1. I have seen the minute of 13 June from the Secretary of State for Energy in which he seeks approval to proceed with the Stock Market flotation of Enterprise Oil.

2. The only aspect of the proposed arrangement that concerns me is his intention to retain a special share in the company which would enable him to prevent unacceptable takeover bids in the early years of its existence. In the case of the Britoil flotation in 1982, which set a precedent, we were concerned that such a measure might be challenged as contrary to our obligations under the EC Treaties on grounds of discrimination against nationals of other EC member states. However, it proved possible to draft the Articles of Association for Britoil in such a way as to be, on the face of it, compatible with our obligations (see Lord Carrington's minute of 16 March 1982 to the Secretary of State for Energy enclosed). In the event, the issue provoked no comment or criticism from the Commission or other member states.

3. I have no objection to the present proposals put by the Secretary of State for Energy. However, we shall again need to take care that, in Parliamentary and public statements about the flotation, we guard against provoking charges of discrimination. In view of this, I hope that my officials can be kept informed of texts while they are still in draft.

/4.



CONFIDENTIAL



4. I am sending copies of this minute to recipient of that from the Secretary of State for Energy.

A handwritten signature in blue ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office

18 June, 1984

CONFIDENTIAL



MEE 162/636/1  
 RECEIVED IN REGISTRY No. 70  
 22 MAR 1982  
 DEPT OFFICER      REGISTRY  
 INDEX      PA      Action (Date)

(88)

ESSD.

✓ PS.  
 PS/Lord Gifford.  
 Mr Adams..  
 Mr Hanbury.

17/3

Mr. SOYAKA  
 Mr. HARRIS

19/3

ECB(1)

ye

17/3

WSI G.S.M.  
 16.3.82

FCS/82/47

SECRETARY OF STATE FOR ENERGY

Sale of Shares in Britoil

1. Thank you for sending me a copy of your letter of 8 March to Geoffrey Howe, enclosing the Articles of Association of Britoil relevant to changes in control of the company.
2. FCO Legal Advisers have considered the Articles and are satisfied that they do not on their face involve any discrimination contrary to our obligations under the Treaty of Rome. I am therefore content that you should now make the Articles available in the House. But as I said in my minute of 27 July last year to your predecessor, we must continue to be careful that in Parliamentary statements about this aspect of Britoil, we guard against charges that what we are doing will in effect discriminate against other EC nationals. I hope therefore that your officials will continue to keep in touch with mine over the terms of such statements.
3. I am copying this to Geoffrey Howe.

C

(CARRINGTON)

Foreign and Commonwealth Office  
 16 March 1982

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MFTJABL



10 DOWNING STREET

*From the Private Secretary*

15 June 1984

Privatisation of Enterprise Oil

The Prime Minister has seen your Secretary of State's minute of 13 June and is content that he should proceed on the timetable proposed for the flotation of Enterprise Oil, subject to market conditions.

I am copying this letter to David Peretz (HM Treasury), David Morris (Lord Privy Seal's Office), Andrew Hudson (Financial Secretary's Office), John Bartlett (Governor's Office, Bank of England) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Michael Reidy Esq  
Department of Energy.

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SA

File  
MR. K. SIDDLER

28/6

OSJ

14 June 1984

I enclose a copy of a letter which the Prime Minister has received from Mr. K. Siddle of European Ferries plc.

I should be grateful if you would let me have a draft reply for the Prime Minister's signature, to reach this office by Thursday, 28 June.

I am copying this letter and its enclosure to Dinah Nichols (Department of Transport).

Andrew Turnbull

Miss Ruth Thompson,  
Department of Trade and Industry.

OSJ

800 Ack'd on 14/6

# European Ferries Plc

Enterprise House, Avebury Avenue  
Tonbridge, Kent TN9 1TH  
Telephone: (0732) 366066  
Telex: 957488 Ferrys G

14th June, 1984.

PRIVATE AND CONFIDENTIAL

The Rt. Hon. Mrs. M. H. Thatcher, M.P.,  
Prime Minister,  
10 Downing Street,  
London, S.W.1.

Dear Prime Minister,

We were extremely disappointed not to have been allowed to consider a bid for Sealink U.K.

We have put to the Secretary of State for Trade and Industry one of a number of possible revised proposals which he is at present considering. This proposal is that, if allowed to acquire Sealink U.K., we would be prepared to divest ourselves of all the shipping operations and to retain only the ports. This should remove any possible objections concerning our increasing our market share in our ferry operations through acquisition. We have also said that we would be prepared to consider giving any appropriate undertakings to safeguard use of the ports by other parties.

You have often said that you want successful U.K. business enterprises to be recognised and rewarded, and to build a society in which they can flourish. I believe that European Ferries has shown itself to be a very successful and enterprising U.K. company over the years and I hope very much that you and the Secretary of State will find our revised proposal acceptable. We shall then be able to show the same degree of successful enterprise in our port operations as our ferry operations.

We would seriously consider any alternative proposals but we believe that the initiative for these should come from Government circles. Is it not time that constructive initiatives were taken by the relevant Governmental authorities which still seem to be imbued with the philosophy "What cannot be achieved" rather than "What can be achieved"?

Yours sincerely,

*K. Siddle*

K. Siddle,  
Chairman.

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PRIME MINISTER

BUS WHITE PAPER

At E(A) on 16 May (E(A)(84)12th) I was invited to circulate a draft white paper embodying the proposals which the Committee had approved. I attach the draft which I propose. As agreed in correspondence, it incorporates a separate chapter about Scotland.

I have particularly sought to set out fully and clearly the effects of deregulation on the rural areas. There are bound to be changes - though there will be much greater changes in the towns - and there will certainly be benefits from the change. The gains in efficiency will not be confined to the towns. A very great reassurance about the transition will be provided by the additional grant of £20m in the first full year to which the Chief Secretary has agreed, and which will be made available directly to operators in rural areas to cover the period before the full benefits of greater efficiency flow through. This is announced in paragraph 3.12 of the draft.

Paragraph 3.13 of the draft stresses the potential for better use of transport provided by other public bodies, in particular education and social services departments of local authorities. I am following up with the colleagues concerned how we can together develop specific practical policies and I am sure that I shall have their fullest support in that.

I have concluded on reflection that it will be better to announce separately beforehand our intention to legislate on substitution of buses for certain rail services, on which I sent you a minute on 22 May. To include that in this White Paper might divert attention from the central policy reforms.

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Our proposals will be vigorously attacked by the vested interests concerned and it will be vital to demonstrate to the passengers of the bus industry that they are founded on full and detailed analysis of the industry. I therefore think it very important to include five technical annexes in the White Paper setting out statistical material, a professional critique of regulation, subsidy, cross-subsidy and the scope for increases in efficiency, and a report on the results of the 1980 legislation. To avoid burdening my colleagues with a very substantial amount of paper, I have arranged for these annexes to be circulated to officials in the Departments principally concerned and to the Policy Unit. If you have time to look at the section on the scope for increases in efficiency, I think you will find the material very striking.

The Committee wished to see a timetable for implementing the proposals. This is attached. To achieve it, I need to publish the White Paper as soon as possible, and well before the start of the summer recess. I would like very much to publish it in the first week of July. I should therefore be very grateful to know whether you are content with the presentation in the White Paper, and to have any comments from colleagues by 21 June.

I am sending copies of this to members of E(A), to Norman Fowler and Keith Joseph, and to Sir Robert Armstrong.

*Dr.*

*Private Secretary.*

*(Approved by the Secretary of State & signed in his absence)*

NICHOLAS RIDLEY

14 June 1984

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## TIMETABLE

The proposals involve three main interlocking elements:

1. Deregulation
2. Changes in arrangements for paying subsidy
3. Changes in the structure and ownership of public sector operators.

The aim will be to effect the changes on all three fronts as quickly as is practically possible. The precise timing will depend on the speed with which local authorities can be expected to adjust to the very major changes proposed and on the detail of individual schemes for restructuring operators to create viable new entities.

The programme will be as follows:

1. In advance of legislation

Begin consultations as soon as the White Paper is published with the Board of NBC and with local authority associations on the series of practical questions trailed in the White Paper.

2. After legislation

- (i) Abolish road service licensing

Introduce arrangements for registration and quality safeguards. End exemption from Restrictive Trade Practices Act.

As soon as possible after Royal Assent.  
(Autumn 1985/  
January 1986)

- (ii) Introduce innovation grant and rural grant.

"

- (iii) Local authorities introduce rolling subsidy tendering programmes.

