

CCBGA

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CBT

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

13 March 1986

Prime Minister

Dear Nigel

To note that Mr Ridley  
intends to give preference to bids  
from management and employees.

DLW  
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## PRIVATISATION OF THE NATIONAL BUS COMPANY

The Transport Act 1985 requires the Board of the National Bus Company (NBC) to submit to me a programme for disposing of all their operations, and to implement the agreed programme by January 1989. Though the Board have not yet submitted their programme, I have discussed with them the broad strategy which they should adopt, and I describe it in this letter for the information of my colleagues. Annex A describes NBC and the effect of the 1985 Act.

The policy agreed by colleagues at E(EA) on 16 May 1984 is that the predominant requirement in the changes to the bus industry in general, and to NBC in particular, is for increased competition, with privatisation proceeds close on its heels.

## PREPARATION FOR DISPOSAL

The first task has been to restructure NBC to compete fairly in the new regime of deregulated bus services.

This has two aspects. First, eight of NBC's largest subsidiaries have been or are being divided into smaller units to promote competition in their local areas. NBC themselves have broken up four companies; I directed them on 13 February to go further and provide for the division by 1 September 1986 of four more major companies which had a significantly dominant position in their area. At the same time, the financial structure of the subsidiaries is being revised to ensure that they are viable and do not have recourse to subsidy from the NBC central organisation, which takes on the role of a financial holding company. NBC aim to have this new regime in place by 1 April for existing subsidiaries, and by 1 September for those which I have directed them to divide.

## DISPOSAL

The NBC Board initially favoured a scheme for privatisation of the Company as a single unit. But that was ruled out, on competition grounds, in the 'Buses' White Paper as long ago as July 1984. When I confirmed our opposition to this option, the Board proposed disposal of the operations in the smallest possible number of large groups. NBC has nearly 35% of the national market for local bus services. To privatise in a small number of groups would have endangered the emergence of competition. That would conflict with NBC's statutory objective to promote fair and sustained competition and it would mean that bus passengers in many parts of the country could be denied the early benefits of lower fares and better services which deregulation and competition in October is designed to bring.

Following discussion with John Moore last November I told NBC that their aim should be to sell their local operating companies individually, preferably to the local managements/employees and preferably by the time of deregulation in October. I made clear that only if particular companies could not be sold individually would I consider groupings. After much discussion the Board have now concluded that they cannot put forward a disposal programme based initially on the sale of individual subsidiaries, and have asked me to give them a "friendly" direction to do so. I will comply with that request.

The disposal programme was due to be submitted by 6 April. Given that the new Chairman arrives on 7 April, and that he will wish to have an input to the programme, I propose to extend that deadline to 1 June 1986. I do not believe that this will affect the timing of sales, many of which should be in early October.

Notwithstanding their dislike of individual sales, the Board asked their local managers whether they wished to lead buy-outs. Nearly all the 65 managers responded that they were interested in buying out their companies, and 19 of them are ready to start working up bids now. The management teams of most of the subsidiaries have now attended seminars on buy-outs, organised by Price Waterhouse for the NBC, many of them attended by David Mitchell or me. I have agreed that NBC can meet a proportion of the fees and expenses (up to a limit of £42,000 per buy-out bid) in the case of unsuccessful buy-outs, so as not to deter managers from mounting bids.

The Board, while accepting in principle the policy of individual company buy-outs, have been concerned about the practical problems of processing simultaneously a large number of bids. I have therefore commissioned Bankers Trust Company to explore the scope for setting up a syndicated financing

facility with standardised procedures which local managers could use. Bankers Trust's initial report is promising: they are now having detailed discussion with individual financial institutions.

We must of course ensure we do not give NBC's own managements/employees exclusive rights to buy their companies. NBC will therefore need to advertise in the press inviting bids from individuals or bodies outside NBC for all the subsidiary companies, as they become ready for sale.

