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CF  
Please tell Mr Stark that  
we shall await Cabinet price  
comments.

BRV  
28/11

PRIME MINISTER

TRANSPORT ACT 1985 : THE INTRODUCTION OF COMPETITION INTO  
LOCAL BUS SERVICES : MINISTERIAL RESPONSIBILITIES

George Younger, Nicholas Edwards and I have been considering how the Ministerial responsibilities for bus services in Great Britain should be divided between us following the enactment of the Transport Act. The Act will make considerable changes affecting both operators and local authorities and create a number of important new functions for the 'Secretary of State'. Most of the existing Ministerial functions will also continue under the new Act, though some will be in a modified form. In view of the changes which the Act is making, we thought it was right to review the allocation of responsibilities across the whole range of functions affected.

Effect of the Act on Present Functions

The Transport Act will abolish road service licensing outside London but it modifies and strengthens the system of operator licensing administered by the Traffic Commissioners. The existing fuel duty rebate system for local services is continued in a slightly modified form. The Act also retains the existing system of local authority taxi and private hire car licensing but introduces some important reforms to reduce the restrictions on the number of taxis which apply in some areas and to allow taxis and licensed private hire cars to carry passengers at separate fares in certain circumstances. The duty of local authorities to co-ordinate and plan public transport is removed, but their powers to subsidise uneconomic services are retained and they are given new powers to promote the operation of services in conjunction with each other subject to this not inhibiting competition.









- vii) the establishment of a Disabled Persons Transport Advisory Committee and the issue of guidance by the Secretary of State in relation to the transport needs of disabled people.

#### Allocation of Ministerial Responsibilities

Of the present functions which are to continue after commencement of the new Act, in January, I currently have responsibility in Great Britain for overall Government policy towards the bus industry, for the appointment of Traffic Commissioners, for the driver and bus licensing system and for administering the fuel duty rebate system. I also have Ministerial responsibility for taxis and hire car licensing system in England and Wales; George Younger is responsible for this in Scotland.

George, Nick Edwards and I feel that, for these existing functions, the present allocation of Ministerial responsibilities is the right one.

In determining the allocation of the new responsibilities we believe that the guiding principle should be that functions which form part of a unified system of control of road passenger transport should continue as now to be operated on a Great Britain basis, while those more closely related to local government, local government finance and local traffic regulation should go to the territorial Secretary of State.

In terms of the new Ministerial functions identified above, we are therefore proposing that the determination of traffic regulation conditions appeals, functions (iii), (iv), and (v) listed above, and the issue of any advice to local authorities on the transport needs of the disabled should be administered territorially. The administration of rural innovation grants in Scotland and Wales would also be territorial functions.





When we have modernised the legislation on taxis and hire cars Nick and I feel that too should become a territorial responsibility in Wales, as it is already in Scotland.

Legal Position

All the powers in question are vested by the Act in the Secretary of State at large and can be allocated administratively.

Implications of the proposal for expenditure and manpower

The three Departments will not be seeking any increase in their manpower or expenditure as a consequence of our proposals.

Approval and Timing of new Ministerial Responsibilities

I should be grateful for your approval to these proposals. We shall be making a number of regulations in mid-December to come into effect at the beginning of January. We should like to make it clear which Secretary of State will be involved in making the various regulations when we consult on the draft regulations later this month.

I attach a draft written PQ which might be used to inform Parliament of the allocation. Since what we are proposing is very much in line with the existing arrangements you may feel it would be appropriate for me to answer the PQ.

I am sending copies of this minute to the Chancellor of the Exchequer and to the Secretaries of State for Environment, Scotland and Wales and to Sir Robert Armstrong.

NICHOLAS RIDLEY

22 November 1985



PARLIAMENTARY QUESTION

Matthew Parris:

To ask the Prime Minister if she will make a statement about Ministerial responsibilities for local bus services under the Transport Act 1985.

Draft Reply

Ministerial responsibility in Great Britain for overall Government policy towards the bus industry, for the appointment of traffic commissioners, for driver and bus licensing, and for administering the fuel duty rebate system will remain with My Rt Hon Friend, the Secretary of State for Transport.

He will also continue to have Ministerial responsibility for taxis and hire cars in England and Wales and my Rt Hon Friend, the Secretary of State for Scotland, will continue to be responsible for this in Scotland.