1985-6 to  
1988-9





(iv) NBC restructuring and disposal. The aim will be to effect substantial disposal during the present Parliament. 1986 onwards

(v) Formation of municipal and PTE undertakings into companies. From 1986-7

Precise timing will depend on individual circumstances. Properly prepared accounts need to be obtained for the municipals for at least a full year before formation. The aim will be to complete the process by April 1988 for both municipals and PTEs.

OTP: 1294  
copy 8 of 20  
Prime minister.

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DRAFT WHITE PAPER

A BETTER WAY FOR PUBLIC TRANSPORT

### Chapter 1 - The Opportunity

1.1. Public transport is a vital part of daily life. For many people the bus is essential for going to work, shopping, visiting friends, going to the doctor, going to school. Over 10% of all journeys are made by bus. Most of the people who take the bus do not have the use of a car. Most are people in less well paid jobs or unemployed, women, pensioners or schoolchildren. In our towns and cities buses carry large numbers of people to and from work and school in the peak hours. In our biggest cities, the high level of service throughout the day also means that people can have all the benefits of city life without needing a car. People living in the countryside without a car depend on the bus for access to the local towns and for their social activities. The Government believe that maintaining these public transport links is vital for the future of rural communities.

1.2. But despite the need for public transport, and the substantial financial support provided by central and local government, local bus services have been contracting for years. Since 1955 bus and coach mileage has halved and the percentage of all journeys made by bus has gone down from 40% to 8%. Rural transport has become costly and sparse. In some of our major cities the cost of subsidising public transport is now unacceptable. The big rise in car ownership since the early 1950s has changed patterns of personal travel and made it more difficult to provide good public transport. But the framework of regulation has also stopped the industry making changes to meet today's travel needs.

1.3. For 50 years from 1930 to 1980 local bus services were subject to a highly restrictive licensing system. Within this

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system the belief grew up that the way to provide comprehensive public transport is to protect the existing operators so that their profits from popular routes can cross-subsidise services for which there is less demand. The result of these worthy intentions has been to maintain a pattern of services developed for a different age and to neglect the best parts of the market. There has been too little incentive to develop markets, to woo the customer. Operators have been hampered by a philosophy that is defensive and inward-looking. For too long they have been placed in the highly discouraging position of having to argue with the traffic commissioners about every new service. In 1980 Parliament began to remove the barriers to competition by making it easier for operators to run new services. The last four years have shown that the industry has able and energetic managers who are ready to take advantage of new opportunities and that there is life in the bus market where operators have been prepared to try new ventures. It is now time to go further.

1.4. There is good evidence that services could be improved and costs reduced if we went about it in a different way. Without the dead hand of restrictive regulation fares could be reduced now on many bus routes and the operator would still make a profit. New and better services would be provided. More people would travel. This is not idle speculation. In 1980 the Government removed regulation from the long distance coach services. As a result, fares have come down, new services have been provided, the number of people travelling has gone up, new vehicles with greater comfort compete for custom. Competition has done all this - and the customer is the beneficiary.

1.5. If the customer has the final say, bus operators will look keenly to see where and when people want to travel. If one operator fails to provide a service that is wanted, another

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will. They will be stimulated to provide a greater variety of services, using different types of vehicles running on different routes or frequencies, offering more choices to meet peoples' needs. Competing minibuses may offer a fast and frequent service in city centres. Shared taxis may provide transport for people in villages. New services may link residential areas with out-of-town shopping centres. Operators will not be slow to find out what passengers want.

1.6. Competition also brings continuing pressure to keep costs down. The cost of operating buses has gone up by 20-30% over the last 10 years, over and above inflation and bus fares have gone up by more than 30%. Yet motoring costs have hardly risen over the same period. Of course the advent of the private car has put pressure on operators but that is not a reason why the costs should have risen so fast. It has not happened in the taxi and hire car industries which are even more labour intensive. They too have faced competition from private cars but their markets have grown. In contrast to the increases in bus fares and the 30% fall in demand for bus services in the last decade, taxi and hire car fares have risen by only 10% and demand has more than doubled.

1.7. The way in which the bus industry is organised, the protection it works within and the way in which subsidy has been paid have conspired to keep costs higher than they need be. Leaving London aside, if costs were to fall by 15% - which is less than the increase since 1970 in the unit costs of nationalised, municipal or PTE operators the saving would be about £235m a year, against the total cost of revenue support of about £300m.

1.8. There will always be many socially necessary but unprofitable services which local authorities will want to

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support. Here again the Government believes that competition must help to ensure that the community sees better value for money from subsidised services. This is just what has happened in the "trial areas", set up at the request of county councils under the 1980 Transport Act, in which road service licensing has been removed from local services. In each of the areas the county has been able to obtain better value for subsidy payments and in none has deregulation brought the loss of services which some predicted. The pattern has changed, and services are now more in line with travellers' needs. Annex 5 describes more fully what has happened in the trial areas.

1.9. This shows that with imagination it is possible to obtain better value for money for services in the rural areas. The financial problem is in the urban areas. The big subsidies are being paid in London and the Metropolitan Counties. Those areas, with 40% of the population of England, account for over 80% of revenue support to bus services, and the bill has been rising rapidly from £117m in 1978-9 to a budget figure of £400m in 1984-5. In the Shire counties, in contrast, total revenue support payments have not increased dramatically and remain below £100m, [a modest and acceptable level].

1.10. The Government does not regard such big metropolitan subsidies as necessary or unavoidable. Steps can and must be taken to bring them back to a more reasonable level, in line with the Government's overall public expenditure plans. In the six English metropolitan counties, the Government intends to use the control which they would have over the precepts of the joint boards for the first three years following abolition, to bring expenditure back into line with what the country can afford. In some cases fares have been held down to artificially low levels or services maintained where there is little demand for them, and that will have to change. But it is too easy at present for

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local authorities and operators to claim that the only alternative to high subsidies is massive fare increases and drastic service cuts. There is an alternative - to improve efficiency and reduce costs. The present licensing and subsidy arrangements, without the spur of competition, protect the operators rather than their customers. That balance must be changed.

1.11. The total travel market is expanding. New measures are needed urgently to break out of the cycle of rising costs, rising fares, reducing services, so that public transport can win a bigger share of this market. We must get away from the idea that the only future for bus services is to contract painfully at large cost to taxpayers and ratepayers. Competition provides the opportunity for lower fares, new services, more passengers. For these great gains, half measures will not be enough. Within the essential framework of safety regulation and provision for social needs, the obstacles to enterprise, initiative, and efficiency must be removed. The need to act is urgent.

1.12. The Government therefore proposes to introduce legislation at the earliest opportunity. The legislation will make major changes to arrangements for the bus industry, so that it is set free to give a better service to the passenger at less cost to the ratepayer and taxpayer.

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Chapter 2 - The Government's Proposals

2.1. The Government's proposals concern all aspects of public road transport in Great Britain. They are set out in the following chapters. While broadly the same problems and opportunities exist throughout the country, the position in and proposals for Scotland differ in some respects and are described in chapter 7. The annexes bring together factual material and technical analysis on the major issues. The proposals in summary, are as follows:-

2.2. - Bus services will be freed from restriction on competition by abolishing road service licensing throughout Great Britain (except for the framework of controls in London which will be retained for the time being). (Chapter 4)

2.3. - Licensing of public service vehicles and operators for safety will be maintained and tightened. Further resources will be provided for this. (3.1. and 4.)

2.4. - Many essential bus routes are not and never will be viable, and local authorities will be able to continue to subsidise services that would cease in the free market. Local authorities will be required to seek competitive tenders for contracts to run bus services which they wish to subsidise. (3.2 -3.7) Fuel duty rebate will continue. (3.8.)