I have considered with my advisers, Price Waterhouse, whether privatisation of individual subsidiaries, rather than large groups of them, will affect sale proceeds. I am advised that in their view there is no reason to believe that the proceeds of sale on this basis will be necessarily less than proceeds from the sale of large groupings. It is difficult to estimate proceeds. Initial valuations by Bankers Trust based on a sample of 6 subsidiaries suggest that they might be worth something over £100m. But they may be significantly less than the book value of £232m quoted in the NBC's most recent Annual Report. NBC as a whole was probably impossible to float, and certainly not worth £232m.

I also expect NBC to introduce more competition into the long distance coaching market by selling the National Express Coach operating subsidiary separately from the major coach terminals, and by making these terminals available to other operators on a non-discriminatory basis.

#### ISSUES TO BE RESOLVED

There are a number of issues which will need to be resolved in the context of the disposal programme. They include the level of discounts which will be available to managements/employees who are bidding against third parties; arrangements to ensure that the total price obtained for subsidiaries reflects their often substantial property values (this may in some cases mean selling the property separately from the bus operations, subject where necessary to long leases); and the question of whether any would-be purchasers should be excluded, for example on competition grounds.

My officials are in touch with the Treasury on these and other points, and I shall consult my colleagues if any major issues arise.

NBC's new Executive Chairman, Mr Rodney Lund, takes up his post on 7 April. I intend to set him appropriate objectives to ensure rapid implementation of the programme.

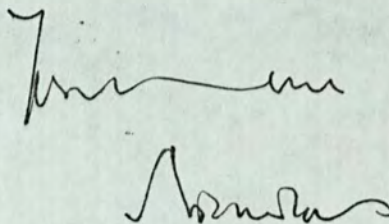
#### CONCLUSION

I intend to press NBC, and its new Chairman to proceed

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with all speed in offering their local subsidiaries for sale separately, with bids from managements/employees being given preference and with the aim of achieving substantial progress by October. Meanwhile I invite colleagues to note the position.

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

A handwritten signature in black ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY

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## THE NATIONAL BUS COMPANY

1. The National Bus Company (NBC) is a nationalised industry established under the Transport Act 1968. Through its 65 or so regional subsidiaries it provides local bus and coach services in England and Wales. It operates the 'National Express' network of long-distance coach services and is involved in the holiday tour business (National Holidays); it also has a chain of travel agencies (National Travelworld). NBC employs 50,000 people and operates 14,000 buses and coaches. Its turnover in 1984 was £754 million. Nearly four fifths of its income was in the form of passenger receipts. The remainder comprised local authority revenue support for unprofitable services, local authority concessionary fare payments, and payments from passenger transport executive and district councils under operating agency agreements.

## THE TRANSPORT ACT 1985

2. The purpose of the Act is to establish the disciplines of a competitive market in the provision of local bus services. It abolishes road service licensing everywhere in Great Britain outside London and replaces it with a system of registration, thus introducing competition. Controls over the quality of bus operators are strengthened.

3. As well as providing for NBC privatisation (see below) the Act revises the public transport powers and duties of local authorities and Passenger Transport Executives to suit competitive conditions; and provides for the transfer of existing local authority and PTE bus undertakings to public transport companies at arms length from their present authorities.

4. Local authorities will continue to subsidise services which operators do not choose to run commercially but the Act requires them to seek competitive tenders, usually on a route by route basis.

5. Part 3 of the Act governs the restructuring and privatisation of NBC. Key points about the legislation are:

(i) NBC have to submit to the Secretary of State by 6 April 1986 a programme for disposing of all their operations.

(ii) The Secretary of State may modify NBC's disposal programme or in certain circumstances substitute proposals of his own; the programme may subsequently be modified by the Secretary of State, either on his own initiative or at the request of NBC;

(iii) The disposal programme must be implemented by 6 January 1989, unless the deadline is extended.

(iv) NBC's "main objective" in preparing their disposal programme and in running their business until the programme is completed is to promote sustained and fair competition between their subsidiaries and former subsidiaries and between those operators and others. NBC also have duties to have regard to the net value of disposals and to ensure that employees have a reasonable opportunity to gain control of the part of the undertaking in which they work;

(v) Once the disposal programme is completed the Secretary of State can by order wind up the statutory Company, NBC.

