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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

CONTROLLING PUBLIC TRANSPORT SUBSIDIES

Memorandum by the Secretary of State for Transport

1. The massive indiscriminate subsidies to finance low fare policies which the Greater London Council (GLC) and some of the Metropolitan Authorities propose to provide this autumn are a direct challenge to our policies. Taking these proposals into account, their subsidies will rise to some £265m over the public expenditure figure provided for this year, next year over £450m and by increasing amounts thereafter. They will mean a heavy extra burden on rate-payers.

2. Public transport is local authorities major trading activity. The operating costs of London Transport (LT) and the six English Public Transport Executives (PTEs) are some £1 billion annually, two thirds of this being met by fares. They are entirely free to lower fares at a stroke by increasing subsidies, with large and immediate consequences for public expenditure.

3. The challenge is particularly serious in London where Mr Livingstone, Leader of the GLC, has made clear that he will take every step open to him to out-face the Government on the low fares issue. The cost for London will be as much as for the six other authorities together. The expected figures are as follows:

£m

cash outturn prices

	Approved plans 1981/82	Likely spend 1981/82	Projected spend 1982/83
GLC	78	204	342
English Metropolitan Counties	121	259	338
TOTAL	199	463	680

4. I do not believe we can let such a situation run. If we delay it will take only a couple of years for the proportion of public transport costs met by subsidy to have grown so substantially that it will be impossible to retrieve the position with real fare rises. Moreover, the effect will be to impose great pressure on other transport operators in the areas - BR, NBC and private operators - to adopt similar artificially low fare policies or to lose custom.

5. The existing instruments - the rate support grant (RSG) and transport supplementary grant (TSG) systems - are not adequate to deal with a situation on this scale. It would not help simply to withdraw grant if the only effect is to add to the burden on the ratepayer. Feelings are already beginning to run high as the supplementary rate precepts are announced, and the GLC are losing no time in claiming that this is the result of the Government's claw-back of RSG. What we need to do is to protect the ratepayer, and maintain an efficient system of transport with sensible fare policies. The interim measures proposed by the Secretary of State for the Environment to restrain local authority expenditure generally could not bite until 1983-84. By then the subsidy/fares balance will be grossly and probably permanently altered. I therefore believe that we should take the opportunity of the transport legislation we are already proposing for early next Session to set financial limits by the beginning of the financial year 1982/83, on all the English PTEs and on London Transport. I do not think we should attempt to cover the multiplicity of small municipal bus undertakings: this would add unacceptably to the complexities of the arrangements.

SCOPE OF LEGISLATION

6. This legislation will have to avoid pre-empting decisions on local authority finance generally or re-organisation, but it will have to be capable of working satisfactorily on its own. It would need to enable me:

- i. to limit the grants LT and PTEs receive from all sources, including those for concessionary fares, and all borrowing - in effect an EFL for each;
- ii. to enable me by Order to appoint and dismiss Board members where this appeared expedient.

7. To carry out my role and avoid circumvention the legislation should:

- a. give me powers to obtain information on budgets, financial performance, forecasts and proposed measures;
- b. require the PTE and LTE to refuse to accept "excess" payments or to pay them into the LA rate fund;
- c. enable me to override existing Council directions and to make directions myself.

8. As a further safeguard against evasion, it will probably be necessary for the legislation to empower me to impose ceilings on the relevant grants and borrowing authorisations given by Metropolitan Counties, Metropolitan Districts, the GLC and London Boroughs to transport undertakings. I shall avoid this complication if I can. There will also be a number of minor matters on which I shall need powers, for example in accounting matters.

9. One effect of my proposals could be to restrict the level of payments Metropolitan Counties make to BR for local railway services (Section 20 payments). It is possible that some authorities would respond by withdrawing their support totally from these services. In that event either the Government would have to support them, or BR would need to propose closure, which would involve a long drawn out inquiry and decision process. Some authorities indeed might want to take confrontation a step further and withdraw all revenue support for public transport, including buses, thus leaving it to the Government to foot the whole bill if services were not to cease, or at least to be very severely cut back. We should have to provide for such a contingency by taking powers either to require local authorities to maintain payments for revenue support, or preferably by providing powers for my Department to pay to support these services and seek to recoup ourselves eg from monies that would otherwise have been paid to the local authority concerned through RSG or TSG.

THE IMPLICATIONS

10. Legislation on these lines will obviously be contentious with the local authorities concerned, the Labour Party and possibly with the unions. I shall initially take the line that my sole purpose is to impose financing limits on these major transport authorities,

like those on nationalised industries. I would intend to make it clear that if the county councils concerned accept my limits, and give me an assurance that they and the transport undertaking concerned will attempt to live within them, then I would seek to limit my intervention to the minimum; no more than regular monitoring meetings would be required.

11. I believe we have no option but to act on these lines now in spite of the very real difficulties. The sums of money are too large and the challenge to our policies too great to let matters run on. We have a clear-cut issue here - excessive subsidies for public transport and an intolerable burden on ratepayers, not least industry and commerce. Although local authorities will claim they have been elected on a specific low-fare platform, I think we shall receive strong ratepayers' support. To minimise counter-action I would propose that we should leave to the latest possible moment in the autumn any indication of our intentions.

EEC, PUBLIC EXPENDITURE AND MANPOWER IMPLICATIONS

12. These proposals would have no EEC implications and should secure a substantial net benefit to public expenditure. It would of course be impossible to prevent some over-spend. We could not increase fares to the extent that is now required to keep within the PESC provision, nor would I want to risk overt confrontation with all the unions by any too drastic steps on wages, which by that time may well have been increased simply in order to make our job more difficult. Despite this, I am satisfied that with an approach on these lines we should be able to cut next year's over-spending by something of the order of £200-£300m. On the other hand, if we let the situation run, it will rapidly become infinitely more difficult to challenge increasingly costly and permanently entrenched low fare policies.

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13. Extra staff effort would be needed in my Department, the extent of it depending on the attitude of the local authorities. At worst, we might need to devote 20 to 30 staff to this work.

14. To back up these matters, we would need to retain TSG for the coming year but I would propose to review what would be appropriate for the years thereafter in the light of local authority financial arrangements generally and the new control system introduced by this legislation.

CONCLUSION

15. I therefore invite my colleagues to agree that:

- i. the intentions of the Metropolitan Counties and the GLC to increase revenue support for their transport undertakings requires urgent action in the form of the measures suggested in this paper;
- ii. I should prepare additional provisions for inclusion in my already approved transport legislation for introduction at the beginning of the next Session, with the clear intention that the powers should be available as soon as possible, and at the latest in time for me to set EFL's before the beginning of the financial year 1982/83; and
- iii. TSG should be retained for the coming year, but with a thorough review of its future beginning in the Autumn.

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