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- 2.5. - Concessionary fare schemes will continue, and all operators will be enabled to participate in them on an equitable basis. (Chapter 3.9 - 10)
- 2.6. - The Government are determined to foster public transport in rural areas. Additional resources will be available to help with problems in the rural areas. There will be a special innovation grant and a grant for rural services. Wider use of services run by education, health and social services authorities, the Post Office and others will be explored. (3.11 -3.13)
- 2.7. - The structure of the bus industry must be allowed to change to meet market needs. The National Bus Company will be reorganised into smaller free-standing parts which will then be transferred to the private sector. The Government will welcome bids from the employees. (Chapter 5) PTEs will be required to break down their operations into smaller units, which will become independent companies. Municipal bus operations will be incorporated into companies still owned by their district councils. After a suitable transitional period, both PTE and municipal companies will stand on their own feet. They will compete with other operators for passengers and for contracts to run subsidised services. (Chapter 5)



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- 2.8. - New measures will ensure that all operators have equal opportunity for access to major bus stations. (Chapter 5)
- 2.9. - Taxis and licensed hire cars will be allowed to carry passengers at separate fares in certain circumstances. It is also intended to begin a gradual relaxation of the restrictions on numbers of taxis which apply in some areas. The Government will be consulting the parties concerned on each of these proposals. (Chapter 6)
- 2.10. - In Scotland, as elsewhere, quantity restrictions will be scrapped and quality controls strengthened. Special measures will be taken to improve services in rural areas. Subsidy will be subject to open tender and the structure of the municipal and PTE operations will be changed to improve efficiency and reduce costs. (Chapter 7)
- 2.11. - The Government intends to bring a Bill before Parliament at the earliest opportunity and subject to Parliamentary approval to bring in the proposed changes without further delay.

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Chapter 3 - The Essential Framework - Safety and Social Need.

Safety

3.1. To protect the safety of passengers and of others on the road, the bus industry is supervised by the independent traffic commissioners. Every operator of a public service vehicle must have a licence from the commissioners. Maintenance arrangements, financial standing, professional competence and repute are subject to scrutiny. Public service vehicles have since 1982 been subject to annual mechanical inspection. Drivers have to pass a special driving test and demonstrate medical fitness, for a separate licence. Drivers hours are restricted by EEC regulations or under the Transport Act 1968. Vehicles are subject to spot checks. This system of supervision will be fully retained, and reinforced.

3.2. Satisfactory quality control does not require quantity restriction. This is shown by the non-stage carriage parts of the bus industry, by road haulage and by the London taxi system which everyone recognises is of very high quality although there is no limit on the number of cabs. Nonetheless, competition in local bus services will call for particularly careful supervision of the behaviour of operators and their safety standards. For this reason it is proposed to strengthen the law to allow new conditions to be attached to licences of operators of local services. This will be linked with a requirement described in 4.14 for registration of services. A high priority will also be given to checks of maintenance facilities, and mechanical condition. Additional resources will be provided for that. There will be compensating savings from the abolition of road service licensing.

3.3. At present there are three traffic commissioners in each traffic area, responsible for licensing local bus services and operators of public service vehicles. By contrast, licensing

operators of goods vehicles is the responsibility of a single person, the "licensing" authority in each traffic area. Once road service licensing is abolished, it will no longer be appropriate to retain the traffic commissioners. It is therefore proposed to unify the authority for licensing operators of goods and of passenger vehicles. Appeals of road haulage operators against decisions of the existing licensing authorities lie to the independent Transport Tribunal. The Government intends that the Tribunal should in the same way hear appeals by bus operators which at present come to the Secretary of State.

### Social Need

3.4. The county councils and certain district councils are now accustomed to deciding which services are socially necessary and should be kept going by subsidy. The Government intends to build upon this vital function. But it is for the local authorities to decide which services to support and how much of the resources available to them to allocate to this purpose. Deregulation will enable councils to see clearly which services can be sustained by the market, and which need to be met by subsidy. New arrangements should help them obtain better value for money - even, better services for less money. This means changes in the powers and duties of local authorities and in the way the level of subsidy is decided for particular services.

3.5. At present county councils have duties to co-ordinate public transport set out in Section 1 of the Transport Act 1978 (for non-metropolitan counties) and Section 9 of the Transport Act 1968 (for metropolitan counties). Operators and district councils are also required to co-operate with counties and with each other for this purpose. The Government does not believe that such comprehensive planning is appropriate for those services which can be provided commercially. It is for passengers to demonstrate what they want, and for operators to respond. The Government therefore intends to change the present duties of county councils (or in metropolitan areas their

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successors) to one requiring them to secure the efficient provision of such transport services as they believe necessary, after due consultation, but which are not provided by a free market. Authorities will also need to co-ordinate with each other to secure the most cost-effective provision of subsidised services which run across boundaries.

3.6. At present, bus operators often negotiate with the responsible local authority a blanket subsidy to run a particular, and often large, bus network. Typical agreements provide for local authorities to meet no more than the actual net costs incurred, within a ceiling. This means that once the arrangement is settled the incentive for operators to improve their performance is blunted because the benefit will accrue mainly to the local authority, not to them. For its part the local authority has little choice of operator and for that reason cannot judge whether the services it buys are being provided efficiently and at the lowest cost. Some authorities have developed systems for monitoring and evaluating operators' use of subsidy but that can only determine relative performance within the existing framework of regulation and network subsidy.

3.7. This method of paying subsidy for networks also conceals from those who have to pay - the ratepayer and the taxpayer - the true cost of the individual services being provided. Subsidy can be used more efficiently if there has been a competitive bid for it, and the purpose for which it is paid and amount provided are made clear. Some authorities are already moving in this direction but the licensing system limits the extent to which competition for contracts can develop. The removal of licensing will provide the opportunity for genuine competitive tendering. So, to help obtain the best value for money the Government will require local authorities to invite operators to tender for contracts to run subsidised services. Such tendering, as it is

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progressively introduced, will bring cost reductions as more competitors emerge. Authorities will need to adopt forms of tendering which do not inhibit competition but it should not be necessary to impose detailed provisions by statute. The Government will be consulting representatives of all those concerned about the arrangements for tendering and about how quickly they can be universally applied. The power in the Transport Act 1978 for shire district councils, as well as county councils to subsidise unprofitable services will remain.

Fuel Duty Rebate

3.9 Fuel duty rebate will continue to be available for the running of local bus services available to the general public.

Concessionary Fares

3.10. Many local authorities have exercised their powers to provide for concessionary fares for disabled people and the elderly. The origin of the concessions was that such people could travel less expensively in off peak times when seats would otherwise be empty. The Government supports such sensible schemes although it considers that it is local authorities who should decide whether to have one. They should not be confined, as is sometimes the case, to services provided by one operator. The Government proposes to ensure that in future all operators can participate in the local concessionary fares scheme and will consult those concerned about the practicalities of running schemes where there are several operators.

3.11. The reimbursement by authorities to operators who carry people at concessionary fares should reflect any net loss of fares revenue together with any extra costs of carrying the additional passengers. In other words, the operator should be left no better and no worse off than he would otherwise have been. This is not always the case with existing arrangements

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which can provide a hidden subsidy to bus operators. In some cases this is a major distortion and must be removed. The Government will therefore consult on arrangements to secure that payments to operators more truly reflect the cost of providing these concessions.

### Rural Areas

3.12. Local authorities in the more sparsely populated parts of the countryside have to face the need to ensure that transport is available for rural communities even though the number of potential passengers is very small. A free market will help but cannot on its own solve this. The Government propose several supplementary measures to help the county councils to modernise and improve rural transport services. First, innovation must be encouraged. A new grant of up to £1 million a year will be created to encourage new schemes for community transport in rural areas. This will be administered in England by the Development Commission. Other arrangements for administration will be made for Scotland and Wales. Second, competitive tendering will help authorities to achieve much better value for money for the services they decide to support. But the full benefits of tendering will not be felt immediately. So, third, the Government will make available additional help to maintain vital rural services in this transitional period. This will take the form of a special grant available for 3 years and paid direct to operators of eligible services in rural areas. The total value of the grant will be £20 million in the first full year. In subsequent years a reduction in the level of the grant will reflect a continuing assessment of the impact of deregulation in rural areas, in which the Development Commission will be closely associated.

### Community Provision

3.13. In addition, the Government wants to see the best use being made of transport already provided for special purposes,

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and of community and voluntary effort. The Government has encouraged the provision of community buses, post buses and the use of school buses to help serve the general public. There are undoubtedly opportunities for the use of vehicles operated by other bodies - public and private - for providing wider public transport. The Government will consider in consultation with those concerned how to stimulate the better use, particularly in rural areas of services run on behalf of education, health and social services authorities, the Post Office, private firms and others.

3.14. There is another important transport resource which can be drawn upon. Nationally there are more minibuses on the roads than larger buses and coaches. About one-third are already in use as public service vehicles or by various statutory bodies but the remainder belong to firms, voluntary and charitable organisations and private individuals. The Government wishes to see these vehicles used to the widest possible extent. Successive Acts of Parliament have worked towards this, but have now led to complexity in the regulations governing minibuses, and standards of construction and equipment which vary according to the use to which they are put. The Government proposes to clarify and simplify the law governing minibus operation and to unify the different standards of construction and equipment into a single set of regulations. The Government will consult widely about these proposals.