For the new functions created by the Transport Act 1985, I have decided that my Rt Hon Friend, the Secretary of State for Transport, will be responsible in relation to the operation of the new registration system for local services, the privatisation of the National Bus Company, the establishment of a Disabled Persons Transport Advisory Committee and the administration of transitional rural bus grants. My Rt Hon Friends the Secretaries of State for Scotland, Wales and Transport will be responsible in Scotland, Wales and England respectively for the determination of traffic regulation conditions appeals; the establishment and oversight of new local authority and PTE bus companies; the issuing of regulations governing the procedure for tendering for subsidised service; and the determination of applications related to concessionary fares and related matters including the issue of regulations. The administration of the new system of rural innovation grants in Scotland and Wales under Section 108 of the new Act will also fall to my Rt Hon Friends, the Secretaries of State for Scotland and Wales respectively.



FROM: Sir Alfred Sherman

26 November 1985

PERSONAL

Nigel Wicks  
Principal Private Secretary  
10 Downing Street  
London SW1

Dear Nigel

Further to our conversation I enclose a copy of the Chairman's letter to the Secretary of State. One member of the Board has already sent a copy to John Moore.

With best wishes,

Yours sincerely

*Alfred*

Alfred Sherman  
Studies Consultant

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**NATIONAL** 

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*NLD*



cc NBC Board Members  
Mr B C Sellars  
Mr H W Taylor  
Barclays Merchant Bank

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

21 November 1985  
GRB EH

(Dear Secretary of State)

The Members of my Board welcomed the opportunity of meeting you and your colleagues on Wednesday, 13 November 1985.

Thank you for your assurances that :

- the disposal programme may be a staged programme
- that the policy preference for buy-outs will permit some price preference to buy-out offers over third-party offers
- that trade purchasers will not be able to pre-empt serious buy-out offers
- that we will have your support to put in place any necessary machinery to effect the programme.

My Board are conscious of our duty to propose a programme to you, and we are keen to fulfil that duty. If I may say so, we are keen to do so ourselves and in a positive fashion. We believe we will not help you nor lay the ground for success if we attempt to adopt as our own, a programme about which we have reservations and in which little discretion or role is envisaged for the Board. We think the best outcome all round will be arrived at by our proposing a programme to which we can commit ourselves wholeheartedly.

- As will have become clear to you at your meeting, the primary concern is the sheer logistical problem of undertaking a disposal programme which provides for the sale of seventy to eighty companies to employees over a three-year period. You will be aware that we have been advised by Barclays Merchant Bank that such a programme would be unattainable, the reasons for this view have been discussed with your officials and are available in writing should you wish to see them. Consequently, before reaching any conclusion in the matter my Board decided to defer any decision until the meeting which you



The Rt Hon Nicholas Ridley MP

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suggested between Barclays Merchant Bank and Price Waterhouse had taken place.

This meeting has now been held and it became clear that on your behalf Price Waterhouse have approached a number of banks and institutions on the possible provision of a single or syndicated fund or funds to back individual bus company buy-outs, thus seeking to achieve a degree of uniformity in negotiation and in contractual relationships. This is a course of action which we considered, but excluded on the grounds that a positive response in principle would be the most likely reaction but only as a means of marking that bank's interest in the Government's wider privatisation programme. We felt that any such response in principle would be so hedged with reservations related to the circumstances of the individual applications as to seriously limit its value.

It seems that this is the nature of the qualified response which Price Waterhouse are expecting and I am not sure that it takes us much further forward. This meeting concluded with a re-affirmation by Barclays Merchant Bank of their previously stated view of the 70/80 company programme, but Price Waterhouse declined the invitation to express their view on the matter.

In this situation the Board feel that they must recognise the advice provided by Barclays Merchant Bank which is in accord with the individual judgement of Members drawn from their wide collective experience in industry and commerce.

- The second point of concern is in part related to the first in that the problem of volume is being compounded by a request to create 9 new companies, each of which will play its part in the disposal programme. The Board were pleased that discussions with officials had led to an indication that the timescale for deploying these companies was not as critical as had first been thought but, nevertheless, 9 companies represents a 12-month disposal programme on the assessment of Barclays Merchant Bank.

It is a pity that these issues were not ventilated at our meeting, which concentrated on the practicalities of privatisation, but there are points related to the newly suggested sub-division of companies upon which my Board feel very strongly. In particular they find it strange that no account appears to have been taken of the proposals, agreed by you, which they have in hand to put the operating companies at arm's length from NBC on 1 April next year.

