



P.01323

PRIME MINISTERBus White Paper

BACKGROUND

— FLAGA
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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