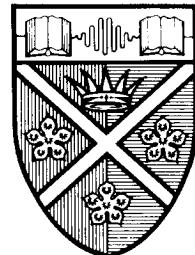


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PRIVATISATION 'WITH THE GRAIN':

*Distinguishing Features of the
Sale of the National Bus Company*

by

Geoff Dudley

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STRATHCLYDE PAPERS ON GOVERNMENT AND POLITICS

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**PRIVATISATION 'WITH THE GRAIN':
DISTINGUISHING FEATURES OF THE SALE OF
THE NATIONAL BUS COMPANY**

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Distinguishing Features of NBC Privatisation

The privatisation of the National Bus Company (NBC) has been politically and financially eclipsed by the sale of giant organisations such as British Telecom (BT) and British Gas (BG), together with those of the water and electricity industries which are still to come. The roller-coaster fortunes of the British Steel Corporation (BSC), British Airways (BA), and the Rover Group have also given their privatisation processes a greater political salience than that achieved by the NBC. Even within the bus industry itself, NBC privatisation has been overshadowed politically by the attention given to the deregulation of local bus services (outside London) in October 1986.

There are, nevertheless, two important complementary features of NBC privatisation (completed in April 1988) which distinguish it from all the other UK state sales of recent years. First, the organisation was split into seventy-two constituent parts for the purposes of privatisation. This extreme fragmentation was the plan proposed by the Department of Transport (DTp), and was vigorously opposed by both the Treasury and the senior management of the NBC. Nearly all other privatisations have rested on a consensus with regard to post-sale structure between government and the senior management of the organisation concerned. This consensus was particularly evident in the examples of BT and BG, where the organisations were sold as entities, thereby keeping competition to the minimum, while also maximising the privatisation revenue for government. In the case of the NBC, however, the DTp (hoping for greater competition between operators) won its case for fragmentation over the Treasury (seeking maximum sales revenue), while the NBC Chairman took early

retirement over his failure to keep the organisation intact, or at most see it split up into only three or four constituent parts.

The second distinctive feature of NBC privatisation is that, despite the lack of consensus at the top, the privatisation process was completed within the time limit, and with a revenue for the government of around £325 million which was considerably higher than originally anticipated.

It can be argued that the success of the privatisation process rested on three principal foundations. First, a long established structure of local bus operators had persisted since the early years of the Century. The NBC had followed its predecessor body, The Transport Holding Company (THC), in adopting a devolutionary control concept, wherein each subsidiary retained its own identity. Thus privatisation did not entail the creation of an artificial company structure.

Second, despite (or perhaps because of) the holding company nature of the NBC, there were significant central-local tensions within the organisation. In reality, the NBC developed a greater degree of central control than was suggested by the nominal structure, and over the years central management pursued a policy of encouraging a corporate identity. This interventionist approach could be resented at subsidiary level, where local management usually considered that they were capable of operating a service network without the assistance of Head Office (see Dudley, 1982, 376). At the time of privatisation, the DTp was able to exploit these central-local tensions by going over the heads of central management in order to make a

direct approach to local management to take control of their own companies.

Third, the industry had a long history of statutory regulation since regional Traffic Commissioners had been introduced as a result of the 1930 Road Traffic Act. From the 1960s onwards, a new financial and regulatory structure grew up involving the local authorities. When it became clear that the bus industry could no longer maintain a satisfactory network of services by means of internal cross-subsidisation, then revenue support became an increasingly important element in the companies' operational environment. The County Councils were the government's chosen agents for distributing subsidies, and so the Counties were compelled to develop a relationship with NBC subsidiaries. In this role, Counties to a significant extent replaced the Traffic Commissioners as the chief regulators of the bus industry.

One of the government's principal policy aims behind both deregulation and NBC privatisation was to bring about greater competition and efficiency, and in so doing reduce the level of subsidy to the operators. Notwithstanding these objectives, it was still intended that former NBC subsidiaries should continue to receive significant amounts of subsidy. In addition, although there was a change in the manner of revenue support distribution, the Counties retained a considerable regulatory function. This financial and administrative continuity acted as a powerful foundation of stability for the operators, amidst the uncertainty brought about by deregulation and privatisation.

The manner in which NBC privatisation took place lacked consensus within the policy community at the peak, but the historical, cultural, financial and organisational factors listed above were highly significant elements of continuity in ensuring that the company sale was a success (we are not concerned here with either the merits of privatisation or its effects). In this respect NBC privatisation can be placed in the same category as others such as BT and BG, for, despite company fragmentation and a split policy community, it was a process which worked 'with the grain' and not 'against the grain'.

In this paper we will examine in more detail each of the three factors which contributed to the success of the privatisation process. This examination will be accompanied by brief accounts of the background to privatisation and the sale itself. Finally, we will assess the implications of the NBC case for the privatisation process as a whole, with particular reference to the proposed privatisation of the electricity industry.

The NBC as a Holding Company

The majority of NBC subsidiaries had their roots largely in suburban and rural areas away from the centres of the principal towns and cities. Most urban areas were served by municipally owned operators, while in the capital, from 1933 onwards, the London Passenger Transport Board took public control of all bus services. From the outset there was an endemic rivalry between the private companies and the municipal undertakings, with the former accusing the latter of being unfairly subsidised through the rates. The privately owned companies became known as the Area operators, through

their general domination of a particular territory. In the 1920s there was no regulation of services and competition could be fierce, but the Area operators were often in a position to run a smaller local rival into the ground by means of undercutting fares.

Although these Area companies had a variety of origins, by the late 1920s the large majority were subsidiaries of either British Electric Traction (BET) or Tilling. These two holding conglomerates created a model for both the THC and NBC, and illustrate that, although each local subsidiary retained a separate identity, from the early days they were accustomed to dealing with at least some form of central control (the holding company tradition must raise a few doubts about the ability of former NBC subsidiaries to act as entirely autonomous units within the private sector).

