

War Ind of SV



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Leon Brittan QC, MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

MSM
ms 23/9

22 September 1982

Dear Leon

I have seen a copy of your letter of 3 September to Reg Eyre about the NBC performance and corporate plan review.

I think I should make clear before we meet on Thursday that I cannot entirely accept what you say either about NBC's record in controlling unit costs, or about investment.

It is certainly true that unit costs rose substantially in 1980 as a result of a large real wage increase conceded by NBC, along with the rest of the bus industry. But in 1981 the company achieved a quite remarkable reduction in unit costs of 4.4% in real terms (against our performance aim of a 3% reduction); and I think we should give them credit for this.

Nor do I believe that we have any evidence for regarding NBC's investment plans as ambitious. On the contrary, in the light of what the company say in their Corporate Plan about vehicle lives exceeding depreciation lives, it may well be that their plans are too low for the long term health of the business. We should in my view reserve our judgement on this until the discussions between our officials and the company are complete.

Yours
David

DAVID HOWELL

Nat Incl

Policy

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Prime Minister (4)

cc J

Mus 6/9

Treasury Chambers, Parliament Street, SW1P 3AG

Reginald Eyre Esq MP
Parliamentary Under Secretary
of State for Transport
Department of Transport
2 Marsham Street
London SW1P 3EB

3 September 1982

2 hrs

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NATIONAL BUS COMPANY (NBC): PERFORMANCE
AND CORPORATE PLAN REVIEW

Thank you for your letter of 20 August enclosing a review of
NBC's performance and corporate plan.

I welcome the progress the NBC has made, particularly in the last two years. But their poor record in controlling unit costs is cause for concern together, as you say, with the continuing losses made by the non-stage businesses. Our aim must be to reverse these trends in the future and I shall be looking for consequent improvements in NBC's financing projections. I think it is also worth recording now that NBC's investment aspirations, while starting from a very low base, in total struck me as ambitious. The very limited room for manoeuvre we have on the financing side means that the justification for plans on this scale will need to be gone into in considerable detail.

Overall, I agree that the Review identifies the right issues and forms a useful basis on which to tackle NBC about them. The timetable is obviously tight. We will need to take a preliminary view on some of the issues towards the end of September in the course of our bilateral discussions of the IFR projections. I hope, therefore, the discussions at NBC can get under way and be completed as quickly as possible.

I am copying this letter to the Prime Minister, Members of E(NI), to George Younger and to John Sparrow and Sir Robert Armstrong.

[Handwritten signature]

LEON BRITTAN

RESTRICTED

RESTRICTED

GC JV



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

20 August 1982

Prime Minister ²

The Rt Hon Leon Brittan QC MP
Chief Secretary of the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

lm
23/8

ms

Dear Leon,

NBC PERFORMANCE AND CORPORATE PLAN REVIEW

E (NI) Committee decided earlier in the year that Performance and Corporate Plan Reviews for the smaller industries should be cleared in correspondence.

I enclose on David Howell's behalf a Review of the National Bus Company, which takes account of discussions with your officials. The main points of the review of past performance are summarised in Annex A to this letter. I believe that the NBC management emerge with considerable credit, though we must obviously be concerned about rising costs and about the disappointing performance of the non-stage businesses.

At Annex B, I attach a summary of the main points which officials have identified for action between now and the time when final decisions on the Investment and Financing Review are taken in the Autumn. All these recommendations are important, but that requiring a review of the medium term financial target will pose particular difficulties, given the problems with NBC can expect to meet in the future as our policies for the control of local authority transport subsidies put more pressure on local authorities, and make it more likely that they will decide to cut rather than increase current levels of revenue support.

I suggest that our officials should now get on with discussing the action points with the Company, and report back by the end of October.

I am sending copies of this letter to the Prime Minister and other members of E (NI), to George Younger and to John Sparrow and Sir Robert Armstrong.

Yours ever
Reginald Eyre

REGINALD EYRE

NATIONAL BUS COMPANY

Performance Review - Summary and Conclusion

Stage Services

1979-81 saw a rapid decline in demand for stage carriage services. Over the period as a whole, NBC succeeded in improving productivity while reducing the size of the business. The company remained within the EFLs set for it and bettered its performance aim.

Costs increased in real terms over this period. Unit costs increased particularly rapidly in 1980 when demand declined by 8%. Services were reduced by only 2%, but fares had to be increased by 11% in real terms and NBC still incurred a net loss of £32.9m.

In 1981, management action secured unit cost reductions and improved productivity. Fares were increased by only 2%; but services were reduced by 8%, broadly in line with the fall in demand in that year. Financial results improved, the c.c.a net loss being reduced from £32.9m to £18.2m.

Investment

Very substantial reductions were made in investment over the period. Further reductions have been made in 1982. The current low level of vehicle purchases is a product of several special factors, and a somewhat higher level may be necessary in the longer term.