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## Chapter 4 - The Benefits of Change

### Road Service Licensing

4.1. The operator of a local bus service outside London\* needs a road service licence for the service before he can start operating. The arrangements for licensing were introduced in the Road Traffic Act 1930. The circumstances then were very different from today. There were no national safety provisions to protect the public, no minimum standards for vehicles and their maintenance, no need to pass a driving test or demonstrate fitness to operate bus services. Traffic regulation was in its infancy. There was understandably widespread concern about the effects of competition on the roads. Operators under pressure from Government to improve standards - at their own expense - felt justified in seeking quantity regulation to protect their investment. And the prevailing wisdom at that time, that 'wasteful' competition was a bad thing and should be outlawed fitted the operators case.

4.2. The licensing system introduced in 1930 was from the start very restrictive. Operators had to demonstrate a need for their services. The aim was not only to avoid wasteful competition but to keep the number of services to a minimum in the interests of public safety. This entrenched established operators and it made it virtually impossible for a newcomer to start up a bus service without their consent. In due course the effect was to institutionalise a system of cross-subsidy and standard fares.

\*Within Greater London, London Regional Transport (LRT) and its subsidiaries or any operator providing a service under an agreement with LRT may operate bus services without a road service licence. Other operators must obtain a road service licence from the traffic commissioners as elsewhere.



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4.3. For a long time the disadvantages of such a system were largely hidden. The market grew steadily, services expanded, fares remained stable and operators made money. In the mid-50s all that began to change very rapidly. More people began to buy cars. Profits dried up and operators were left struggling to try to keep their large networks going. They tried to put fares up. To the extent that the commissioners allowed that, the effect was to drive passengers away faster. At that time differential pricing to protect markets was strongly discouraged. In their anxiety to maintain existing services, operators neglected the good routes and were slow to adjust their operating methods to the changed conditions.

4.4. In the early 1970s the Conservative Government recognised that licensing had become a hindrance to tackling the bus problem. An attempt was made in 1974 to deregulate services provided by small buses. The first major steps of relaxation came in 1977 and 1978 when the Labour Government altered the criteria for granting licences, gave new prominence to the role of county councils and public transport policies, and brought in provisions to encourage new services in rural areas (the "experimental areas" and community buses). The move was very cautious. After nearly 50 years of licensing, that was hardly surprising.

The Results of the Transport Act 1980

4.5. In 1980 the Government felt the time was long overdue to test the underlying opportunities for developing the bus and coach market. The Transport Act 1980 abolished road service licensing for long distance coach services, on which passengers travelled at least 30 miles. There was vociferous opposition from important sectors of the industry. But the legislation has certainly been justified: the results have been dramatic. Recent research by the Transport and Road Research Laboratory (TRRL)

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suggest that between 1980 and 1983 fares on these services dropped on average by 40% in real terms and 700 new services were introduced.

4.6. The 1980 Act also introduced provision for county councils to set up "trial areas", in which road service licensing was abolished. Three counties, Devon, Hereford and Worcester, and Norfolk, have taken up the opportunity. Annex 5 reports in detail what has happened in these trial areas. All cover large tracts of the countryside - indeed the very sort of areas which it is claimed benefit most from cross-subsidy. Yet there has been no massive decline in services to the rural communities in these areas. Nor have the county councils had to provide massive increases in subsidy from the ratepayer to offset the loss of cross-subsidy. In the Hereford and Worcester trial area, the County Council is paying 38% less subsidy to rural services (and there have been reductions in the cost of taking children to school). The only reductions in services, (amounting in total to the equivalent to half the service provided by a single bus) were those which the County say they would have made in any case. Moreover, in Hereford town itself, which is within the trial area, bus services have increased and fares have gone down. This has also happened on routes between country towns. So the abolition of road service licensing can provide real benefit in rural areas. There have been reductions in both fares and subsidy. The County Council could, if it wished, use the money saved to expand the network of subsidised services.

4.7. The 1980 Act also changed the criterion for the grant of road service licences for local bus services, so that the Traffic Commissioners had a duty to grant a licence unless to do so would be against the public interest. The Government hoped that this would stimulate competition locally. But that has not proved to be the case to any great extent. There are two reasons for

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this. First, the present system allows existing operators to object to the grant of a licence, and to appeal, if the licence is granted. A small operator may not be able to face the expense of fighting an objection. Second, large operators have used their financial strength, based on their existing licences or the public purse, to try to defeat competition as it emerged.

The Case for Change

4.8. The Government now proposes to extend the successful deregulation of the long distance bus services and in the trial areas, by abolishing road service licensing throughout Great Britain. London is to be excluded for the present as explained in paragraph 4.18.

4.9. Annex 2 provides a critique of regulation and shows why the Government believes that abolition of road service licensing will bring big benefits. On many services passengers will pay lower fares. The costs of services will go down. There will be more variety in the kinds of service offered. New operators will be prepared to come in, providing new jobs. Overall patronage should increase. And the industry will be ready and able to respond in the future to changing patterns of living, working and leisure.

4.10. The benefits should not be confined to existing profitable routes, as the trial area experience shows. First, services which are unprofitable for a large operator may be profitable to smaller ones, particularly where, as perhaps with evening services, they can integrate them with their other business, such as works or schools contracts. Second, there is evidence that the costs of private operators working mostly in the unregulated parts of the market - in excursions and tours, contract and private hire - are between 20-40% below those of public sector operators who mainly provide local services. Of course there are

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good reasons why it costs more to provide a reliable local service all day and every day often on congested roads, than it costs to run a service once a day on contract, but this does not account for the whole of the difference. Annex 4 examines what the cost differences are and where there is scope for bringing costs down. After careful review of all the evidence, the Government has concluded that the potential exists for cost reductions of up to 30% of total costs of public operators. Competition is the only way to secure and sustain these efficiency gains.

4.11. Competition will end non commercial cross-subsidy. There is a strong view in the industry and among local authorities that that will be detrimental. The Select Committee on Transport in its recent report "Transport Aspects of the 1984 Public Expenditure White Paper" thought so too and for that reason urged caution in approaching deregulation. The Government believes this view to be wrong.

4.12. Some cross subsidy is applied for good commercial reasons. Operators may run services, for example, late at night or early in the morning which lose money, in order to provide a service which will ensure that passengers continue to use the bus, rather than take to the car. But most cross-subsidy goes to finance services which, on a commercial basis, the operator would not provide.

4.13. That kind of cross-subsidy has perverse effects. It raises fares on the heavily used routes higher than is necessary for profitable operation in order to preserve services for which there is less demand. So it drives people away from using buses. Fare rises lead to a loss of patronage equal, on average, to about 3% for every 10% real fare increase. Thus so far from protecting bus services, cross-subsidy has increased the rate of

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their decline. It may also have perverse social effects. Users of bus services are mainly the less well off; yet cross-subsidy requires some passengers to take on their shoulders the burden of maintaining services for other bus users regardless of their ability to do so. This is as much historical accident as a calculated decision. Moreover, protection under regulation enables operators to switch resources from one part of the country to another. In this way areas with lower car ownership which depend most on bus services may pay more than they have to so as to keep ill-used services going in other places. Thus in two ways, cross-subsidy produces unwelcome social effects. Annex 3 further describes the extent of cross-subsidy and analyses its effects. For all these reasons the Government rejects the argument that cross-subsidy ought to be preserved.

4.14. It is strongly argued by some that licensing provides benefit because it allows the integration of transport services, so that a network can be offered to the traveller. Authorities and operators have concentrated on devising bus services which allow for connection between them, and between road and rail particularly in the Metropolitan Areas. It is certainly obvious that the traveller wants to make convenient journeys, to travel throughout the urban areas, to rely on comprehensive information about the services available. But if they are to stay in a free market operators will have to meet the needs of the customers as the demand arises. They will be alive to the needs of their customers and will strive to provide for them. Fares will vary accordingly, as will frequencies. A free market encourages a quicker response to what the customers want, than a regulated system ever could. Systems of large-scale, planned public service networks can indeed produce high quality services and connections. That is not disputed. But the question is whether the benefits are great enough to justify the costs and whether the benefits cannot be attained more cost-effectively another way.