In the early post-war years demand for bus travel was at its peak, yet in 1947 the Tilling Chairman, Sir Frederick Heaton, sold the Tilling bus companies to the Labour government for £24.8 million. The 1945 Labour government was committed to nationalisation of the railways, road haulage and civil aviation, but not the bus industry. Finer indicates that it was Heaton himself who suggested a series of area schemes which would provide for the acquisition of operators within such areas, and for the organisation of suitable bodies to run the services thus obtained (Finer, no date).

Heaton outraged BET and other private operators when he stated that neither railways, road hauliers nor bus operators could be said to be engaged in the ordinarily accepted meaning of free enterprise, and that the government quite distinctly had a mandate for

what it intended to do (Finer, no date). Although Heaton's own autocratic and independent manner was a factor in the sale, the departure of Tilling from the private sector suggested that the entrepreneur was beginning to look elsewhere in his search for profitable enterprises.

The Tilling companies (which had been followed quickly into state ownership by Scottish Electric Traction) became part of the British Transport Commission (BTC) - a policy-making body set up to supervise six Executives. The Executives dealt, respectively, with railways, road haulage, hotels and catering, docks and inland waterways, road transport and London passenger transport. The road transport Executive failed to implement the Area Schemes, and the old Tilling companies carried on the holding company structure much as before. (see Crosland Taylor, 1953).

By the early 1960s the Conservative government had decided that the BTC, with its commitment to achieving an integrated transport system, had failed in its task, and instead had become unwieldy and inefficient. Hence, the 1962 Transport Act disbanded the BTC, and in its place set up five autonomous boards. The aims of the new policy were to decentralise the nationalised transport industries, and to make each sector individually more accountable for its own efficiency. Together with the state owned sector of the road haulage industry, the Tilling bus companies found themselves placed within the Transport Holding Company (THC), which was perhaps the most novel and interesting of the new organisations. As Ponsonby (1970, 113) notes, this was the first time in the history of transport

nationalisation in Britain that a statutory directive had been given to "act commercially".

To the Tilling busman the THC was an organisation after his own heart, even to the extent that the old company name was retained within the organisation. The decentralised holding company structure continued, and at that time consistent profits were still being made. In addition, as Richardson (1967, 309) points out, Tilling was given more scope to adopt an expansionist policy after a Labour government came to power in 1964.

In 1965 Barbara Castle was appointed Minister of Transport, with the result that transport policy rose to near the top of the political agenda. Mrs. Castle was particularly keen to deal with urban transport problems, with her chief policy instrument being elected Passenger Transport Authorities (PTAs) holding a remit to expand public transport and integrate road and rail services. Four PTAs were set up as a result of the 1968 Transport Act, with two more in England to follow during the 1970s. Day to day management was left in the hands of Passenger Transport Executives (PTEs).

With regard to the THC, Mrs. Castle recognised that she had a formidable force to deal with in its Chairman, Sir Reginald Wilson (Castle, 1984, 83-5). The privately owned bus operators themselves fought a somewhat half-hearted campaign against the PTAs, but the rug was pulled from under their feet when, in 1967, BET sold its bus companies to the THC for £35 million. This purchase put the THC in a strong position, and Sir Reginald Wilson (a company busman of long

standing) was successful in persuading Mrs. Castle to perpetuate the concept and structure of the company. Although the THC itself disappeared in 1968, it was to a large extent reborn in the dual form of the National Freight Corporation (NFC) and the NBC.

By the time Mrs. Castle left the Ministry of Transport, in April 1968, she had been successfully out-maneuvred by the THC. Her dream of a nationwide PTA network was to remain unfulfilled, and in its place the NBC was set up as the UK's largest bus operator. NBC subsidiaries and area operators such as Midland Red, Crosville, City of Oxford Motor Services, Western National and Trent continued to dominate their own territories, and also maintained separate identities. It was this structure which, nearly twenty years later, the government could exploit in order to achieve fragmented privatisation of the NBC. At the same time, the formation of the NBC in 1969 did entail the development of a greater corporate identity, and caused central-local tensions to develop during the company's lifetime.

Central-Local Tensions Within the NBC

The very use of the word 'National' in the title of the new company indicated the nature of the new identity. The union of BET and Tilling created an organisation which covered the whole of England and Wales (the Scottish Transport Group was the equivalent organisation north of the Border), with the result that the new company was the largest bus operator in the UK (with over 20,000 vehicles and 80,000 employees). In addition, it was no longer just one component part of a larger BTC or THC, but a free-standing public corporation directly answerable to the Transport Minister and to Parliament. These factors gave the organisation a higher political profile, and also placed

pressure on central management to establish a more corporate image (increased uniformity in liveries was a public manifestation of this trend).

The tension between the holding company concept and the new corporate identity was unwittingly demonstrated by the NBC's first Chairman, Norman Todd, when he declared that he saw the Company as a policy body only, controlling completely decentralised bus companies (*Motor Transport*, 9:8:68, author's emphasis)

A more fundamental centralising factor was that by the late 1960s the bus industry was in decline. Pryke (1981, 96-7) calculates that between 1963 and 1968 the companies NBC came to control lost 10 per cent of their traffic, while output per effective worker fell by 6 per cent. He also considers that management was complacent, inward looking, inbred and amateur. From the middle 1950s the growth of car ownership had inevitably caused a fall in the number of people travelling by bus, and by the 1970s this decline was to place the NBC in a financially depressed state. Throughout its history, the NBC at both local and national levels maintained a strong commercial culture, and so in this respect there was a unified approach to the objective of financial recovery. At the same time, the crisis led central management to take a more interventionist role in the affairs of subsidiaries.

The pressure towards greater intervention was brought to a head in 1976, when the government insisted that the company should begin to repay its commencing capital debt of £97,625,000. The NBC

was completely unable to repay the initial instalment of £9.9 million, with an interest rate of 4.92 per cent, and so was forced to borrow the money from the Treasury at a rate of 16.25 per cent. This process of the NBC borrowing from the government in order to pay back the original capital debt to the same government continued until 1982 (the final two instalments were repaid without recourse to further loans).

