

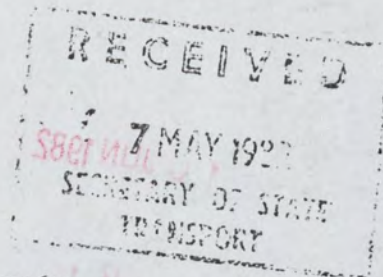
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CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow



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Qa 05914

7 May 1982

Dear Secretary of State,

Objectives for the National Bus Company

Your minute of 1 March to the Prime Minister attached draft objectives for the National Bus Company (NBC). Previous drafts have been discussed between your officials and members of the CFRS, but there is one further issue which I should like to see clarified. I am writing in the light of the discussion at E(NI) on 21 April of the procedure for agreeing objectives for nationalised industries.

Objective 1(c) states that non-stage trading activities should earn a commercial return on investment, but the objective for local and rural bus services is less clear. Are these also to earn a commercial return, or do social considerations weigh more heavily? Objective 1(b) provides that the business as a whole shall meet the medium term financial target established from time to time by you. The target is currently set as sufficient profit on a current cost accounting basis by 1985 so as to meet interest charges. This would seem to imply in conjunction with objective 1(c) that stage trading activities are to operate at a loss. Is this intended?

I am sending a copy of this letter to the Chancellor of the Exchequer.

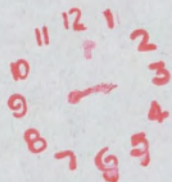
Yours sincerely,  
John Sparrow

John Sparrow

The Rt Hon David Howell MP  
Department of Transport  
2 Marsham Street  
SW1

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10 JUN 1982



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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

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Prime Minister (4)

MUS 10/6

John Sparrow Esq  
Central Policy Review Staff  
Cabinet Office  
Whitehall  
LONDON  
SW1

10 June 1982

Dear John

NBC OBJECTIVES

Thank you for your letter of 7 May, commenting on the draft objectives for the National Bus Company which I circulated with my minute of 1 March to the Prime Minister.

The point which you raise about the relationship between NBC's social and commercial objectives is clearly important. Let me explain how I see the position.

I am in no doubt that we do need to set a social objective for NBC. The one I have proposed, like the "operating remit" already in place, would require NBC to run as substantial a network of local bus services as possible to meet demand, subject to the constraint that they must meet their financial target. The effect of this is that any revenue the Company generate in excess of the amount needed to meet the financial

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target is to be used to maintain less profitable local and rural services through the mechanism of cross-subsidy. The financial target, in addition to being an expression of our financial policy, is thus the means by which we quantify the extent to which we are prepared to see taxpayers' money, in the form of revenue foregone, devoted to furthering the social objective of widely available bus services. If we preferred, we could achieve the same result by means of a central government grant and a stiffer financial target, but that solution has not been adopted up till now.

In this sense, the setting of NBC's overall financial target is a matter for political judgement - and rightly so. The present medium-term target, as you know, is simply a cash figure agreed between Departments on the basis of what seemed achievable and broadly acceptable a year or so ago. We shall be reviewing its appropriateness in the light of the forecasts in NBC's Corporate Plan together with progress on a separate track record and target for the express services as part of the steps we are taking towards privatisation.

I think it follows from what I have said that the answer to your second question, about the relationship between the main financial target and the coaching target is "yes". It is present policy for NBC's non-stage businesses to seek to earn a commercial return, and for this return to be used to enable NBC to provide more rural and local services within its financial target than would otherwise be possible.

I am anxious to let the NBC Chairman, Lord Shepherd, have the objectives as soon as possible. Subject to any further comments from colleagues, I would propose to send them to him during the first week in June.

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

*Yours*

*David*

DAVID HOWELL

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CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 - 7798

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15 June 1982

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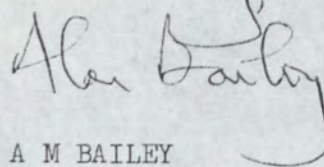
NBPM

MUS 15/6

Dear Secretary of State,  
NBC Objectives

John Sparrow, who is away this week, asked me to let you know that the CPRS has no further comments on the proposed objectives for the National Bus Company, in the light of your letter of 10 June.

2. I am sending copies of this letter to the Prime Minister and other members of E(NI).

Yours sincerely,  


A M BAILEY

The Rt Hon David Howell MP  
Secretary of State for Transport

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(2)

Prime Minister

PRIME MINISTER

*[Handwritten mark]*

The CPRS will be pulling all these draft objectives together.

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NATIONALISED INDUSTRIES OBJECTIVES

At a meeting on 2 November E(NI) Committee invited sponsor Ministers to submit draft objectives to the Committee for each of their industries.

For two of my industries - NFCL and BTDB - our clear objective and one shared fully by the industries concerned has been to transfer them to the private sector. The sale of NFCL to the management consortium has now been completed and I have every hope and expectation that BTDB will have left the public sector by the end of this year. Given the timetable for this transfer I do not think there is anything to be gained from setting further objectives now.

Objectives for British Rail will be a major part of the Review of Railway Finances and it would be wrong at this stage to anticipate, even in general terms what conclusions the Chairman of the Review may reach and what view we might then take.

This leaves the National Bus Company, for which I attach draft objectives along the lines suggested in the annex to the CPRS report.

I am copying this minute to the other members of E(NI), to Mr Ibbs and to Sir Robert Armstrong.

*[Handwritten signature]*

DAVID HOWELL  
1 March 1982

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OBJECTIVES FOR THE NATIONAL BUS COMPANY

1. It shall be the objective of the Company, acting within the financial and statutory framework and having regard to the needs of the business for the longer term:

a. subject to the target referred to at (b) below to provide as substantial as possible a network of stage carriage services to meet the demand expressed by:

- i. the willingness of passengers to pay; and
- ii. the willingness of the relevant local authorities to make 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;

b. in providing such services to achieve an overall financial performance that meets the medium term financial target set from time to time by the Secretary of State, in accordance with the time-scale and path of development that has been agreed and within the external finance and borrowing limits that have been approved at the relevant time; and to fix prices accordingly;

c. in non-stage trading activities to earn a commercial return on investment as defined in any financial targets set for those activities by the Secretary of State and to reflect the performance of those activities in separate accounts;

d. 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;

e. 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;



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

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

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