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The Safeguards

4.15. There is concern that competition on urban bus routes might bring unacceptable practices such as speeding, racing to bus stops and cutting in, and led<sup>A</sup> to unreliability in operation. While the industry and newcomers to it are adjusting to the new opportunities, we must expect some failures and shortcomings. The essential public interest is to curb unacceptable practices. For this reason the licensing authority will have new powers, through operator licensing, to stop operators who behave foolishly on the road from operating local services at all. It is, of course, in the interests of operators to offer reliable services to maintain the goodwill and patronage of their passengers but passengers should be protected against any operators who, by incompetence or design, hold out false promises of running services which they fail to deliver. It is therefore proposed that all operators wishing to run local bus services will be required to register the route and timing of their service with the licensing authority and give adequate notice of withdrawal. Failure to provide registered services will be a further matter which the licensing authority will weigh in considering whether an operator should continue to be allowed to run local services.

4.16. There may also be concern that the larger numbers of buses which competition will encourage might increase congestion although better bus services should also to some extent ease congestion by attracting people from their cars. Given that there are many fewer buses and coaches on the streets than other types of vehicle, any increase in their number is likely to be a problem in only a small number of places, like city centres where traffic conditions are already difficult. To deal with any problems of this kind which may arise, the licensing authority will have reserve powers to attach conditions to registrations about routes and stopping places in consultation with the police

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and local authorities, so as to produce a result which is both orderly and fair to all operators involved.

Anti-Competitive Practices

4.17. At present, agreements between bus operators are specifically exempted from the application of the Restrictive Trade Practices Act 1976. The Government intends to remove this exemption. Agreements between operators will in consequence have to be furnished to the Director General of Fair Trading and will come under the scrutiny of the Restrictive Practices Court if they contain significant restrictions on competition. The Court will decide whether or not such restrictions are in the public interest according to criteria set out in the Act. Restrictions found to be contrary to the public interest are void. Agreements expressly authorised by statutory provision will not be affected as there is a general exemption from the Act in such cases.

London

4.18. The London Regional Transport Act transfers the responsibility for the London Transport Executive from the GLC to the Secretary of State, and reconstitutes it as London Regional Transport, with new powers and duties. The legislation requires changes in the way London's buses and tubes are run, requires LRT to contract out work wherever suitable and provides for greater involvement by the private sector in the provision of services both as contractors to LRT and in competition with them. These are major changes and it would not be sensible to subject the organisation of public transport in London to a second wave of change within such a short period. In these special circumstances, the Government has concluded that regulation should remain in London for the time being.

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## Chapter 5 - The Structure of Bus Operation

5.1. Nearly all local stage bus services in Great Britain are provided by public sector operators:- the Passenger Transport Executives, municipal operators, the National Bus Company and the Scottish Bus Group, and London Transport. Only 8% of stage carriage mileage is run by private operators.

5.2. It is generally agreed that this industry does not show economies of scale. The private firms are not large, and most are small - with 5 vehicles or less. In sharp contrast, the public sector operators are big, and a few of them are very big indeed, as shown in annex 1. Moreover, elements of bus operation which might well have developed more efficiently as separate entities have been integrated into single organisations. Thus public sector bus operators own and run bus stations, they retain most if not all engineering functions, they undertake their own office services, computing, research and so forth. This has tended to impose very large overheads, and the development of policies and standards for the whole organisation, which may fit ill with local circumstances or operational needs.

5.3. It is by no means evident that a structure of large scale and integrated operations is necessary or efficient or would be produced by an industry competing to meet the needs of the consumer for a great variety of local journeys at the prices he is prepared to pay for them. There is for instance no particular reason why operators should own all the assets they use. The very different structure of the taxi industry is instructive. The largest taxi market, that in London, shows the variety of ownership and operation that is possible. This diverse structure nevertheless maintains high standards and has enlarged the market. The NBC and some of the PTEs have recognised the need to change and are developing policies to separate out functions and



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devolve responsibility for local operations. But this is not enough in itself to produce organisations which will seek out market changes and adapt to them.

5.4. In 1981 four public sector bus operations were referred for examination by the Monopolies and Mergers Commission. The operators were Bristol Omnibus, Trent Motor Traction (both NBC companies), West Midlands PTE and Cardiff City Transport. The Commission were required, amongst other matters, to examine whether the operators could improve their efficiency and reduce their costs without significantly affecting services. They found much to commend, but a very large number of respects in which one or other of the operators could increase their efficiency.

5.5. The Commission were also required to examine whether the operators had abused their monopoly position or acted against the public interest. They identified actions by two operators using superior financial strength to drive off small competitors. Whilst they neither condoned nor approved their actions, the Commission accepted the motives of operators in trying to protect a cross-subsidised network, given the existing institutional and financial framework. They commented however that if bus services were provided on a different basis, their judgement of what could be justified in response to competition might well be affected.

Efficiency of Public Bus Operation

5.6. Annex 1 describes the key trends in the performance of public sector operators, which have already been referred to. Three points deserve particular attention. First, real unit costs, measured by operating costs per vehicle kilometre, have risen since 1972. Second, fares have increased in real terms by 30% between 1972 and 1983, while the real cost of running a car increased by 3% over the same period. Third, service levels, as measured by vehicle kilometres, have not fallen as fast as passenger kilometres.

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5.7. These figures should not be taken to imply that the management of public sector bus operations have failed to improve their performance. They have increased labour productivity. Some have redrawn and reduced their operations on the basis of market analysis, and consultants studies. In other places, notably some major cities, decisions on the operation of bus services have more often been informed by political considerations than ones of efficiency. The NBC nonetheless succeeded in cutting its costs in 1981 and 1982.

5.8. The managers of these large public sector operations have had to work within the system of road service licensing and the current arrangements for subsidy. Their need to maintain local bus services under these conditions of regulation and public sector ownership has made it very difficult for them to secure the real efficiency gains which, in other circumstances, they might achieve. When freed from regulation they have shown an impressive ability to provide better and cheaper services.

5.9. Three points cast major doubt on the efficiency of the present structure.

(a) Costs of private sector operators are below those of public sector operators, maybe by 20-40%. This is not to compare like with like but the differential is very large. There is no suggestion in any of the evidence that costs of any public sector operators are lower than their private counterparts.

(b) Comparison of the costs of PTE and NBC operators within metropolitan counties shows that NBC's average costs per vehicle mile are more than 20% below the PTE average. (Annex 4)

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(c) In Hereford, the pressure of competition caused by the trial area led the management of the local NBC subsidiary, Midland Red (West) to negotiate changes in agreements which led to an improvement in productivity of 25-30%.

5.10. There can be no doubt that major improvements in efficiency are possible, given the right pressures to identify and secure them.

Structure of Public Sector Operations

5.11. The structure of public sector bus operators is an obstacle to the provision, through competition, of the bus services which the community needs. Their size and financial strength and in some cases the blanket subsidy to the operation as a whole, give them a market advantage which could thwart the growth of competition. The Government has therefore decided that there should be changes to the structure of public sector operation at the earliest opportunity to ensure fairer competition between public sector operators and with the private sector.

5.12. The Government proposes that any bus undertakings of a district council, be incorporated into a company owned by the district council. After a short period of adjustment, the district council will be prohibited from providing further funding (other than for long-term investment purposes, on commercial criteria) to subsidise the company's operations. The company will draw its revenues either from the passenger, or from local authorities following open tender for the provision of subsidised services, or from a concessionary fare scheme open to all comers. The company will also be able to seek capital (whether equity or borrowing) from the market in the usual way. It would be open to district councils to privatise the company if

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they wished. Successful companies, wishing to expand and diversify will see strong advantage in that. So long as the district council remains in control of the company it will appoint the directors and the company will remain classified to the public sector and subject to the normal Government controls over local authority spending. There will be provision to ensure that where a company is, or is likely soon to become insolvent, the district council may provide temporary funding, to ensure creditors are paid or as part of an approved plan for a return to viability.

5.13. The Government also proposes that the bus operations of Passenger Transport Executives should, extending the current policies of the Executives, be broken down into smaller units and also turned into companies as soon as possible. After a period of adjustment, restrictions will be imposed on funding by the metropolitan county council or its successor on the same lines as those proposed for the municipal undertakings.

5.14. The White Paper "Streamlining the Cities" (Cmnd 9063) explained that after the abolition of the metropolitan county councils in April 1986 the Government proposes to transfer their passenger transport functions to Joint Boards, comprising district representatives. It outlined the Government's willingness to consider proposals by individual district councils to provide separate services and to enter into arrangements with other operators in the public and private sector. Nothing in this White Paper affects that policy. Metropolitan district councils will be able to put forward proposals for subsequent secession from those arrangements. If the Government agrees to the secession proposal, the District Council will be solely responsible for deciding on the local bus services it wishes to subsidise. The provisions of this White Paper concerning subsidy and the running of bus operations will then apply to a seceding metropolitan district council.