This repayment of loans acted as a centralising factor within the NBC. Each company was expected to pay a share of the debt, and so some form of co-ordinated control had to be exercised over subsidiaries which possessed varying commercial potentialities. The NBC was sensitive about the performance of individual subsidiaries, and data concerning their performance was only published for the first time in the 1978 Annual Report. Given the inevitable variation in performance between subsidiaries (e.g. in 1978 Midland Red made a loss on a current account basis of £1,052,000, while East Midland made a profit of £486,000), the proportion of the debt each was required to pay was inevitably a contentious and sensitive subject.

The responsibility of acting as an intermediary between headquarters and the individual subsidiary was given to the NBC Regional Director. The number of NBC Regions was eventually reduced from ten to four, and finally two, with the Regional Director being Chairman of each subsidiary within his Region. Under the NBC's corporate plan, prepared on a five year rolling basis, a subsidiary would be allowed some flexibility to attain its financial targets. In the long run, however, a subsidiary perpetually falling below its target would be instructed by the Regional Director to

rationalise services and/or put up fares.

The question of cross-subsidisation between subsidiaries was an extremely delicate one for the NBC. It was not a publicly discussed subject, but there was a constant awareness that losses made by one subsidiary in a particular year had to be made good by others. In order to maintain the commercial credibility of the organisation, Regional Directors were compelled to co-ordinate the corporate plans of subsidiaries. Rhodes (1980, 314-5), quoting Crozier and Thoenig on central-local government relations in France, points out that they are often played as a closed and secret game in which the participants fear public opinion. This is a description which could also be applied to central-local relations within the NBC.

In outlining a model of cyclical administrative decentralisation, Kaufman (1969, 8) considers that when the executive leadership fears that departments and bureaus are becoming too independent, then organisation by area, rather than by function, becomes fashionable. Increased central control will result because, although a regional structure implies a higher degree of discretion at the local level, it can also give central management extra communication channels and potential levers of control. In reducing the number of Regions, and effectively putting a Regional Director at the head of each company, NBC management could secure sufficient control to implement its corporate strategy.

Central control was also developed for the various functions of the NBC. A particular example was the purchase of vehicles. The 1968 Transport Act provided for a grant of 25 per cent on the cost of a

new bus (raised to 50 per cent in 1971). Certain specifications were laid down for these buses, and in the 1970s the NBC joined forces with the manufacturers Leyland to design and build a rear-engined (necessary for one man operation) integral, single-decker bus. This Leyland National became the standard NBC bus, and so subsidiaries had little choice with regard to vehicle purchasing policy. Eventually, the abolition of the bus grant in 1984, combined with the advent of minibuses on many routes, reduced the power of this central purchasing policy.

In developing other central departments such as Technical Services and Purchasing, Operational Developments and Planning, and also introducing its own management trainee scheme, the NBC moved a long way from the THC concept of a holding company for free-standing subsidiaries. The growth of central control was epitomised by the introduction of Market Analysis Projects (MAPs). From 1977 MAP, a centrally administered programme, was introduced into each subsidiary as a means of identifying a viable network. It was the development of MAP which particularly highlighted the existence of central-local tensions within the NBC (see Dudley, 1982, 384-85).

In contrast to these other functions, pay bargaining had been negotiated centrally since 1940. Ironically, the decentralisation of pay bargaining in 1985 was one of the first signs of impending fragmented privatisation.

The growth of a corporate structure within the NBC created a

powerful organisational interest which, when privatisation loomed, could put a forceful case to government. In the eyes of central management, the development of corporate planning and the means to implement it was a positive asset which should be retained when the Company returned to the private sector. On the other hand, at the local level, subsidiaries perceived an organisational structure which increasingly narrowed their own scope for discretionary action. These central-local tensions could thus be exploited by the DTp in devising a strategy for privatising the NBC.

Regulation of the Bus Industry

The 1930 Road Traffic Act brought regulation to the bus industry in the form of the Traffic Commissioners. The new regulatory system arose out of a strong consensus of interests including the principal operators and the government. Tighter quality licensing was introduced, but the chief political interest lay in quantity licensing. Here, the road service licence established an operator's right to run services over a particular route. This licence guaranteed protection to its owner, and gave the large territorial companies security of operation. On the other hand, the smaller operator could also gain security for his niche in the market (this culture of regulation and protection could cause difficulties in creating a competitive climate between privatised former NBC subsidiaries). Thomson and Hunter (1977, 277) quote Chester as considering that, when granting a licence, the Commissioners acted on the principles of priority, protection and public need. In the eyes of the Commissioners, the objectives of route licensing were:

...to eliminate wasteful competition within the road industry and between road and rail, and to facilitate the provision of unremunerative services. (Thomson and Hunter, 1977, 278).

Cross-subsidisation was thus the means whereby the Traffic Commissioners established their authority within the bus community, for if an operator refused to run an unprofitable route, then a profitable route could be taken from him. (Dudley and Richardson, 1983, 29). This administrative system remained virtually intact until the 1980s, but from the mid-1950s there was increasing political concern about the future of unremunerative services. In time, central government chose local authorities to be the agents for distributing revenue support to the bus companies, with the result that an alternative regulatory system was established which challenged that already operated by the Traffic Commissioners.

The Shire Counties as Regulators

Prior to the mid-1970s, the local authorities played little part in the affairs of the NBC, but the 1972 Local Government Act, and the ensuing financial and administrative structure which grew up around it, brought considerable change. Local authorities were now statutorily required to take a more interventionist role in local bus transport, while financial crises within the bus industry itself led to the NBC receiving significant amounts of revenue support. Thus, when the road service licence was abolished in 1986, the government could employ existing local authority - NBC subsidiary relationships as a means of maintaining some degree of continuity with regard to both service networks and subsidies.

The NBC did have connections with local authorities prior to the 1970s through the provision of free school transport, and Section 34 of the 1968 Transport Act allowed councils to subsidise services in rural areas, although in reality these grants were on a small scale. The 1972 Local Government Act facilitated radical restructuring, while also incorporating trends towards integration of policy areas and comprehensive planning. The Act created six new Metropolitan Counties for the major English urban areas outside London. These Counties took over the powers of existing PTAs, and were given direct control of the PTEs.

