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Ref. A05347

PRIME MINISTER

Controlling Public Transport Subsidies

(E(81) 82)

BACKGROUND

The Secretary of State for Transport invites the Committee to give policy approval to contentious and urgent legislation to stop the GLC and the six English metropolitan authorities from subsidising low fare policies at the expense of the ratepayer and so increasing public expenditure. This proposal will be referred to when Cabinet discusses the 1981-82 legislative programme on Thursday, and I have covered this separately in my brief for Cabinet.

2. Under present arrangements, the GLC and the metropolitan authorities are free to increase subsidies to London Transport (LT) and the Passenger Transport Executives (PTEs) and to finance them from increased rates and, to a certain extent, from borrowing. The GLC intend to reduce fares generally by 25 per cent this October and to introduce a range of concessionary fares, and then to freeze all fares for the time being. Manchester and the Tyne and Wear authority have stopped the service cuts necessary to reduce their deficits and stopped proposed fare increases; West Midlands, Merseyside, West and South Yorkshire have taken similar action and are further pledged to reduce fares. The only Scottish PTE, Strathclyde, is not posing the same problems and, in any event, the Secretary of State for Scotland has more direct powers to deal with any overspending by his authorities. The Secretary of State for Transport estimates that, if these policies are put into effect, the additional public expenditure will be £265 million in 1981-82 and £450 million in 1982-83, with increasing amounts thereafter. This would lead to a heavy additional burden on the ratepayer, including the industrial ratepayer. It would also put additional pressure on the finances of British Rail and of the public and private sector bus operators in competition with LT and the PTEs.

3. Although the Secretary of State for Transport does not say so in his paper, he has further worries about the GLC. A working party is likely to recommend that LT should be turned into a workers' co-operative when Sir Peter Masefield

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leaves the Board at Christmas. GLC are likely to introduce a 35-hour week from next Easter which would not only increase LT's wage bill but would have knock-on effects on other industries.

4. To deal with this situation, the Secretary of State for Transport proposes legislation to enable him to mount a two-pronged attack. First, he wants powers to impose External Financing Limits on the grants and loans received by LT and PTEs. These EFLs would be set to allow, as now, for some financing of deficits but to prevent them from receiving subsidies to finance the fare reductions to which the GLC and the metropolitan authorities are pledged. Second, he wants enabling powers to appoint and dismiss board members where this appeared expedient. He could, for example, use these powers to get rid of LT board members, appointed under worker co-operative arrangements, and to replace them by the present Board.

5. The Secretary of State for Transport regards it as essential for this legislation to be in place by the beginning of the financial year 1982-83. He believes that otherwise the situation will get rapidly out of hand and that, even if powers were available to him by 1983-84, it would then be too late to deal in full with the deficits which would have mounted up in the meantime. He thinks he needs between 12 and 15 clauses which he would add to his Transport (Financial Provisions) Bill which is already in the programme, moving some of his other legislative measures into his Transport Bill which would be taken in slower time.

6. The Secretary of State for Transport's approach is markedly more severe and more confrontational than the medium-term measures which (subject to further discussion by E in September) the Secretary of State for the Environment will introduce in his Local Government Finance Bill which is likely to be enacted by autumn 1982. The Secretary of State for the Environment is aiming to make local authorities more accountable to the ratepayer by introducing hurdles (such as supplementary rates subject to either referenda or re-election) but he is not seeking directly to impose his will on the local authorities irrespective of the wishes of their ratepayers. The Secretary of State for Transport, on the other hand, is proposing a system whereby Central Government will set EFLs, and take other measures, specifically designed to stop the GLC and metropolitan



authorities carrying out policies for which, in their view, they have a mandate from their electorate. The Committee will need to discuss whether it is defensible for the Government to run, at virtually the same time, these two markedly different approaches to containing local authority expenditure. They will also need to consider the wider implications of the Secretary of State for Transport's approach for the relationships between central and local government.

7. The Committee will also need to examine whether the Secretary of State for Transport's proposals could be made to work in practice. Under his proposals, it would be illegal for LT and the PTEs to receive excessive subsidies from the GLC and the metropolitan authorities. Mr. Livingstone and others could, however, make things very difficult for this policy - they could try to bring staff out on strike, and to instruct staff to refuse to collect higher fares; they could generally try to make life impossible for Board members appointed, over their heads, by the Government. They would no doubt claim virtue in this approach on the grounds that Central Government was denying them the opportunity to put into practice policies which they had been elected to implement. Before endorsing the Secretary of State for Transport's proposals, the Committee will wish to be sure that the Government could see off attempts to defy or frustrate them. The worse outcome of all would be the introduction of contentious and difficult legislation leading to confrontation in which the Government had to back down.