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NBC

5.15. There is no good reason why local bus ~~operation~~ services should be provided by a national corporation. Nor is there any particular reason why such services should be the virtual monopoly of the public sector. The fact that some services require subsidy does not affect this and there are good reasons to expect that private enterprise will do better. The sale of the National Freight Corporation to the private sector has shown that freedom from the control of Government leads to better performance by management and staff. Transfer to the private sector also removes any potential future liability on the taxpayer to provide capital or make good losses. Managers and employees have the chance to gain from their own success.

5.16. The Government therefore intends to transfer the operations of the NBC to the private sector. It does not believe that it would be right to privatise NBC as a single whole. The Company's size and financial strength might deter other operators from competing with it particularly in view of the strong position from which it will start. The Government proposes that the NBC Board should have a duty to reorganise the Company in consultation with the Secretary of State into parts which can be disposed of as free standing companies. The market can set the pattern of operation and ownership. The Government will particularly welcome participation by employees in the new companies, including bids from the staff for the units in which they work, though it will not stand in the way of other purchasers.

Bus Stations

5.17. If competition is to flourish, no operator should be in sole control of a bus station of a size or strategic position which would allow him to gain an unfair advantage by excluding other operators. It is therefore proposed that major bus

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stations should be operated whether in private or public ownership on a commercial basis under arrangements which will provide for all operators to have equal opportunity of gaining access to them.

5.18. The Government will consult those affected by these proposals, or their representative associations, about the detailed implementation.

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Chapter 6 - Taxis and Hire Cars

6.1. Taxis and hire cars have become an increasingly important form of passenger transport, and in recognition of this, responsibility for policy on taxi and hire cars in England and Wales has recently been transferred from the Home Secretary to the Secretary of State for Transport.

6.2. There is at present a rigid demarcation between buses on the one hand and taxis and hire cars on the other. Does this allow for the transport needs of the public to be met in the best way? There will still be demand for the classic taxi operation, where a cab is hired on the street for exclusive use, and there will be a continuing market for hire cars - pre-booked for exclusive use for a specific journey. It is not proposed to make any fundamental change to the way in which these services are provided. However, it is right to consider whether taxis and hire cars could play additional roles in the new markets that will be opened up by the relaxation of bus licensing.

6.3. There will be bus routes where there are simply not enough travellers to warrant the operation of large vehicles. Studies suggest that services might be operated more economically using taxis in place of buses, with an improved frequency at less call on public subsidy. There is also a place in the market for a service of higher quality than the conventional bus can give, at the fares which would be possible were taxis shared. The Government proposes to make such services possible by allowing taxis to carry passengers at separate fares, and will consult interested bodies on the practical arrangements. This will also cover the possibility of allowing hire cars to carry pre-booked passengers at separate fares.

6.4. If these vehicles are to be permitted to carry passengers at separate fares they must be subject to adequate quality

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control to ensure necessary standards of safety. It is therefore proposed that this facility will be extended only to licensed vehicles

6.5. Such opportunities should encourage an expansion in the market available to taxis and hire cars, which will be met only if there is an adequate supply. The Government will propose provisions to relax progressively the restrictions on the number of taxis which operate in some areas. The Government will be consulting separately on these proposals.



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## Chapter 7 - Scotland

7.1. Scotland is also faced with the problems of an industry in long term decline, rising costs and deteriorating service. The opportunity is also available in Scotland to remove the obstacles to initiative and efficiency, to enhance consumer choice and to provide better value for money. This can be achieved within a framework which protects the public by ensuring safety, the provision of socially necessary services and the availability of concessionary fares for elderly and disabled people. The following paragraphs consider the particular issues affecting Scotland in more detail and contain the Government's proposals for change to provide a more hopeful future.

7.2. In Scotland stage carriage trips, which account for over 90 per cent of all bus trips, fell from 891 million in 1975 to 694 million in 1982. Over the same period route mileage declined by 15 per cent. Falling patronage and a failure to keep costs under control have meant that expenditure by local authorities on bus support has risen considerably over the last decade.

7.3. The problem of Scotland's rural areas is acute. Many of these areas are extensive, remote from any substantial centres of population and very sparsely populated. Bus journeys are often long and indirect. Services can be infrequent. The decline of rural bus services is a cause of great and understandable concern. Most rural dwellers can still make essential journeys by one means or another but this often requires travellers to rely on informal arrangements such as friends or neighbours with cars; and some sections of the community are particularly disadvantaged as a result. Indeed the decline of rural bus services is taken by many as a sign of lack of confidence in the future of their communities and way of life. Some of the RUTEX experiments of the late 1970s to examine alternative forms of

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rural road transport were carried out in Scotland. They were useful in stimulating new ideas for meeting transport needs but did not produce major results. The Government is firmly committed to supporting the rural way of life. Though the numbers of people in rural areas who use public transport are small, bus services are vitally important to the well-being of rural communities. More therefore needs to be done.

7.4. In urban areas where the bulk of present bus services are provided there was problems also. Services are often poorer than they used to be, require high subsidy, and still charge high fares: Strathclyde is a prime example of a high subsidy/high fare authority. As noted in earlier chapters cross-subsidy from profitable to unprofitable services does not encourage efficiency. It makes fares on densely used routes higher than they need be. It results in the transfer of disaffected passengers to private transport which in turn leads to greater urban congestion, and hence to further decline in the quality of bus services.

7.5. Total current expenditure by local authorities on bus subsidy is about £25m per year (excluding expenditure on concessionary fares). Of this, revenue support to the nationalised Scottish Bus Group (SBG) is around a modest £5m a year representing less than 4 per cent of its operating costs. Most of the subsidy is directed at local authorities' own undertakings though the amounts differ significantly, reflecting substantial variations in the size and efficiency of the operations and to some extent in fares policy. Grampian Region's subsidy to its municipal bus operation in 1982/83 was £0.4m, while the Strathclyde PTE bus operation received £10.7m.

7.6. In Scotland the bus industry is dominated by the public sector: SBG, the Strathclyde PTE and the three municipal

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operators operate 60 per cent of the total bus fleet and provide about 95 per cent of the stage-carriage market. SBG is the principal supplier of stage services throughout the country. It has improved its efficiency in recent years and is, measured against the public sector bus industry generally, an efficient operator. While there is scope for further increases in efficiency, these are likely to be difficult to achieve within the existing framework of bus service operation, given complete implementation of driver only operation, and the virtual conclusion of the SCOTMAP studies. The likelihood is therefore that if current arrangements continue and if services are to be maintained at broadly present levels, public subsidy to SBG services will have to increase.

7.7. The private sector on the other hand is the main provider of contract and hire services. It has over 60 per cent of this market. In addition it provides only 5 per cent of stage carriage services and these are confined largely to very small operators in rural areas and to concentrations of private owners in one or two restricted geographical areas. But the private sector has risen effectively to the challenge of partial deregulation in 1980, and has contributed significantly to the substantial increase in long-distance express services which in turn, has provided major benefits particularly for less well-off travellers.

7.8. Against this background it is clear that something needs to be done. There is no doubt that on some routes fares are too high in relation to costs. While there are some differences between the state of the bus industry in Scotland and that in the rest of Britain, broadly the same problems exist; and the Government is confident that broadly the same remedies are appropriate.

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Regulation

7.9. The present bus regulatory framework is (and always has been) applied uniformly throughout Britain. It is operated in Scotland through the Traffic Commissioners in the Scottish area. The deregulation of long-distance express services and the relaxation of the licensing system for other services, introduced by the Transport Act 1980, has been markedly successful in Scotland particularly in relation to express services. It is against this background that it is right to scrap quantity control restrictions entirely in Scotland, as in the rest of the country. The arrangements to ensure proper standards (described in 3.1-3.2 and 4.15-4.16) to protect passengers and others will, of course, be retained and reinforced.