The PTE concept offered a twin threat to the NBC. First, as we discussed earlier, in the long run these organisations might be created on a nationwide basis. Second, in the short run the new Metropolitan Counties might be hostile towards an operator other than the PTE running services within its area. In the event, the PTE concept was not extended, and only the West Midlands County actually bought out the NBC services based within its area.

Of more immediate interest to the NBC was the situation outside the Metropolitan Counties in the so called Shire Counties. The Shire Counties represented the heartland of NBC operations, for the companies had chiefly developed on the fringes and outside the large urban areas.

Unlike the Metropolitan Counties, the 1972 Local Government Act did not give the restructured Shire Counties direct control of municipally owned bus services, which remained with the second-tier Borough Councils. Despite this fragmented structure, Section 203 of

the Act gave each Shire County the duty of:

.....acting in consultation with persons providing bus services within the County and....to develop policies which will promote the provision of a co-ordinated and efficient system of public passenger transport to meet the needs of the County and, for that purpose, to take such steps to promote the co-ordination, amalgamation and reorganisation of road passenger transport undertaken in the County as appear to the County Council to be desirable.

Although the Counties were not to have any direct control over the operators, they were instructed to determine the needs of the County and to ensure that the operators met those needs in the most efficient manner possible. Section 203 led each Shire County to appoint a Public Transport Co-ordinator, and it was these officers who were to become important, if unofficial, regulators for the bus industry.

The instruments chosen for the Counties to develop comprehensive transport planning were Transport Policies and Programmes (TPPs) and the Transport Supplementary Grant (TSG). Each County produced an annual TPP which outlined estimates of transport expenditure for the following year. The government would also set a threshold level of transport expenditure. Any sum spent on or below this level was expected to be financed through the general Rate Support Grant, but the difference between the threshold level and the accepted expenditure limit was to become eligible for TSG. There was no compulsion on a County as to how TSG was actually spent (e.g. a County need not necessarily allocate public transport subsidies to the amount set out in its TPP), but in general the new system placed the NBC subsidiaries within the ambit of local

government. For its part, each County was now compelled to take a direct interest in the affairs of its local bus company. This commitment was strengthened still further by the 1978 Transport Act, which required each County to produce an annual Public Transport Plan.

Redwood (1980, 134-5) points out that the policy changes of the 1970s, together with the deterioration in NBC finances, led the management of the Company to adopt a more accommodating attitude to co-operation with local authorities than had hitherto been the case (even if the NBC usually wanted co-ordination to be on its terms!). In the case of the Counties, as Mackie (1980, 204) illustrates, a tightening of public expenditure controls circumscribed the degree of discretion which could be exercised at the local level. Nevertheless, the new system undoubtedly heralded a new era in the operation of road passenger transport.

The new grant system, combined with the deteriorating financial position of the NBC, produced an enormous increase in the level of subsidy received by the Company. Shire County policies towards public transport and the consequent level of subsidy could vary a good deal (for a comparative analysis see Dudley, 1982, 361-506), but nearly all NBC subsidiaries had ceased to be free-standing commercial enterprises. Thus, in 1974, Section 34 grants to the NBC subsidiaries for rural bus services totalled £2,773,000, while the first Section 203 grants in 1975 totalled £6,555,000. In 1976, Section 203 grants had risen sharply to £21,585,000 (the old Section 34 grants had now been abolished). By 1984 these revenue support grants to

NBC subsidiaries had risen to £64,650,000, representing 9 per cent of operating income. In addition, concessionary fares amounted to 5 per cent of operating income in 1984.

A fundamental objective of the MAP programme was to indicate that the NBC was not an organisation in a passive state, merely waiting to be bailed out by subsidies. In this connection, the NBC could also take encouragement from a Monopolies and Mergers Commission (MMC) Report on four operators, including two NBC subsidiaries, which examined their efficiency. In general, the MMC, while urging the operators to improve efficiency, also found much to commend (HC 442, 1982).

At the same time, some local authorities suspected that the NBC employed MAPs partly as a means of resisting external intervention e.g. Cheshire CC, which operated a particularly active Transportation Unit, conducted its own bus travel surveys which challenged the MAP process (see Dudley, 1982, 423-47). The Shire Counties in general did not possess the expertise to challenge NBC subsidiaries, but the subsidiaries needed the financial aid supplied by the Counties. In these circumstances, the Counties could unofficially assume some of the regulatory power previously held by the Commissioners. The Commissioners still held the power to issue road service licences, but where an NBC subsidiary and a Shire Country had reached agreement on the provision of a service network, then the matter was largely a *fait accompli*.

The nature of the administrative structure which developed was of particular importance in the light of subsequent deregulation and

NBC privatisation. In the case of the NBC's chief transportation rival, British Rail, an annual Public Service Obligation grant to cover unprofitable operations is allocated by central government to the organisation as a whole. On the other hand, NBC revenue support grants were allocated by local authorities to the relevant subsidiaries. The local nature of this system, despite the central control represented by TPPs and TSG, offered advantages for a fragmented privatisation of the NBC.

In the event, the nature of TSG changed in 1985. The government decreed that TSG would cease to be paid as a subsidy on current expenditure from the beginning of the financial year 1985-86. Henceforth, these subsidies would be absorbed into the rate support grant. TSG itself would only be paid as a capital grant towards the construction and improvement of roads categorised as of 'more than local significance'. The government hoped that by abolishing the use of TSG as revenue support for operators it could reduce the level of these subsidies. Nevertheless, the subsidies themselves continued on a significant scale, as did the need for working relationships between operators and local authorities.

The establishment of NBC subsidiary - Shire County relationships was a foundation upon which could be built the new policy structure of the 1980s. The road service licence could be abolished and the Commissioners' power in this area greatly diminished, but the Counties maintained their role as unofficial co-ordinators and regulators by means of subsidising uncommercial routes.