In short, my Board consider that the proposals for further sub-division are:

- i) unsound in that they are not based upon operational practicality, nor do they have regard to the infrastructure available in some of the proposed units;
- ii) they believe them to be unfair because they represent an unashamed weakening of the competitive position



of existing companies and in that, following this weakening, management/employees are to be invited to participate in a buy-out in an unnatural company some of which will have little chance of surviving in their new environment. Thus, they will hamper the Board in pursuing its duty to provide "sustained" competition;

- iii they are not necessary because the change from a centrally directed organisation to a financial holding company which is projected for 1 April 1986 will control predatory behaviour. After all it is expected that this arrangement will deal with such behaviour by local authority operators of all classes under the proposals being introduced by Government. Subsequent to privatisation we believe that the fair trading legislation is sufficiently robust to deal with any problems;
- iv their creation will militate against a swift and smooth privatisation because some unattractive units will emerge.

- A third issue which is exercising certain Members is one of considerable weight. During the two meetings which have been held since they saw you these Members have reminded themselves that they stand in a fiduciary capacity towards the Company and they do not believe that they can empty themselves of all responsibility for the price at which the various units of the National Bus Company are put into the private sector. They believe that an unstructured disposal programme which is being pressed forward with undue haste will mean that there will need to be a substantial discounting against asset values.

The Members of my Board have a wealth of industrial and commercial experience and certain of them feel that they would be placed in an invidious position if companies were released at values which were proved shortly afterwards to have been substantially understated. This is a point upon which a number of Members felt great unease.

Taking into account these reservations the Board has arrived at a strategy :

- for a staged programme
- with initial sounding out of individual managers
- with a stated preference for buy-outs
- with review between stages
- with recognition that such review may lead in the second or subsequent stages to grouping of non-contiguous companies.



They take the view that a not unreasonable way forward would be for the Chairman/Chief Executive to ask those of his Managers who feel that they have consulted with their management colleagues as to the degree of commitment necessary to secure a management/employee buy-out, and who have a desire to move quickly in this direction, and who understand the full implications of their decision, to so indicate. These companies would be put in touch immediately with independent advisers on terms already discussed between your officials and Brian Granger, and would be assisted in every way to achieve an early culmination of their efforts. In the event that the response to this very first stage brings the volume problem to a head, we would want to discuss with you how to select a manageable number of companies to go forward immediately.

In the meantime, the remaining managers would be consulted with a view to ascertaining their considered intentions so that an assessment could be made of those companies where the management did not wish to mount a bid and those companies where the management might wish to mount a bid with more advice, or where several managers took the view that they needed to go forward together to create a sustainable enterprise.

In the first case Members would wish to consider the possibility of trade sales and, in the second and third cases, would wish to consider further how those companies could best go to market.

The programme could thus become structured in the light of the experience with the early sales. It would require that the proposed new sub-divisions should not take place at least until the managements of the companies proposed for sub-division had been given an opportunity to say whether or not they were ready to go into a management buy-out now. Any further action would depend upon the shape of the disposal programme which emerged in the light of experience.

In framing this strategy we have been concerned about three issues in particular:

- volume
- your wish for sub-division of certain companies not so proposed by ourselves
- difficulties relating to price

Our preferred strategy is, therefore, one which :

- recognises from the start the prospect of grouping in Stage II
- begins at once with the companies as they are -  
i.e. without those further sub-divisions which you



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seek but subject to review after declarations by managers at Stage 1.

- allows time and flexibility for the market place and deals to mature so that we have greater rather than lesser comfort about the appropriateness of prices.

As you know, a General Managers' Conference has been called for Thursday, 28 November, in Birmingham and a further Conference on Thursday, 5 December. I am anxious to use these opportunities to begin the process of publicising to managers matters on which we have agreed with you, and sounding out which managers are interested to participate in Stage 1 efforts. I have, therefore agreed with my Board an outline of what I would wish to say to General Managers at the first conference. My Board would be grateful for your early and favourable response to this, a copy of which is attached. -/-

I very much hope that you will be able to give me the positive response which I seek so that I may address General Managers as indicated.

The alternative would be to say nothing at all about disposal strategies and for me to speak only on the management and control mechanisms which will be in force for 1986 and such longer period as NBC continues in existence. I do not believe this is a real alternative. General Managers are under very great strain and wish to know what the future holds for them. There is much that you have said to us which is positive news for them to hear - with that in mind I look forward to hearing from you.

(Yours ever

Robert Brook)

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