Local Authority Services

7.10. In order to secure the full benefits of this change - better services for consumers at lower costs - it will be necessary in Scotland also to ensure that supply in the market is not distorted. At present (as described in 3.6-3.7) blanket subsidies can conceal the true cost of providing services and make it difficult to determine whether services are provided efficiently or at the lowest possible cost. The new arrangements to make tendering a pre-condition of subsidy payments will apply in Scotland also; as will the proposals about reimbursing operators for concessionary fares. Municipal operators and the PTE will continue to have a valuable contribution to make. They will benefit from the challenge of greater competition but they should not be able to compete unfairly either through market dominance or through fares and subsidy policies. It is proposed therefore to take powers to require municipal bus undertakings to be incorporated as limited companies owned by the local authorities. Similar powers are proposed to require the PTE undertaking to be turned into a company and (if desirable) split into smaller units. The proposals for subsidy tendering will

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apply to services provided by municipal and PTE undertakings, ensuring both that subsidy is targeted at services which need it and that efficiency savings are made. After a transitional period general operating subsidy to municipal undertakings and the PTE will be prohibited, and they will be subsidised only to the extent of revenue support from successful tenders, and from concessionary fares. The new companies will be able to seek capital from the market and could be privatised if the local authorities wished. Where a local authority retains control of a company Government controls over local authority spending will continue to apply. The provisions to permit temporary funding by the local authority in cases of insolvency (described in 5.12) will apply in Scotland. There will be consultation about the detailed implementation of these proposals.

Rural Services

7.11. The proposed changes offer the prospect of a new stability and confidence in the provision of rural bus services. Experience in the trial areas in England (described in 1.8, 4.6 and Annex 5) is that deregulation can mean lower subsidy requirement for a similar service or the possibility of improved services for the same overall level of subsidy. In Scotland rural services are provided predominantly by the SBG which is an efficient operator by public sector standards. It is not proposed at present to change the Group's ownership or operating structure (it too will, however, have to compete for subsidy). In addition the scope for stimulating the wider use of vehicles owned by other bodies (such as education, health and social work authorities, the Post Office and private firms) for public transport will be explored. Fuel duty rebate will continue to be available and the special grant to operators of rural services (described in 3.12) will extend to Scotland as will a rural innovation grant, to encourage the development of new ways of meeting rural transport needs. While resources have been

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available in the past little interest has been shown in taking up such grants, since the completion of the RUTEX experiments. The availability of grant was confirmed in the Government's response to the Select Committee on Scottish Affairs, following their inquiry in 1982 into rural road passenger transport and ferry services in Scotland. The Secretary of State hopes that there will now be renewed interest in such experiments.

### Urban Services

7.12. The benefits of competition will be substantial particularly for travellers on urban corridors. After more than 50 years of regulation it is to be expected that some services will undergo rapid change in the early stages of the implementation of the new arrangements. The effects are likely to be felt initially in the entry of new operators on certain routes and the creation of new services. Competition or the threat of it will in turn lead to the sharpening of efficiency and greater consumer orientation of existing operators, particularly in the public sector. On many routes consumers will benefit from lower fares. In the longer run the benefits of increased competition will be substantial, and will readily outweigh any short-term uncertainties and difficulties as change takes place.

### Subsidy

7.13. Subsidy for bus services in Scotland is paid by the Regional and Islands Councils. In the case of SBG services, this is to make up the net loss incurred in providing a network of stage carriage services in their areas. In recent years, unremunerative services have benefited much more from cross-subsidy between services than from local authority subsidy. This cross-subsidy will tend to fall as a result of deregulation since competition will reduce the level of profits on busy services. These effects will apply both to local

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authority and SBG operations; but the loss of cross-subsidy need not result in a requirement for additional direct support. Much will depend on the extent to which opportunities for greater competition and for cost savings are achieved and on what loss making services local authorities decide to support. While the need for subsidy may rise in some areas there will be compensating reductions in subsidy requirement in others, Strathclyde Regional Council subsidise the Glasgow suburban rail network under section 20 of the Transport Act 1968. There has been substantial investment in recent years assisted by capital grants from Government and proposals for further investment are being considered at present. The Regional Council will need to decide, in the light of the changes to the regulation and structure of the bus industry whether any changes are required in their present rail support policy.

7.14. Local authorities continue to spend in excess of the Government's plans for public transport subsidy: their budgets for subsidy for bus transport in 1984/85 were £8.1m (34 per cent) in excess of the Government's provision - overall, the changes allow scope for this burden to the ratepayer to be reduced substantially. Rate support grant is now distributed on the basis of client group assessments of relative expenditure need which look at the costs of providing similar levels of service in different types of area in order to arrive at an overall assessment of relative expenditure need. Any changes in the relative cost of providing bus services in different areas would be reflected in the assessments underlying the formula for the distribution of rate support grant and also current expenditure guidelines.

**Co-ordination Powers**

7.15. The Secretary of State is aware of the conflict that has been perceived to exist since the Transport Act 1980, between

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the obligations of the Traffic Commissioners to grant new licences unless they are satisfied that to do so would be against the public interest, and the statutory duty of local authorities under the provisions of section 151 of the Local Government (Scotland) Act 1973 to promote the co-ordination of public transport provision. Under the Transport Act 1968 the nationalised transport operators are similarly obliged to co-operate with local authorities, and this has meant in some instances that operating policies have been adopted which are not necessarily in the best interests of the taxpayer and ratepayer or of the travelling public. In the new context of deregulation, such statutory powers and obligations are clearly inappropriate and it is intended to remove them and replace them with a duty to secure the efficient provision of such transport services as are necessary but are not provided by the market.

**Taxis and Private Hire Cars**

7.16. The proposed changes need to be considered also in the context of the new system of licensing for taxis and private hire cars in Scotland under the Civic Government (Scotland) Act 1982. The new provisions, which will produce a uniform system of control within Scotland, are optional in that it is for each District or Islands Council to decide whether to adopt these provisions for all or part of its area. However, if a licensing authority resolves to adopt these provisions, it is required to licence and control both taxis and private hire cars. The Secretary of State can prescribe vehicle types, sizes and designs which a licensing authority shall regard as suitable but, at present, sees no need to do so. Detailed regulation of taxis and private hire cars, and their drivers, is achieved by means of conditions attached to the grant of a licence. The particular conditions which a licensing authority impose may be subject to regulation by the Secretary of State, and he has used this power to prevent the imposition of certain restrictive conditions by licensing authorities.



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7.17. The Government believes that the new system, which came into full operation on 1 July 1984, should generally be allowed to settle down. But there is one change which will be pursued immediately; this is to allow taxis and private hire cars to operate with separate fares when used by two or more passengers simultaneously, each paying for their own journey. The Secretary of State is consulting interested parties about this proposal and the practical problems associated with introducing it in Scotland. In addition, he will keep the implementation of the new licensing and appeal arrangements, and the benefits that they bring to the travelling public, under review.

Conclusion

7.18. Public transport in Scotland can be improved. The proposals outlined above offer new hope and confidence to communities in Scotland, whether rural or urban, who for too long have felt themselves to be on an inevitable downward slide in terms of public transport provision. They offer a real chance to balance supply and demand, at a cost which is reasonable both for the fare-paying passenger and the Scottish public who too often as taxpayers and ratepayers have been asked to finance inefficiency. The spiral of decline can be broken. These proposals offer Scotland the opportunity to do so.

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Chapter 8 - The New Market

8.1. The free and fair competition in road passenger transport which the Government proposes will bring great benefit to many travellers, and to the community at large.

8.2. The main network of services will continue and will better meet the needs of the traveller. On many well used services, fares will go down. Other services may change, to match peoples' requirements more closely. In rural and urban areas alike, there will be potential for new services. Most important of all, the measures proposed by the Government should slow or halt the seemingly inevitable decline in service to the travelling public. The total market for public transport should expand.

8.3. Ratepayers and taxpayers will know how much money they are providing for the services they subsidise, and will reap the benefit as gains in efficiency reduce the need for subsidy. The managers of bus operations will have more freedom to manage and compete within a clear structure of responsibility.

8.4. The purpose of the bus industry is to meet the needs of its passengers. There have been 30 years of decline in bus services. Under these proposals the country can look forward to a future where the passenger determines the service he wants.



Prime Minister (2)  
To note

CC DP

AT 13/6

cc BI

PRIME MINISTER

PRIVATISATION OF ENTERPRISE OIL

Preparations for the sale of my holding in Enterprise Oil are proceeding well and, subject to market conditions, I propose to announce on Tuesday 19 June my intention to proceed with the stock market flotation.

The Financial Secretary and I have agreed that the offer should be underwritten and to delay choosing between whether the offer should be by tender or at a fixed price. I see advantage in deferring this decision until the last minute to take full account of market conditions, although at the moment I believe the balance of probability is that I shall decide on the tender method. Likewise, the pricing of the offer is unlikely to be resolved until the end of this week, when I shall wish to satisfy myself that the sale ensures an adequate return in all the circumstances. I hope that the Financial Secretary will be able to attend all my meetings with the Underwriters on Friday and, if necessary, Monday.