Similarly, the NBC could be fragmented into its component subsidiaries without the need to develop a system for allocating revenue support. For their part, the privatised companies could commence operation with a sense of continuity and at least some degree of security that the future would not be too different from the past. The policies of the 1980s were radical in that they abolished the regulatory system which had existed since the 1930s, and disbanded the corporate structure of the NBC. On the other hand, the policies were evolutionary in the manner they employed an administrative and financial system which had been developed during the previous decade, together with a company structure which predated the formation of the NBC by several decades. The existing system also enabled the government to bypass the central management of the NBC in order to achieve its policy aim of fragmenting the Company. In examining the policies of the 1980s it can be argued that the government largely abandoned the interests of the Commissioners and the NBC central management, in favour of those held by the Shire Counties and the local bus companies.

First Steps Towards Deregulation and NBC Privatisation

Notwithstanding the Labour government's preference for comprehensive and co-ordinated planning in the field of public transport during the 1970s, there was also a minor parallel movement towards bus deregulation. The growth in revenue support led government to seek more unconventional means of meeting public transport needs, and so such services as Postbuses and Community Buses for remote rural areas were given encouragement by both central and local government. In addition, the 1977 Minibus Act gave

greater freedom to voluntary organisations to use these vehicles, while the 1978 Transport Act effectively made legal the already widespread practice of car drivers giving lifts for payment.

Thus the change of government in 1979 did not mark a totally new direction in road passenger transport policy with regard to deregulation, although the new Conservative government was committed to some degree of change. The election manifesto had been based on a document, The Right Track produced in 1977, which promised reform of the licensing system, but offered no specific policy changes. Neither was there any hint of full-scale NBC privatisation. The NBC and the industry in general had been anticipating an orthodox consultation process, but in August 1979 the Minister for Transport, Norman Fowler, announced the contents of a major transport bill.

The main points of these proposals included the abolition of licensing for express services, excursions and tours; fares control by Commissioners to be abolished; several Trial Areas to be agreed with Counties where all road service licensing would be suspended for a period; and car owners to be allowed to advertise seats on a cost and sharing basis. Stage carriage licensing was to continue, but would operate on the criterion that a licence would be granted unless it was specifically proved to be against the public interest. The Minister stopped short of recommending the total abolition of road service licensing, but the idea of Trial Areas suggested that in Counties with a like mind to the government's such a step need not be far away. Interested parties were given only two months to comment on the Minister's proposals, and the NBC expressed its opposition to

delicensing on the traditional grounds that a comprehensive network best served the public interest.

Notwithstanding its opposition to the Bill (which became the 1980 Transport Act), delicensing of coach services strengthened the NBC's position in this sector. The company abandoned some of its less profitable routes, but where it faced competition from the private sector it frequently gained a greater share of the market. For its part, the government had effectively bypassed operational interests and implemented change by the simple expedient of removing the regulators from the scene. The loss of the Commissioners from the coach sector compelled the NBC to compete, although it could be said that the company itself was not averse to demonstrating its continued ability to 'act commercially'.

The government encountered considerable difficulty in finding Counties prepared to volunteer as Trial Areas, but eventually schemes were set up in Norfolk and Hereford and Worcester (later joined by Devon). The Hereford scheme in particular aroused a great deal of public controversy. The government was later to use the effects of the Hereford experiment as one of the chief planks in its case for deregulation, while opponents claimed that bus competition in Hereford had only created chaos by destabilising the local transport network.

First steps towards privatisation of the NBC were taken in the 1982 Transport Act. At this time, privatisation of the NBC as a whole was still not on the political agenda, but the Act did provide for private

capital to be used in the development of bus stations, while it was also intended that National Express and National Travel would become Companies Act companies and be floated off to the private sector. The NBC was particularly opposed to the sale of the profitable National Express, which it claimed would lessen the ability to cross-subsidise unprofitable services.

The 1984 Buses White Paper

Despite the 1980 and 1982 Transport Acts, the bus industry was little prepared for the Buses White Paper of 1984 (Cmnd 9300, 1984). The appointment of Nicholas Ridley as Transport Secretary in 1983 heralded a more radical approach, and the Minister himself played a significant role in the preparation of the White Paper. The five chief proposals made by the White Paper were: that all road service licensing should be abolished (except in London); local authorities would put out tenders for subsidised services; the NBC be privatised in the form of small, free standing units and become independent companies; and municipal bus operations to be incorporated into companies still owned by their District Councils.

The government believed that the abolition of road service licensing would bring big benefits:

On many services passengers will pay lower fares. The costs of services will go down. There will be more variety in the kinds of service offered. New operators will be prepared to come in, providing new jobs. Overall patronage should increase, and the industry will be ready and able to respond in the future to changing patterns of living, working and leisure.

(Cmnd 9300, 1984, para 4.9).

Cross-subsidy was seen as a particular weakness of the existing system. The government suspected that local authority revenue support was being used partly for this purpose, and so in future councils would put out tenders for subsidised routes not registered as commercial by the operators. In this market approach, the statutory duties of Counties to co-ordinate public transport were considered inappropriate:

The government therefore intends to change the present duties of county councils...to one requiring them to secure the efficient provision of such transport services as they believe necessary, after due consultation, but which are not provided by a free market.

(Cmnd 9300, 1984, para 3.5)

It could be argued that in its practical application this policy change was more apparent than real. The government claimed that county councils would no longer be required to co-ordinate local public transport, but the local authorities nevertheless continued to be responsible for identifying where services were needed, hiring operators to run them, and then paying revenue support to keep the service in operation. This process would inevitably require a continuation of the operator - Shire County relationship which had grown up since the mid-1970s. The council might now be subsidising individual services rather than entire networks, but the essence of the system remained intact.

One grant which was to be administered centrally was the transitional rural bus grant. Many Conservative MPs were concerned that deregulation might harm unremunerative but socially necessary bus services within their constituencies. The political sensitivity of this

subject caused the government to allocate £50 million over four years for the purposes of keeping afloat some services which might otherwise disappear. It was intended that the grant would be paid by the DTp in a manner similar to existing fuel duty rebates. Although the amount involved was significant, it could be said that transitional rural bus grant was a political device rather than a genuine attempt to usurp the role of local authorities.