Non-stage businesses

The position of the non-stage businesses is disquieting. All incurred losses on a fully allocated cost basis over the period. Although the contribution accounts show a more favourable picture much depends on NBC's definition of "long run unavoidable costs".

NATIONAL BUS COMPANYCorporate Plan Review - Recommendations for action

In responding to NBC's 1982 Corporate Plan, the Government should give priority to the following proposals:

- i. Reviewing NBC's business strategy, especially in relation to the fares/services trade off and variations in the forecast level of revenue support;
- ii. Reviewing the Group medium term financial target, with a view to establishing its relationship to a commercial return on assets;
- iii. Setting a medium term performance aim to control costs, including maintenance costs;
- iv. Seeking a firmer justification for the investment proposals, and an analysis of their consequences for whole-life costs;
- v. Setting a new financial target for National Express and National Holidays;
- vi. Pressing for an improvement in the financial performance of local coaching;
- vii. Improving the contents of the 1983 Corporate Plan.

POST OFFICE
NEW YORK

23 AUG 1982



cf SV
Prime Minister (2)

ms 28/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

28 July 1982

2 Days
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NATIONAL BUS COMPANY (NBC) OBJECTIVES

Thank you for your letter of ^{TPM} 23 July. I am glad that you have felt able largely to accept my suggestions.

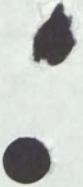
I would however like to return to the point about setting a timetable for privatisation of NBC's coaching and property subsidiaries. I accept that the uncertainties surrounding the prospects of privatising these companies make it difficult to set a target date for privatisation itself. I do however feel that we need to give some indication of the priority we attach to the privatisation objective which we wish the Company to pursue once the first step of producing separate accounts for the coaching businesses is complete. This could be done by including a target date for the Company to bring forward proposals for privatisation. This would leave the Company in no doubt about what we expected of it and the approach would also be more in line with the objectives we are agreeing for other industries where timetables are being attached to privatisation. Implementation of the proposals would of course be determined by the market.

I should be grateful if you could reconsider this point. I would be prepared to see it made in a letter to the Chairman accompanying the objectives rather than the objectives themselves if you felt that that was preferable to avoid offering up public hostages to fortune.

On the question of publication, you will I imagine want to give some thought to how and in what form the final objectives might be publicised. For my part I see no objection in the case to publishing the objectives themselves as they stand.

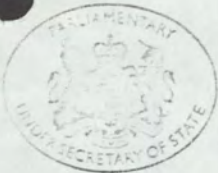
I am copying this letter to recipients of yours.

LEON BRITTAN



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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: H/PSO/26382/82

Your ref:

The Rt Hon Leon Brittan GC MP
Chief Secretary to
The Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

20 AUG 1982

Prime Minister

MS

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28/8

Dear Leon,

NATIONAL BUS COMPANY OBJECTIVES

Thank you for your letter of 28 July to David Howell, who is abroad at present.

I can accept the compromise you propose. I am sending the agreed objectives to Lord Shepherd today, with a covering letter making clear that we expect the Company to put forward firm proposals by the end of this year for the privatisation of property and by September 1983 for the privatisation of National Express and National Holidays. I shall also say that we intend to publish the objectives themselves, in the autumn. We shall aim at joint publication as suggested by John Sparrow in his minute of 2 August to the Prime Minister.

I am sending copies of this letter to the recipients of the earlier correspondence.

Yours ever
Reginald Eyre

REGINALD EYRE

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GC JV



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

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20 August 1982

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The Rt Hon Leon Brittan QC MP
Chief Secretary of the Treasury
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SW1P 3AG

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REGINALD EYRE

NATIONAL BUS COMPANY

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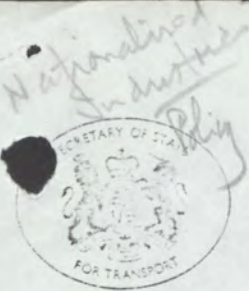
NATIONAL BUS COMPANYCorporate Plan Review - Recommendations for action

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- vi. Pressing for an improvement in the financial performance of local coaching;
- vii. Improving the contents of the 1983 Corporate Plan.

POST OFFICE
NEW YORK

23 AUG 1982



SE IV

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister ②

MUS 26/7

The Rt Hon Leon Brittan QC, MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

23 July 1982

Dear Leon

MS

NBC OBJECTIVES

Thank you for your letter of 6 July. I have also seen George Younger's letter to you of 15 July.

I am in general content with the reformulation you have suggested, although I think it would help if the words "subject to paragraph 2 below" could be inserted in the first paragraph. This would make it clear that commercial objectives might be over-ridden by social ones if the Government so directed.

On your objective 2(a) our discussions with the Company have related specifically to their National Express and National Holidays operations, where I have made it clear that separation of accounts should be achieved by the end of this year. I would propose, therefore, to refer to those businesses and give the date of 1 January 1983. I am, however, doubtful about the wisdom of attaching a timetable to privatisation itself, as suggested in your 3(d), since any date could turn out to be something of a hostage to fortune given the uncertainties of the market.

