

CONFIDENTIAL

File

②
PRIME MINISTER

7 June 1985

No need to look at the draft
White Paper itself which is
summarised in this note

[Handwritten signature]

BUS DEREGULATION

AT
7/6

Early last March, a deeply-divided Transport Select Committee published the report of its findings on the Government's proposals for bus deregulation as set out in the White Paper, "Buses". The Committee agreed on the need for change, but called for a much more restricted form of competition which would retain the cross-subsidy of uneconomic routes, and favour the established big battalions of bus companies. Local authorities would be required to invite competitive tenders for the comprehensive provision of all services in a given area. To a large extent, this would preserve the status quo and deny us the benefits of the free market approach embodied in the Transport Bill.

Three would-be supporters on the Select Committee voted against the Government's radical approach. As a former local authority Transport Committee Chairman, David Gilroy Bevan favoured the status quo. Neville Trotter, representing Tyne and Wear with its integrated bus and metro system, was no doubt influenced by constituency considerations. Peter Fry is understood to have a business connection with the National Bus Company.

The White Paper, which Nicholas Ridley plans to publish before the Lords Committee stage of the Transport Bill, is a sound, robust rebuttal of the Select Committee's report. The Annex provides a comprehensive point-by-point response to the

CONFIDENTIAL

CONFIDENTIAL

- 2 -

more detailed comments in the report. The body of the White Paper concentrates on the basic philosophical difference between the Select Committee's dirigiste solution to halting the costly, wasteful decline of bus transport and the market-orientated basis of the Transport Bill.

The objections mounted against the Government's free market approach all presume that local government officials know what their communities need, and are capable of fulfilling those needs efficiently and at least cost to the taxpayer through integrated planning and co-ordination. It is alleged that unco-ordinated, market-driven services would be erratic and unstable. Information on bus timetables would be unreliable. Multi-stage journeys would be difficult to plan and unpredictable to execute. The elimination of internal cross-subsidisation will be much more difficult to offset through the efficiencies induced by deregulation than the Government anticipates.

These are lame and probably largely groundless fears. The inescapable fact is that integrated planning, co-ordination and cross-subsidisation have failed to deliver what customers want. Protected from competition, the bus industry has ossified and declined. Restrictive practices have become entrenched and costs have risen. While consumers have become more prosperous and car ownership has steadily risen, the bus industry has failed to respond to the forces of change.

CONFIDENTIAL

CONFIDENTIAL

- 3 -

Since 1955, the number of bus passengers has halved and subsidies have increased from £70 million in 1972 to nearly £1,000 million pa today. The bus industry is caught in a vicious downward spiral; the longer people have to wait for a bus and the more they have to pay, the fewer the people who are prepared to wait; the steeper the losses, the higher the fares and the subsidies.

As we have seen, this process is not irreversible. Since long-distance coaches were deregulated in 1980, average fares have come down by 40% in real terms, and 700 new services have been introduced. The quality of service has increased. The introduction of a cheaper, high-frequency minibus service in Exeter has boosted demand by more than 50% in a year. The scope for cost savings is considerable. Private operators, freed from the heavy overhead of restrictive practices, can run bus services for 30-40% less than public sector operators.

In rural areas, far from the prospect of deprivation, there is the greatest scope for commercial enterprise to seek out better and more cost-effective ways of serving consumers. Moreover, that scope covers the wider needs of rural communities - postal services, school transport, and health and social security.

The preservation of high safety standards is a prerequisite of the deregulated régime. So too is provision for the needs of the elderly and the disabled; present arrangements for

CONFIDENTIAL

concessionary fare schemes will be improved. The unions' fears about unemployment are understandable, but if the demand for bus transport can be turned into a virtuous upwards circle, based on high efficiency and responsiveness to consumer needs, there will be more jobs for drivers and conductors - albeit not necessarily with the big established bus operators like the NBC.

This is the platform on which Nicholas Ridley defends his radical free market approach to bus transport. If anything, his case has become more compelling on exposure to Parliament. The Transport Bill will emerge intact. The Government's efforts now need to be shifted from defending the soundness of the principles to ensuring the practical success of an implementation process uncomfortably close to the time of the next Election.

It is vital to get across the message that:

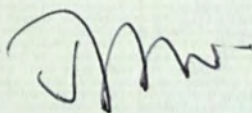
1. the collapse of rural bus services has occurred against the background of an explosion of subsidy and regulation;
2. only deregulation and reduced subsidy has ever halted this decline by directing energies to marketing, cost

CONFIDENTIAL

- 5 -

cutting and new services, away from the sterile process of political lobbying.

This draft White Paper helps get this across. It needs another punchy press release to hammer it home.

A handwritten signature in dark ink, appearing to be 'JW' with a horizontal line extending to the right.

JOHN WYBREW

CONFIDENTIAL