On the future structure of the industry, the White Paper proposed that all municipally owned bus undertakings (including the PTEs) should be incorporated into companies owned by the district councils. The PTAs were to disappear with abolition of the Metropolitan Counties in 1986, and their functions transferred to joint boards of elected members appointed by district councils (Cmnd 9300, 1984, paras 5.10 - 5.13).

The government also intended to privatise the NBC. It was emphasised that the organisation would not be privatised *en bloc*, but the precise future structure remained unclear. The White Paper said only that:

The government proposes that the NBC Board should have a duty to reorganise the Company, in consultation with the Secretary of State for Transport, into parts which can be disposed of as free-standing companies.

(Cmnd 9300, 1984, para 5.15).

This statement apparently indicated that the NBC Board would basically decide the form of privatisation, but it hid the fact that there was a deep split between NBC senior management and the DTp on

how the company should be split up. Eventually, it was to be the Secretary of State who would win the day.

A Victory for Fragmentation

Prior to 1984, NBC privatisation as a whole had appeared a remote prospect. The publication of the White Paper changed the climate within the industry, although it was to be some time before the actual structure and form of the privatised companies would become clear. Initially, NBC senior management appeared confident that they could persuade the Secretary of State to split the company into only a few component parts. It later transpired that, as early as the end of 1983, NBC management had suggested to Mr. Ridley an employee buy-out of the group as a whole. The idea had been rejected on the grounds that the government could not countenance selling a monopoly into the private sector (Financial Times, 16:5:85).

In the light of later privatisations, where virtual monopolies such as BT and BG were sold in one piece, NBC management understandably found the government's reply inconsistent. As Heald (1985, 8) argues, the government was enthusiastic for privatisation, but was not so keen to introduce liberalisation to industries such as gas and telecommunications. In addition to maximising proceeds, minimising competition also encouraged the general public to buy shares in 'safe' companies (see Buckland, 1987, 253). Nevertheless, NBC senior management were confronted by a Secretary of State who saw their organisation as one which could be fragmented for the purposes of privatisation, and so maximise the possibilities for internal competition (for a detailed case in support of management buy-outs at the NBC see Mulley and Wright, 1986, 1-24).

The government's Transport Bill allowed the NBC to put forward its own privatisation plans, but, in contrast to the White Paper, emphasised that the Secretary of State would have the final say. At the same time, the Secretary of State could only exercise his powers with the consent of the Treasury, which had doubts about the wisdom of fragmenting the NBC, and so reducing the total potential receipts from the sale.

Significantly, the NBC's original statutory duty to co-operate with other operators was now replaced by a new duty to promote sustained and fair competition. The weight placed on competition by the Bill, together with Mr. Ridley's known views on how the NBC could best implement this aim, indicated to NBC management that they faced a difficult task in preventing the complete fragmentation of their organisation. The Bill, nevertheless, also stated that the NBC should be privatised within three years of the Bill becoming an Act, which suggested that the government had doubts about the practicality of the sale, and so might not be in a great hurry to push it through. There was considerable variety in the commercial performance of NBC subsidiaries, and the DTp was understandably nervous about the prospects of selling them all (*Financial Times*, 16:5:85). In the event, both NBC senior management and DTp officials underestimated the willingness of local managements to buy-out their own companies.

NBC management was now resigned to not retaining the organisation intact, and so in their proposals to the Secretary of State suggested a compromise whereby it would be split up into four parts.

Each part would be sold separately, and contain some profitable and some less profitable subsidiaries. The generally integrated structure of the NBC would thus be maintained, while allowing for the continuation of cross-subsidy. Despite intense negotiations between the NBC and the DTp, Mr Ridley rejected these proposals on the grounds that they would not create sufficient competition.

The Secretary of State gained support for his case in March 1985 when the Commons Select Committee on Transport endorsed the argument for NBC fragmentation as against maximisation of revenue from the sale (HC 38, 1984-85, para. 274). Like the Treasury, however, the Committee thought that a successful sale could only be implemented if the government wrote off all the NBC's debt (HC 38, 1984-85, para. 275). In reply, the government acknowledged that a successful sale of a fragmented NBC would be dependent on the willingness of purchasers to buy one or more of the operating subsidiaries. At the same time, the Secretary of State was confident (rightly as it turned out) that the sale would recoup all the debt (Cmnd 9561, 1985, paras. 58-61).

Tension between the NBC and the DTp had been heightened in January 1985 with the appointment of Robert Brook as full-time Chairman of the Company. Hitherto, the NBC had been led by part-time Chairmen, which reflected its official status as a holding company. It was ironic that, at a time when the NBC's existence was threatened, its development as a more centralised organisation should be officially acknowledged in the form of a full-time Chairman. Mr. Brook, a career busman, had a strong belief in the value of the

NBC as an integrated organisation, and was determined to fight for its survival.

The debate on NBC privatisation inevitably became intertwined with the more politically prominent and wide-ranging arguments on the government's proposals for service deregulation. It could be said that politically this was to the government's advantage, for the NBC itself was compelled to give extensive attention to the whole question of deregulation, when it might otherwise have been more able to direct political debate to the question of its own privatisation.

One encouraging sign for NBC management was the DTp - Treasury division on the manner of the company's privatisation. Despite the Transport Secretary's enthusiasm for fragmenting the NBC, there was considerable doubt within the Treasury as to the money such a privatisation would raise, or even if many of the subsidiaries could be sold at all. The Treasury estimated that, if the NBC was sold as a whole or in a few units, then receipts could amount to £200-250 million, but then only if the government abolished the NBC's debt. In contrast, the Treasury feared that a fragmented NBC would raise much less than this sum, while the government could find itself in the politically embarrassing position of being left with several unsaleable NBC subsidiaries (Financial Times, 16:4:85).

Even when the Transport Bill received the Royal Assent, in October 1985, there continued to be no official indication as to the form of NBC privatisation, but shortly afterwards it became clear that Mr. Ridley had won his case against both the Treasury and NBC management.