8. The Chancellor of the Duchy of Lancaster, in his letter of 27th July to the Secretary of State for Transport, has argued that because of the existing problems with the legislative programme it would be impracticable to pass a Transport Bill with these additional clauses by next Easter. He proposes instead that the clauses should be added to the Secretary of State for the Environment's Local Government Finance Bill, recognising that this would mean that the powers would not bite until half-way through the 1982-83 financial year at the earliest. The Secretary of State for Transport will resist this for the reasons explained above. If, however, it were accepted that there was no time for his proposals to be in a Bill enacted by Easter, both he and the Secretary of State for the Environment would be likely to agree that his present proposals to deal with the transport problem should be dropped and that the Government should rely on the Secretary of State for the Environment's measures. This is partly because, if the Secretary of State for





Transport's proposals cannot be implemented very quickly, the case for them loses some of its force; but mainly because it would be very difficult to put forward two such sharply differing approaches in the one Bill.

9. If the Secretary of State for Transport's proposals were to be abandoned, there might still be a question of whether, in addition to the interim measures which the Secretary of State for the Environment will be taking, there should be some special measures to deal with the problem of the GLC. If so, this might go wider than transport issues and deal also with the ILEA. You will recall that when E discussed local government finance on 25th June the Home Secretary was asked to discuss with the other Ministers directly concerned the politics of any initiative to dismantle the GLC and the metropolitan authorities; he has not yet had an opportunity to do so.

HANDLING

10. After the Secretary of State for Transport has introduced his paper you might invite the Minister of State, Department of the Environment (Mr. King) to give his reactions and to comment in particular on the implications for relationships between central and local government and for his own Secretary of State's proposals. The Chancellor of the Exchequer will want to comment on the financial and public expenditure implications. In the absence of the Home Secretary, the Chancellor of the Duchy of Lancaster will wish to speak on the problems which will arise for the legislative programme, and to take account of any points made on this in Cabinet's discussion on Thursday; the Lord President of the Council will want to comment on the implications for business in the Lords (see his letter of 27th July to the Home Secretary).

11. Unless Cabinet's discussion of the 1981-82 legislative programme has effectively ruled out the proposal for legislation by Easter 1982, you will wish to cover the following questions in the discussion of the Secretary of State for Transport's proposals:

- (i) Are they defensible in principle?

Is the contrast with the Secretary of State for the Environment's approach to constraining local authority expenditure manageable?





(ii) Would they work in practice?

Or would they lead to a confrontation on transport in particular, and perhaps on local authority expenditure more generally, which the Government could be at risk of losing?

If the Committee judges that, in the light of the risks to the ratepayer and to public expenditure, the proposals are acceptable, then it will be for the Secretary of State for Transport to work them out in more detail, and separate consideration will have to be given to the consequences for the 1981-82 legislative programme.

12. If, on the other hand, the Committee decides that they cannot accept the Secretary of State for Transport's proposals and timescale - either because of pressure on the legislative programme or because of overriding objections of principle and/or practicability, the questions seem to be:-

- (i) Should the Government rely entirely on the interim measures which the Secretary of State for the Environment will be introducing in his Bill to take effect from 1983-84?
- (ii) Should further consideration be given to the possibility of legislating to deal with the problem of LT alone, and perhaps more widely with the powers of the GLC?
- (iii) Could anything be done in the meantime to discourage the GLC and the metropolitan authorities from implementing their fares policy in full - for example, by bringing home to the public the full costs of what is proposed?

#### CONCLUSIONS

13. In the light of the discussion you will wish to record conclusions:

Either

Accepting the proposal in paragraph 15ii. of E(81) 82 for additional transport legislation by Easter 1982 and, if so, inviting The Queen's Speeches and Future Legislation Committee to examine urgently the consequences of this for the legislative programme.

Or

Rejecting the Secretary of State for Transport's proposals and deciding to rely on the Secretary of State for the Environment's measures in his Local Government Finance Bill plus, possibly, further provision to deal



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with the problems of GLC in particular and any non-statutory measures which the Committee might think worth while to deal with the problem identified by the Secretary of State for Transport.

Either way the Committee might endorse the proposal in paragraph 15iii. of E(81) 82 to retain the Transport Supplementary Grant for the coming year subject to a thorough review of its future beginning this autumn.

RA

ROBERT ARMSTRONG

28th July, 1981

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