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MJ

15 February 1983
ALAN WALTERS

PRIME MINISTER

Prime Minister (2)

PRIVATISATION OF SCOTTISH TRANSPORT GROUP

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(attached) George Younger's memorandum and its recommendations are all unsatisfactory. He recommends only the privatisation of MacBrayne Haulage. This comprises about 1.6% of the turnover of Scottish Transport Group - that is to say it's peanuts. And the only reason for his accepting privatisation is the fact that "the company currently earns a high rate of return on its assets" and the fact that there has been an MMC report. Nevertheless, he says there will be no public support and a very considerable fuss from our supporters. From whom? The users?

He rejects privatisation of the shipping operation - Caledonian MacBrayne. Not surprisingly the private companies he has consulted have suggested a long-term subsidy rather on the same lines as Calmac. Apparently he assumes that a 30% subsidy, and rising, to Calmac is the best that can be done. This is, however, questionable. One alternative would be to eliminate the subsidy to Calmac, with subsequent raising of fares and freight rates and see whether there would be a private sector competitor. But since he may be very nervous about any increase in freights and fares, a second alternative would be for the Government to specify the existing level of Calmac fares and freights and suitable time profile over the next five years, then invite private companies, and Calmac, to compete by making bids in terms of the subsidy they require; the minimum subsidy would then win the contract.

The Scottish Bus Group is about 85% of the STG. His argument against privatisation boils down to the proposition that the bus services which are losing most money are in rural areas where there is great "social need". He argues that our own backbenchers feel that "our policies are not at present sufficiently attuned to rural needs and circumstances" (!!!). Our backbenchers are "expressing increasing concern at the effects of present efforts by the Scottish Bus Group to increase its efficiency by the reorganisation and/or reduction of rural bus services".

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No one seems to have asked whether it would not be a good idea to eliminate the Scottish Bus Services from these unprofitable routes and open the market freely to shared taxis and minibus services. Indeed, because of the paucity of passengers, it may well be much more efficient to provide modest subsidies for shared taxi or minibus services rather than to subsidise the infrequent expensive standard buses. Shorn of these "unprofitable" routes, the rest of the bus company must be earning quite handsome profits. There should then be no objection to privatisation but I am sure there will be "a fuss from our supporters".

In the context of Scotland's bid for all its immensely costly branch rail lines and main line rail services, George Younger's defence of the STG is all of a piece. It may be a good occasion to remind him that Scotland cannot be the exception to the party policy of efficiency, minimum subsidy and privatisation.

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FERDINAND MOUNT

ALAN WALTERS

*Do not circulate. These things
are not said. snally!
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