



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CE NO

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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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Secretary of State for Trade and Industry

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23 July 1984

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
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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

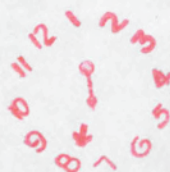
(i) whether the SBG could improve its efficiency and thereby reduce its costs without significantly affecting the quality of service provided, with particular reference to:

- (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





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
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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.





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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