

CONFIDENTIAL

Prime Minister

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PRIME MINISTER

LONDON TRANSPORT FARES

I think I should send you and our Cabinet colleagues a preliminary warning of the possible implications of the Lords' judgment on the Court of Appeal decision about the GLC supplementary rate to pay for their low fares policy. We may get their judgement as early as Friday of next week, November 27, but I understand that the reasons may not be available for some weeks afterwards.

I have had a confidential talk with Sir Peter Masefield, the Chairman of London Transport, about the possible outcome. I should stress that this was a strictly private discussion since he is directly responsible to the GLC, and not to me.

There are a range of possible outcomes. At one extreme, the Lords might decide that despite the fact that the GLC have been paying subsidies under the Transport (London) Act of 1969 for years the payment of subsidies is unlawful. At the other extreme they may overturn the Court of Appeal judgment, and confirm the legality of the GLC's policy. They could well confine their decision to procedural defects, leaving the wider issues open. Or they could decide that subsidy is lawful, but that the GLC were not entitled to increase the rate of subsidy to the extent they have done. (Under the Conservative Administration revenue subsidy at an annual rate of about £90 million; under the present policy it will be of the order of £340 million next year.)

CONFIDENTIAL



Unless the Lords take the extreme view that all subsidy is unlawful, the GLC could probably find alternative ways of funding LT for a few months, which will give time for LT to increase their fares to recover the position. But Sir Peter Masefield has warned me that unless he can be satisfied immediately that the necessary funds will be available, he intends to announce a doubling of his fares, and that he will then reduce bus services as quickly as possible to try to save up to £100 million of costs out of his present budget of some £720 million.

If the Lords rule - which is perhaps unlikely given the terms of the Transport (London) Act - that all subsidy payments are unlawful, this would be likely to have two consequences. Even if LT put up their fares by more than 100% immediately, and had a crash action to cut costs, they could be in serious financial difficulties early in 1982, though much would depend on how far the GLC used other available funds to help.

We might then have to consider what steps we wished to take to prevent dislocation of the capital's transport system and this might involve amending legislation. Depending upon the nature of the Lords' judgement, we might also need to see whether similar amendments were required to the legislation covering public transport subsidies in the rest of the country.

If, on the other hand, the Lords effectively confirm the legality of the GLC's low fares policy, we shall still need firm measures on local government finance to contain the situation. We should, of course, bear in mind that the GLC's fares policy is only one, though the most blatant, cause of excessive local authority spending.

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If the Lords do decide in any way against the GLC and Sir Peter Masefield then acts, we shall need a prompt and vigorous response to the jump in fares to conteract GLC attempts to blame central Government. This I will prepare.

I will of course keep you and other colleagues informed of developments.

I am copying this to all members of the Cabinet and to Sir Robert Armstrong.

DA

DAVID HOWELL

20 November 1981

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