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CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1

MBPM
ms 13/9
9 September 1982

Dear Geoffrey,

OBJECTIVES FOR THE SCOTTISH TRANSPORT GROUP (STG)

I now attach revised draft objectives for the Scottish Transport Group, which have been re-formulated in the light of our discussions in the Spring in E(NI). I was grateful for comments on my earlier proposals from Mr Sparrow. I have also seen the subsequent exchanges between Leon Brittan and David Howell about NBC objectives, and there have been useful discussions between our officials.

As you will see I have as before proposed separate sets of objectives for the Scottish Bus Group and for Caledonian MacBrayne. These are the two main operating arms of the Scottish Transport Group and their respective businesses are, obviously, very different. To have set objectives for STG as a whole would have been a pointless and anodyne exercise; and I see no benefit in setting objectives for STG's other very minor activities which are in general little more than providers of management or other related services for the Group itself. (The exception is MacBrayne Haulage, but it may anyway be a candidate for privatisation - see below).

I have not included privatisation objectives for the bus group or for Caledonian MacBrayne simply because that is premature. But you will know that a merchant bank is now looking at STG as a whole, with a view to possible privatisation. I will report on the outcome as soon as possible. We shall thereafter know how privatisation should be carried forward in relation to STG, and what if any reference needs to be made to it in Group objectives.

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

*Yours ever,
George.*

SCOTTISH BUS GROUP

- (i) It shall be the objective of the Company, acting within the statutory and financial framework, to provide road passenger transport services in and to and from Scotland, in accordance with commercial principles.
- (ii) The Secretary of State will from time to time set medium-term targets for the Company and these may reflect social as well as economic considerations. It shall be the objective of the Company to meet the financial target, and the associated borrowing and financing limits, and in so doing provide as substantial as possible a network of stage carriage services to meet demand, especially in rural areas, having regard to
 - (a) the willingness of passengers to pay
 - (b) the ability to cross-subsidise services on a regional basis, and
 - (c) the willingness of local authorities to provide financial support where necessary.
- (iii) Subject to objective (ii) to improve efficiency by reducing unit costs and use assets in the most efficient and economical way; and, in particular, to achieve the performance aims determined by the Secretary of State from time to time.
- (iv) To liaise fully with local authorities over the provision and standards of bus services within their areas and to keep these matters under review.
- (v) In carrying out its programme of investment to use techniques of appraisal agreed with the Scottish Development Department, and to aim to keep whole life vehicle costs to the minimum.
- (vi) To keep in touch with developing thinking on new ways of providing passenger transport services by road, particularly in rural areas.

CALEDONIAN MACBRAYNE

- (i) Having regard to the financial target determined by the Secretary of State from time to time and to the needs of the local communities served, to provide efficient shipping transport services to the Western Isles and on the Clyde estuary.
- (ii) To keep under review their ferry network's timetables and routes so as to ensure the best matching of services and local needs.
- (iii) To consult local interests fully in the pursuit of (ii).
- (iv) To use existing assets in the most economical way and to achieve such performance aims as the Government may determine from time to time.
- (v) To contain external financing requirements within the limits set by the Secretary of State.
- (vi) To use techniques of appraisal agreed with the Department in carrying out its programme of investment, and in doing so to take into account technical innovation, likely changes in patterns of need over the lifetime of the proposed investment, and also of the need for optimal flexibility in the future use of ships.
- (vii) To have particular regard in the provision of its services to providing the maximum benefit to island economies, particularly by encouraging indigenous economic activity and job creation.



SEP 3 1982





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Treasury Chambers, Parliament Street, SW1P 3AG

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

DB
28/9

27 September 1982

Dear Secretary of State,

OBJECTIVES FOR THE SCOTTISH TRANSPORT GROUP (STG)

You wrote to Geoffrey Howe on 9 September setting out revised draft objectives for the Scottish Transport Group.

I am broadly content with the objectives proposed which, as you say, have been discussed between our officials. An important omission is of course any reference to privatisation. The possibility now being studied of privatising the Group as a whole would have important implications for future operation and I think it important that the objectives contain an unambiguous statement of our intentions in this respect. When the merchant bank studies now underway are completed I hope you will be able to bring forward quickly to E(DL) a paper setting out your proposals on privatisation which will allow us to reach a collective view on what objectives should be given to the group in this respect. In the mean time, the objectives will have to be held back from STG. While this delay is regrettable I believe it is worthwhile because it enables us to clarify those important questions.

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

Yours sincerely

LEON BRITTAN

LEON BRITTAN

[Approved by the Chief Secretary
and signed in his absence]

Nat Ind

Policy

PF-7



Prime Minister (2) cc JJ
MS 24/9
NEW ST. ANDREWS HOUSE
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The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
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23 September 1982

NATIONALISED INDUSTRIES: PROGRESS SINCE THE CPRS REPORT
SCOTTISH TRANSPORT GROUP

I am writing to report on the progress so far in implementing the CPRS recommendations so far as the Scottish Transport Group (STG) is concerned. For convenience this report follows the sequence of recommendations as they were presented to NICG.

I minuted on 26 February ^{P+S} about objectives for STG's two main operating subsidiaries, Caledonian MacBrayne and the Scottish Bus Group. There was as you know some delay in E(NI) in settling the manner in which the exercise should be handled but we have made further progress over the summer, and revised proposals went to you on 9 September. We now have a study underway on potential for privatisation of STG, and our conclusions on that will need to be fed into the objectives in due course. Obviously, we have not yet discussed objectives with STG.

To assist our own business understanding we have had an accountant on secondment to the sponsoring division for STG for the last year. We are now trying to recruit a further accountant from one of the major firms, and with appropriate business experience, for an extended secondment. He will assist my officials in dealing with STG and with the two Scottish Electricity Boards.

Discussions have been underway with the Group throughout the summer on proposals for improved monitoring. These can most appropriately be pursued now in the context of discussions of the Group's corporate plan review.

As to better self regulation of the Group, we have already encouraged the Chairman to review the senior management of Caledonian MacBrayne, which has given us particular cause for concern; and I hope that some changes will be made soon which should improve that Company's public image and capacity for policy planning. As you know, in the general pursuit of greater efficiency, we have referred Caledonian MacBrayne to the Monopolies and Mergers Commission for a section 11 inquiry. This is now underway.

I have met the Chairman of the three Scottish nationalised industries for an initial discussion on this exercise, and since then Allan Stewart has met the whole STG Board, and the head of the sponsoring Division has attended a Board meeting. In addition Allan, Alex Fletcher and I meet the Chairmen and Board members from time to time on an informal basis; and we attach great value to keeping in touch in this way. We agree, however, that a more formal meeting with the STG Board annually will be a useful supplement.

As to membership the Board currently stands at 10 - a full-time Managing Director who is Deputy Chairman, a part-time Chairman, and 8 other part-time members. There is one vacancy caused by a recent death, and two other vacancies occur at the end of the year. Because of the mix of abilities currently on the Board and our wish to strengthen business expertise, we propose to fill all these vacancies. However a larger number of vacancies arise at the end of 1984, and it will be appropriate then to consider whether the overall size of the Board should be reduced.

Thus we are making good progress, within the constraints of staff resources, with implementation of the CPRS recommendations.

The important thing, however, is to achieve the broad objectives which the CPRS identified - that is, basically, a more satisfactory understanding and relationship between Government and the nationalised industries. As time passes and the report itself recedes in our memories we shall need to guard against the temptation to have an officious regard for the form rather than the substance of the CPRS recommendations.

I am copying this to other members of E(NI).

GEORGE YOUNGER