In November 1985 Robert Brook told a meeting of General Managers of subsidiaries that they would be given first option to buy out their individual companies. Significantly, a week after Brook's meeting, the Secretary of State himself addressed a meeting of these same General Managers, and told them that the government's preference was for management buy-outs (NBC News, 12:12: 85). To emphasise his point, Mr. Ridley appointed the Bankers Trust Company to undertake a feasibility study on whether management buy-outs of NBC subsidiaries represented a viable means of achieving the goal of privatisation.

The senior management of the NBC had thus been outflanked by the Transport Secretary, who was now appealing over their heads to management at the local level. For its part, the Treasury was prepared, at least in this case, to forego potential sales revenue in favour of supporting Mr. Ridley's case for greater competition. In making its decision, the Treasury was also no doubt influenced by the relatively small size of the NBC privatisation. In the case of such giants as BT and BG, fragmentation might have cost the Exchequer billions of pounds, (the sale of 50.2 per cent of BT equity raised £2,626 million for the government, while the sale of 100 per cent of BG equity raised £7,710 million), but with the NBC the sums involved were more likely to be measured in tens of millions.

The NBC Chairman was bitterly critical of the privatisation method, and said that some of the companies were artificial units which could easily go to the wall if left on their own (The Guardian, 20:1:86). Mr Ridley was undismayed by Brook's doubts, however,

and even ordered further fragmentation in the form of splitting up the larger NBC subsidiaries of Ribble, Crosville, United and London Country. The NBC Chairman took early retirement in April 1986, and claimed that he could not have overseen the dismantling of the Company without letting personal feelings influence his decisions (NBC News, May 1986). In contrast, his successor, Rodney Lund, strongly supported the DTp's fragmentation plan.

The End of the NBC

Between July 1986 and April 1988 the NBC sold all its seventy-two subsidiaries for a total exceeding £325 million (the final sum was not announced officially). After a relatively slow start, the sale gathered pace, and bidding became more competitive. Initially, nearly all the sales were in the form of management buy-outs, but in the later stages sales to third parties became much more common.

The initial sales took place prior to deregulation in October 1986. There is no doubt that the uncertainty caused by deregulation led to some hesitation in bidding for subsidiaries, but not to the extent feared by NBC management and the government. From the outset, local managements demonstrated unexpected enthusiasm for purchasing their own companies, and this gave the sale an impetus which it never lost. As we have argued, there were important historical, cultural, organisational and financial factors at work which encouraged local interest in purchasing subsidiaries. Of the first sixteen sales, fourteen were management buy-outs. Even more significantly, of the first twenty-five local operating companies sold (excluding coaching and engineering companies), twenty- two were management buy-outs.

In the latter stages of the privatisation process, local management enjoyed less success. Some subsidiaries were purchased by already privatised NBC companies, but outsiders also took a greater interest. At least some of the outside enthusiasm could be attributed to the potential value of NBC property included in the sales. The most notable example of how a subsidiary could be under-valued occurred in the case of Hampshire Bus, which was acquired in April 1987 by the Scottish based Stagecoach company for just over £2 million. A few weeks later, Hampshire Bus sold its Southampton bus garage for £4 million! (Bus Business, 6:4:88). A case such as this was a considerable embarrassment to the DTp. In the majority of sales the government had clawback provisions for property realisations, but it was clear, nevertheless, that some of the subsidiaries had been undervalued.

In the latter stages of the privatisation process, bidding became more competitive and prices higher. Despite the government's initial commitment to favour management buy-outs, a number of companies were sold to outsiders. The government was no doubt anxious to avoid more embarrassments of the Hampshire Bus type, and on the whole local management lacked the resources to compete with these other bidders.

Nevertheless, the management buy-out continued to be the mainstay of NBC privatisation. Eventually, thirty-seven out of the seventy-two sales of subsidiaries went to management buy-outs or employee share ownership plans.

Privatisation 'With the Grain'?

NBC privatisation was completed six months within the three year time limit set by the 1985 Transport Act. Total receipts were well in excess of those estimated by the Treasury for the sale of the Company as a whole or in a small number of groups. In addition, the Treasury also considered that a successful sale could only be completed if the government wrote off the NBC's debt, but, in the event, the Company repaid all of this money. It could be said that the alliance of the DTp and NBC subsidiary management was successful against opposition from both NBC central management and the Treasury. Unlike other privatisations, the Treasury withdrew its objections to fragmentation of the organisation, and NBC management at the local level quickly took up the opportunity to run their own companies.

Notwithstanding the property dimension, in a significant number of cases these management buy-outs represented a considerable act of faith on the part of the purchasers. In 1985, the last complete year of the NBC before privatisation, seven subsidiaries made losses before interest and taxation, while a number of others made only marginal profits. We have argued in this paper that the traditional local identification of NBC subsidiaries, central-local tensions within the NBC, and the administrative and financial structure for public transport developed by the local authorities during the 1970s, were all decisive factors in ensuring the success of the sale. Central management was bypassed by the DTp in a direct appeal to the local level. Once the sale gathered momentum, then the demise of the NBC was certain.

The manner of the sale places the NBC in a unique position within the government's privatisations (although the government now intends to sell the Scottish Bus Group in a similarly fragmented form). In nearly all other instances, the government chose to maximise receipts by retaining organisations as complete units. As Tivey (1982, 42-55) argues, organisational self-interest plays a significant part in the work of Nationalised Industries, but this behaviour has also been a feature of the privatisation process.

In this sense, there has been an alliance between the government and candidates for privatisation, where both have a vested interest in maintaining the structural status quo. Given their size, BT and BG are the two most notable examples of this type, but there are a number of others. The transport sector itself includes organisations such as Associated British Ports, British Airways (only the small helicopters section was sold separately), the British Airports Authority and the NFC (itself a successful employee buy-out). Each of these companies had identifiable and potentially competitive parts similar to those possessed by the NBC. It could be argued that all these organisations offered scope for fragmentation, but the government chose to keep them intact.

