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Prime Minister

Prime Minister

MAS 31/3

LONG TERM PUBLIC EXPENDITURE

In response to your minute of 4 February, I am enclosing a note on the scope for savings in the area of my Departmental responsibilities.

I have consulted the Chief Secretary on this. He is concerned that it does not propose significant reductions in the longer term that colleagues could consider and that some sections appear to be anticipating increases in provision. We must, however, resist the easy option of cutting capital expenditure. Similarly it would be short-sighted to cut back on the road maintenance much needed to protect our investment. We therefore need to concentrate on the more difficult task of cutting subsidies and on the scope for increasing the role of the private sector.

Public transport will continue to need support. We are considering separately how to get better value from the railways. In spite of the overspending, most local authorities give less subsidy per £ of fare box revenue than we do for many BR services. We need to get the balance right, with more investment and less subsidy, with more benefit for the traveller at less overall cost to the taxpayer, and with more private sector participation. We shall need structural changes which will take time to achieve and will involve transitional costs, but these should begin to pay off by the end of the period. Setting up a Transport Authority for London will give us the opportunity to make a start.

I shall soon be putting forward my conclusions on private finance for roads. However I see this as essentially a means of increasing investment in road construction rather than as an alternative means of financing the existing programme although the Chief Secretary considers the presumption should be the other way. But I do see some scope for reducing public expenditure by introducing private risk capital into the public sector ports.

I understand that the possibility of transferring the vehicle excise duty on cars to local authorities is being considered as one of the options for relieving the rates. I have suggested to the Chief Secretary that we might consider going further and treating the duty as a genuine licence fee to meet the cost of maintaining local roads, which would take it out of the public expenditure figures altogether. I recognise the objections to creating a road fund in this way. But it would have the real advantage that motorists would feel that they were no longer paying several times over for using the road system, through rates as well as motoring taxes. They would see a direct link between the condition of local roads and what they paid to use them, and would put greater pressure on local authorities to improve efficiency.

I have not covered the Department's administrative expenditure, which is the subject of the separate exercise the Chief Secretary is undertaking, following the discussion at Cabinet on 16 December last.

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I am sending copies of this to the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Scotland, Wales and the Environment, the Chief Secretary, the Chancellor of the Duchy of Lancaster, and Sir Robert Armstrong.

David Howell

DAVID HOWELL

31 March 1983

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LONG TERM PUBLIC EXPENDITURE - POTENTIAL FOR CUTS

Road Investment (Trunk and Local) £1,300 million +

1. The motorway system will be largely complete by the late 1980's. The needs will be for local by-passes and to reduce traffic congestion in towns and major suburban centres, especially London. Given changing social trends, even with low economic growth, traffic will increase by 20% by the early 1990's. A big cut would mean more accidents, higher business costs, frustrating the hope of relief in many places that suffer acutely from heavy traffic, and dissatisfied road users.

Road Maintenance (Trunk and Local) £1,000 million

2. A 5 year programme is now under way to deal with the backlog of structural work on the oldest 400 miles of motorway. We will then need a continuing programme to deal with the 600 miles built in the early 1970's which will need renewal towards the end of the period.

3. Recent evidence suggests some very real deterioration in conditions on some classes of local roads. The Transport Select Committee have just issued a critical report recommending an increase in provision. Studies by consultants have shown little opportunity for reducing unit costs. The DLO legislation is ensuring private competition to keep costs down. Continuing pressure will be needed to offset the effects of continuing traffic growth. To cut provision significantly would be to put at risk the vital national asset of the whole network. It would rebound later necessitating much more spending.

Capital Investment in Local Transport: £280 million

4. The programme is virtually all renewal, mainly buses and LT tubes. Only a small element is for new schemes. Creation of a new London regional transport authority (LRTA) will probably require more investment to rationalise BR and LT networks and modernise the system, which is shabby by international standards, in order to achieve savings with longer run.

Local Subsidies for Public Transport: £300 million

5. Although local spending plans have come down from £800 million to £600 million with the help of the Transport Bill, they are still double the PES provision. Long term trends are unfavourable. In the last 10 years fares have gone up by 20% in real terms, services have been cut by 15% and unit costs have risen by over a quarter.

+ All figures relate to planned expenditure in 1985-86

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6. There is scope for efficiency gains through devolving responsibility within transport executives to smaller accountable units and promoting competition. In London the LRTA should make more efficient use of BR and LT resources. To reach and hold to the PES provision, let alone cut it, will require unit costs to be halved by the early 1990's if real fares are not to rise or services deteriorate further. If unit costs are just contained - halting the current 2% p.a. deterioration - real fares will have to be increased by half and services cut by a quarter.

7. Cutting subsidies below the PES provision would involve a greatly reduced role for public transport in the conurbations, leading to increased traffic congestion and a severe reduction in occupational and social mobility, and exacerbating inner city problems. It could not be achieved without taking direct control over public transport in the metropolitan counties as well as London.

Railways £1,080 million

8. The Serpell Report identified cost savings of some £220 million a year which might be achieved by 1986-87. Securing these savings will involve short-term transitional costs such as redundancy payments, the cost of lifting surplus track etc. These savings are being pursued with the Railways Board as part of the follow-up to Serpell.

9. The scope for further reductions will depend on decisions to be taken on the future organisation and financing of the railways. These might include privatising the manufacture of rolling stock.

10. Serpell also identified season ticket discounts for London commuters as a possible source of savings: the fares structure will be an early issue for the new London Regional Transport Authority.

National Bus

11. The NBC should be privatised by 1986-87, but this will have little effect on its call for public finance, which mainly consists of subsidies from local authorities.

Ports £120 million

12. Apart from redundancy payments at London and Liverpool, the provision is mainly for investment in public trust and local authority ports. Public expenditure could be reduced by £70m-£90m if this investment could be funded by private risk capital. But if the economy does not pick up, or trading patterns change, the problems at London and Liverpool could recur and some other ports could fail, leaving public sector liabilities.

31 MAR 1984