



DEPARTMENT OF TRANSPORT
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The Rt Hon Sir Keith Joseph Bt, MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

Prime Minister
Mr Fowler hopes to press ahead with privatisation of National Express.

Good

not

8 July 1981
MAD 1/2/81

James Keele

My Transport Act of 1980 removed the regulations which stood in the way of Inter-City coach services. The result has been the biggest increase in coach travel for half a century. One beneficiary from this has been National Express - the express coach network run by the National Bus Company - which has increased its passengers from an annual rate of about 8 million to about 12 million. This now provides the basis for a profitable business, and I think it is now time to go to the next stage, and to see how we can best introduce private capital into the operation.

There is, in my view, little prospect at present of a successful sale of shares in any of the NBC's stage carriage operations - that is, their ordinary local bus services. These are widely dependent on subsidy from local government. But there is no reason at all why we should ~~now~~^{not} now seek to attract private capital into the express side of the business.

National Express can stand as a separate business but we should recognise that the express business is closely intertwined with NBC's other activities at the operating level. There is a "sharing" arrangement for some vehicles,

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staff and maintenance facilities. This has mutual benefits to both sides of the business. We shall need to take account of this in our new arrangements.

I propose, therefore, that all the assets of National Express (mainly coach stations and coaches) should be vested in a single company, and that NBC should offer shares in this company for sale to private investors, retaining a minority holding itself. In order to make the Company a more attractive investment, I have in mind that ownership of NBC's small amount of non-operational property plus some of its developable operational property, should also be transferred. But there will have to be close contractual links to provide for joint use of assets. The objective would be to bring in private capital to realise the development value of these sites and, at the same time, give the travelling public more modern facilities. Hitherto NBC have been unable to develop many of their sites by, for example, building shops or offices above bus stations and we cannot make public finance available for such purposes.

In order for this plan to succeed, I should need to take powers in the transport legislation which colleagues have already agreed that I can introduce next session. Provided that I can get the co-operation of the NBC Board, I would need a relatively short provision, probably only the one clause, to clarify their power to sell shares in a subsidiary plus possibly a schedule on pensions and tax. Cooperation is important because without it we would need infinitely more complex legislation which would not be ready for the next session. In order to have the support of NBC I need to be able to persuade the Board that the change is in their interest - for example by allowing them to retain a minority shareholding, say 30%, and thus a stake in the future profits of the business.

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I should be grateful for the agreement of colleagues on E(DL) to my now broaching this topic as a matter of urgency with Lord Shepherd. My aim would be to see him by early next week and to secure his agreement in principle to the scheme. I will then let you and other colleagues know the outcome of this meeting. Meanwhile I would be grateful for any comments by lunch time Monday, 13 July.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Francis Pym, George Younger, Nicholas Edwards, Michael Jopling, members of E(DL) and Sir Robert Armstrong.

Yours ever,
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NORMAN FOWLER

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