In other cases, fragmentation has taken place, but with the core of the business left intact. On occasions, management has opposed the government's proposals for hiving off, but the organisation itself remained in existence. Firstly, prior to its own privatisation, BG lost its oil interests in the form of the inland Wytch Farm and the offshore Enterprise Oil. The pugnacious BG Chairman, Sir Denis Rooke,

fought the government strongly over this issue, and indeed it was said that he only agreed to these sales when the government assured him that BG itself would be sold as a whole. Secondly, British Rail lost its hotels, Sealink Ferries, and Travellers Fare facilities. Again management opposed at least some of these sales, although they were peripheral to the rail business itself. The privatisation of British Rail Engineering in 1989 represented the loss of a more integrated part of the business, but for the moment a sale of the service network itself remained a distant prospect.

Another type of privatisation concerned the British Steel Corporation. The Corporation's dire financial state for much of the 1980s precluded privatisation of the organisation as a whole. Instead, the BSC set up a number of joint ventures with the private sector in the form of several so called Phoenix companies. The creation of these companies involved considerable rationalisation in the private sector, while the BSC held significant shareholdings in these new undertakings. On the whole, therefore, privatisation had the effect of increasing the BSC's control of the UK steel industry (see Richardson and Dudley, 1986, 359-60). When the BSC's fortunes improved in the late 1980s, the government supported the Corporation's case for privatising the organisation as a whole.

It could be said that the two organisations which come closest to the NBC in terms of privatisation by fragmentation are British Leyland (later Rover) and British Shipbuilders (BS). Sections of BL sold separately included Jaguar, Unipart, Leyland Bus and Leyland Trucks, before the volume car Austin Rover business itself was purchased by British Aerospace in 1988. By their nature, however,

each of these sections dealt with a different market, and unlike NBC subsidiaries were not potentially competitive with each other. Thus fragmentation was based more on the expedient matter of finding buyers rather than encouraging competition.

With regard to BS, the government has sold off a number of the more potentially viable shipyards (in particular the warship yards), leaving the much reduced state-owned organisation with an unprofitable rump. Like BG and BR, management objected to at least some of these sales. Unlike the other two organisations, however, BS has lost sections which affect the core of its business, and which can also compete for potential orders (see Hyman, 1988, 5). In this latter instance, there is at least some similarity between BS and the NBC. On the other hand, unlike the NBC, there has been no officially co-ordinated and phased plan to sell off BS. As with BL, it is more a matter of finding buyers rather than a deliberate attempt to foster competition by fragmentation.

The NBC is therefore unique amongst privatisations in that, against the wishes of senior management, its core business was fragmented and the organisation destroyed on the specific grounds of creating greater competition.

At the same time, in other important respects, the NBC can be placed in the mainstream of privatisations. Both the government and the NBC were split as to the form privatisation should take, but the alliance formed between the DTp and NBC subsidiaries ensured a successful sale. The subsidiaries had a long history, which predated

nationalisation, and their areas of operation were little changed since the 1920s. Privatisation could thus be built on a firm foundation of universally recognised units, with each company holding an identity of its own. In this sense, it was privatisation 'with the grain'. It could be argued that, with the exception of British Shipbuilders, all the other privatisations have basically been of this type, i.e. the form of the sale was based on a powerful consensus of interests between the industry and government, in which the core business as a whole was successfully privatised as a unit. There have been disputes on particular sales between government and the management of some Nationalised Industries, but units which have been broken away from the main organisation, such as Enterprise Oil, Leyland Trucks and British Rail Hotels, have been peripheral if (perhaps more important) identifiable entities. Like the NBC subsidiaries, they had an organisational life of their own, and so had little difficulty in envisaging an existence apart from their former owners.

The CEGB and Privatisation 'Against the Grain'

This privatisation 'with the grain' might be contrasted with the government's proposals for the structure of a privatised electricity industry in England and Wales, and in particular the fate of the Central Electricity Generating Board (CEGB). Against fierce opposition from its management, which fought to keep the organisation intact, the government intends to split the CEGB into three parts. Thus the CEGB, like the NBC, will die when privatisation takes place. Unlike the NBC, however, the CEGB lacks traditional and identifiable generating units, into which the organisation can be fragmented. The government White Paper on privatising electricity states that:

The CEGB has an effective monopoly of power generation. Its ownership of the National Grid gives it control of access to the market for bulk supplies of electricity.

(Cm. 322, 1988, para. 17).

The government intends to maintain the National Grid in its present form, but control and ownership will pass to the twelve regional electricity distribution companies - like NBC subsidiaries, these are established and identifiable units, although lacking a tradition of true autonomy. CEGB generating capacity will be split into two parts : National Power will control about 70 per cent of generating capacity, while Power Generation will control the remaining 30 per cent.

In itself, the National Grid which directs the use of power stations and the power flows in the transmission system is an identifiable unit, but is highly integrated with the power generating units. Even if new generating companies are set up, the vast majority of power will continue to come from National Power and Power Generation. It could be said therefore that, unlike NBC subsidiaries, separating the interests of the National Grid from the two chief generating companies will be privatisation 'against the grain'.

In addition, there is no tradition or precedent to suggest a natural split into National Power and Power Generation i.e. there are no obvious guidelines for deciding which power station should go with which company. In this sense, unlike NBC subsidiaries, the two generating companies will be largely artificial creations. Once again, therefore, it will be privatisation 'against the grain'.

NBC privatisation killed the organisation and split the policy community in that area, but in doing so it preserved an operational structure which was as old as the bus industry itself. In this sense, it conformed to nearly all the other privatisations in being non radical in its basic structural effect on the industry. On the other hand, the disintegration of the CEGB is much more of a leap into the dark. The break up of a highly integrated unit will take place against the wishes of its management, while there is no natural demarcation line to assist in the creation of two competitive generating companies. In working 'against the grain', the government's proposals for electricity indicate it to be the most radical and problematical of all its privatisations. In contrast, the NBC privatisation process, although apparently radical, was chiefly successful because it worked 'with the grain' of powerful historical, cultural, organisational and financial factors.

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