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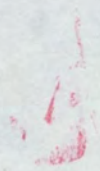
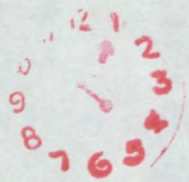
My original objective (f) in fact omitted any reference to property, and I would therefore propose to replace the words "their coaching, holiday and express operations" by "National Express, National Holidays and property development".

Subject to these points I now propose to send the objectives to Lord Shepherd. I am copying this letter to the recipients of yours.

Yours a
David

DAVID HOWELL

1982





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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NBPM *ms 16/7*

The Rt Hon Leon Brittan QC MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

15 July 1982

Dear Leon,

NCB OBJECTIVES

Thank you for sending me a copy of your letter of 6 July.

So far as the Scottish Bus Group is concerned the position on social and commercial objectives is very much as David Howell has described. We set a financial target for the Group, and having made their dispositions to satisfy the target we expect them to provide as substantial a network of local bus services as they can. Maintenance of the network, which is desirable for social reasons, depends substantially on cross-subsidy. Local authority subsidy allows for the maintenance of a larger network than could be provided by internal cross-subsidy alone. We have the opportunity to influence the level of cross-subsidy by the financial target we fix.

SBG is on target to meet its medium-term financial target. The Select Committee on Scottish Affairs, in its most recent report, have repeated the customary criticisms of imposing a financial target on what they regard as being essentially social services; and we have to face up to the prospect in coming years of a deteriorating financial situation for bus services, as for example New Bus Grant is withdrawn and the opportunities for operating economies are exhausted.

However in the meantime I see no conflict between what is being proposed for the NBC, and my own approach for SBG. Our officials are in touch about SBG's draft objectives, about which I shall hope to write again formally, shortly.

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

Yours sincerely,

George.



Prime Minister (4)

ms 87

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
 Secretary of State
 Department of Transport
 2 Marsham Street
 London SW1P 3EB

6 July 1982

Dear Secretary of State,
 NATIONAL BUS COMPANY: OBJECTIVES

I have seen a copy of your letter of 10 June explaining how your proposed objectives for NBC are intended to embrace social as well as commercial objectives.

I can accept the principle of what you propose and therefore the need to formulate objectives in such a way that in moving towards a fully commercial remit we have freedom to take into account the wider consequences of a decline in bus services. I am concerned however that NBC's management should be left in no doubt that the presumption is that they should operate in accordance with commercial principles unless asked to do otherwise. Objectives are intended to give unambiguous guidance to management in the running of their business and I think it is important that the objectives for NBC are explicit on this point. The attached redraft is intended to reflect this point without altering the substance of what you propose. I hope you will find it acceptable.

If we are to proceed on the basis of allowing social considerations to be taken into account in setting NBC's financial targets, we shall need also to ensure that a compatible approach is adopted in Scotland in respect of the Scottish Transport Group. I would welcome George Younger's comments on this aspect. Given that the objectives provide only a framework within which it is possible to take social considerations into account I do not myself see why in principle there should be difficulty in reconciling objectives for the two bus groups, particularly with the redraft I have proposed which makes explicit the underlying presumption of commercial operation.

On a point of detail, I think it would be helpful, and in keeping with the approach we are adopting to objectives generally, if a timetable could be attached to objectives (c) - separating the accounts of the coach business from the main business - and (f) - privatisation of the subsidiaries. Perhaps you could consider what might be possible.

CONFIDENTIAL

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

yours sincerely



per LEON BRITTAN

(Approved by the Chief
Secretary signed in his absence)

OBJECTIVES FOR THE NATIONAL BUS COMPANY

It shall be the objective of the Company, acting within the statutory and financial framework to operate all its activities in accordance with commercial principles.

2. The Secretary of State will from time to time set medium term financial targets for the Company. Where it appears desirable to the Secretary of State on wider social grounds, the financial target may allow for a less than commercial return on capital invested in stage carriage services. It shall be the objective of a 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 the demand expressed by:

- a. the willingness of passengers to pay;
- b. the willingness of the relevant local authorities to make adequate subsidies available for the support of bus services in their area to the extent to which they cannot be financed from passenger revenue; and for the support of concessionary fare schemes.

3. It shall also be the Company's objectives:

- a. to reflect the performance of its non-stage trading activities in separate accounts [by];
- b. to continue to improve efficiency by reducing unit costs and by providing a pattern of services and facilities which makes the most effective use of resources, in particular by meeting any specific targets including performance aims agreed with the Secretary of State;
- c. to have regard to the guidelines set by government for the planning and appraisal/^{of} investment and the criteria to be applied to it, and in procurement policies to aim to keep whole life vehicle costs to the minimum;

d. to introduce private capital into their coaching, holiday and express operations [by]; and to review their investment in BM(H);

e. whilst competing with other operators on normal commercial terms, to avoid unreasonable competitive behavior such as uneconomic pricing of particular services or unreasonable denial to other operators of access to facilities serving the public as a whole.