I propose to make arrangements for preferential applications for shares by employees and to take a number of steps to encourage small shareholders to apply, including wide distribution of the prospectus and, should the offer be by tender, permitting striking price applications. I also propose to retain a special share in the company, for the sole purpose of deterring predatory takeover bids in the company's early years. Provided that the rights attaching to the special share have not been activated, it will be redeemed automatically on 31 December 1988 by which time the company should be sufficiently well established to fend for itself. All these detailed proposals have also been agreed with the Treasury.

Subject to ensuring an adequate return, I therefore intend to announce the sale on 19 June, by means of a written answer, subject to the views of the Leader of the House. The prospectus would then be published on 22 June and application lists would open and close on 27 June.

\* This is not accurate. The prospectus is available to the underwriting institutions and the Press on Impact Day 19 June. It is distributed to clearing banks and other retail outlets on 22 June.

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I should be grateful for your consent to proceed on the basis outlined above.

I am sending copies of this minute to Cabinet colleagues, the Financial Secretary to the Treasury, the Governor of the Bank and to Sir Robert Armstrong.

A handwritten signature in blue ink, which appears to be "D. Healey".

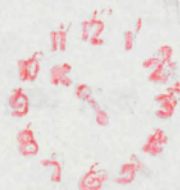
Secretary of State for Energy

13 June 1984

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13 JUN 1984



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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0AT

12 June 1984

NSPM

AT

12/6

Dear Norman,

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND  
MERGERS COMMISSION: SCOTTISH BUS SERVICES

You announced on 26 January your intention to refer to the MMC later this year aspects of public sector bus services in Scotland. I am afraid it is now clear that such a reference would be inappropriate at this time. We have recently decided in E(A) to abandon quantity control of bus services. We will be announcing this shortly, and its implementation in 1985 will create a new operating environment leading to increased competition and greater efficiency for existing public sector operators. An MMC reference now, to achieve a similar objective, is clearly superfluous and would deflect effort both in the industry and in my Department from preparing for the forthcoming changes. I must therefore ask you to withdraw this reference from the 1984 programme. The change would need to be announced in due course, but can be explained readily against the background I have described.

I am sorry to leave you with a gap in the programme at this late stage of the year. However, as you know from earlier discussions, it seems to me far more important that we should have a programme of MMC references which relate clearly to need and offer real prospects of improved efficiency, rather than that we should aim simply to fill the desired quota.

I am copying this letter to members of E(N1) and to Sir Robert Armstrong.

Yours wsr.  
George.

12 JUN 1984

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SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

CONFIDENTIAL

01 211 6402

The Rt Hon Viscount Whitelaw PC CH MC  
Lord President of the Council and  
Leader of the House of Lords  
Privy Council Office  
Whitehall  
London SW1A 2AT

CCNO  
NDPM  
BT  
AT 1/16  
June 1984

*R. Sullivan*  
ENTERPRISE OIL FLOTATION

You and colleagues will wish to be aware that subject to market conditions I plan to announce on 19 June the commencement of the sale of the Government's shareholding in Enterprise Oil plc, by means of a public offer on the Stock Exchange. It is planned that the prospectus should be publicly available on 22 June and applications received on or before 27 June. I shall be seeking the Prime Minister's consent to proceed nearer the time of the offer.

Before and during the period following publications of the prospectus Ministers should avoid making statements which could have implications for the flotation or which could, in the extreme, give rise to allegations of misrepresentation or non-disclosure in the prospectus.

I attach a note, prepared by my legal advisers, setting out guidance on Government statements during the offer period. I should be grateful if you and copy recipients would draw it to the attention of all Ministerial colleagues.

While my concern is directed particularly at statements and comments made outside Parliament, it should also be taken as applying to Parliamentary proceedings. Such proceedings are of course privileged and cannot de jure be used to found a legal action. However, I do not think that a Parliamentary statement which was misleading in the context of the Enterprise flotation could be defended satisfactorily by invoking Parliamentary privilege. Any attempt to do so would gravely undermine the Government's reputation in the conduct of flotation, with adverse consequences for future privatisation.

I am copying this letter and the attached note to the Prime Minister, Cabinet colleagues, and to Sir Robert Armstrong.

*Peter Walker*  
PETER WALKER



## ENTERPRISE OIL FLOTATION

### Notes for Guidance on Government Statements during the Offer Period

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The period reserved for the flotation of Enterprise begins in less than three weeks. Before and during the period following publication of the Prospectus to be issued in connection with the flotation, Ministers should avoid making statements which could have implications for the flotation or which could, in the extreme, give rise to allegations of misrepresentation or non-disclosure in the Prospectus. There follow some Notes of Guidance on the general principles involved:-

1. In broad terms, the greatest care should be taken in relation to statements which:-
  - (a) could be relied on by purchasers of shares in Enterprise as constituting an inducement to them to buy shares in the company independently of information contained in the Prospectus;
  - (b) might be regarded as indicative of an omission from the Prospectus of material information relating to Enterprise or the flotation;
  - (c) could have an effect on the market price of the Enterprise shares in circumstances where underwriters or purchasers of those shares (either on the basis of the Prospectus or subsequently in the market) might allege that the information contained in the statement should have been disclosed in the Prospectus.
2. In particular, care should be taken to avoid statements which might be regarded as having a material bearing on Enterprise's prospects or on the particular environment in which it is to operate. In addition, statements which could conflict with, or be regarded as putting a materially different interpretation upon, statements of fact or opinion contained in the Prospectus could also give rise to problems and should therefore not be made without careful consideration of the implications.
3. Whilst they should not be regarded as an exhaustive list for the purpose of the general guidelines set out above, the following matters of sensitivity should be noted:-
  - (a) statements of opinion with particular reference to Enterprise, its financial position or prospects or

the sector, business environment and regulatory regime in which it is to operate;

- (b) forecasts on the future trend of oil prices or exchange rates;
- (c) statements of Government policy - in particular statements having a direct bearing on the regulation of the oil and gas industry or the special fiscal regime applicable to that industry and in either case material to Enterprise's financial position or prospects;
- (d) matters affecting or relating to the production profile or reserve estimates disclosed in the Prospectus in relation to Enterprise or applicable to the UKCS generally and which might be regarded as likely to influence an investor's view of Enterprise's prospects;
- (e) statements of opinion in relation to Enterprise which are or appear to be based on facts particularly within the knowledge of the maker of the statement so as to cause the person relying on the statement to have reasonable grounds for believing that the statement is so based. In the case of a new company such as Enterprise, there must be a particular risk that any statements of opinion by Ministers in connection with it will be perceived to be based on facts within their knowledge and relied on as such;
- (f) statements as to the Government's future conduct in relation to matters of particular concern to Enterprise, its business or its shareholders, such as questions relating to the Ninth Round;
- (g) statements which place a legal interpretation on a certain set of facts which is incorrect or misleading, such as Enterprise's ability to qualify for particular treatment under statutory provisions;
- (h) statements which only partially disclose facts, or which reveal some facts, all of which are true, but which fail to reveal other matters affecting the weight of those stated.

4. It should be noted that even though statements were true at the time they were made, they may cease to be true later. Because questions could arise as to the accuracy of the Prospectus from this point of view, special consideration may need to be given to the manner in which correcting statements are made.

5. Ministers should be aware that while the period in the immediate run-up to the flotation and during the offer period are particularly sensitive from the standpoint of the kind of statements which may appropriately be made, care should also be taken thereafter in relation to any statement which could cast doubt on the completeness, fairness or accuracy of the Prospectus at the time of its publication. In addition, if the flotation is effected on a partly-paid basis, Ministerial statements could be relevant to actions of investors in relation to their continuing obligations as regards the second instalment and should be carefully considered from this point of view.
5. In the light of the foregoing, it would seem desirable that Ministers should confine their remarks to:-
- (a) statements which use or repeat facts published prior to the flotation, provided that such statements remain true;
  - (b) statements of fact or opinion contained in the Prospectus, subject to the proviso in (a);
  - (c) statements which, while within the areas of sensitivity referred to in earlier paragraphs of this note, have been specifically cleared from the standpoint of their implications for the flotation.

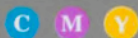
PART 9 ends:-

DB to Scottish Office 31.5.84.

PART 10 begins:-

SS/energy to Lord President 1.6.84

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