E(81) 126 COPY NO 66

1 December 1981

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL GOVERNMENT FINANCE: TRANSPORT SUBSIDIES

Memorandum by the Secretary of State for Transport

1. In the light of its discussion of the Local Government Finance Bill the Committee wished to consider further the possibility of measures, perhaps in a separate Bill, applying to transport authorities (E(81)35th minutes).

2. The low fares policies of the GLC and certain metropolitan county councils represent a large threat - though not the only one - to the levels of local authority spending that we have incorporated in our plans for 1982/83. Tough general measures to contain expenditure and protect the ratepayer would make specific action against these transport policies unnecessary. But if we judge that political and practical difficulties rule out firm control over local authority rate levies we shall need to consider whether there is a case for taking action to curb public transport subsidies next year, unless the House of Lords delivers a sufficiently restrictive judgement in the London Transport case. We expect to know their decision imminently days, but the full judgement may not be available for some weeks

The EFL Approach

3. The scheme which the Committee considered in September (E(81)86) would involve taking powers to enable the Government to fix for the London Transport Executive (LTE) and each of the passenger transport executives (PTEs) an external finance limit (EFL) covering all income other than fares paid by passengers and other commercial receipts. The EFLs would be fixed by order soon after Royal Assent. So long as the authorities were prepared to co-operate in trying to keep their support within the limits I would not need to intervene further. But to prevent an authority using its powers of direction and of appointment and dismissal of Board members in order to flout the Government, the scheme provided for these powers to be exercised only with my consent and for me to be able to exercise them myself. These powers of withholding consent or overriding directives would obviously need to be used sparingly in practice.

4. We could still proceed with these proposals, but the situation has changed in some important respects since the Committee last considered them. These back up powers were intended to be reserve powers which would not be exercised if an undertaking stayed within its limit, but would nevertheless be essential if I were to be able to ensure that the limits were not circumvented. These would be powers not over local authorities but over transport undertakings akin to Nationalised Industries. They could however be represented as an attack on local authorities, as they would enable us to take away from the GLC and Metropolitan Counties powers over public transport, which is one of their major functions.

5. Some local authorities now appear to be readier to challenge statutory orders in the Courts. Orders fixing EFLs would inevitably be open to such challenge. They could not be set by reference to general principles but would have to be fixed for each executive individually. I should be concerned with only up to seven undertakings, and I would take powers to require sufficiently detailed information about their finances. There would, however, be timetable problems on the first occasion, and it is not possible to guarantee that the EFLs I set could not be successfully challenged.

<u>An alternative Approach: A New Statutory Duty</u>

6. In the light of this situation, I have considered whether there is any other way of curbing local transport subsidies. A possible alternative would be to place the GLC and the metropolitan counties under a statutory duty to take account of guidelines which I would give them as to what I consider to be the maximum reasonable level of subsidy. It would represent my view of the limit of fairness between ratepayers and fare payers, in the light of the overall burdens on the public sector. These guidelines would not be binding. They would therefore not be open to challenge in the Courts. But if an authority went much beyond the guidelines it would provide a basis for the auditor or ratepayers to take the authority to Court. The validity of the guidelines could then become an issue in deciding whether they had acted unreasonably.

7. Since the object is to give grounds for action against a local authority the guidelines would need to be expressed in terms of the amount of revenue subsidy paid by the authority. The legislation would enable me to set such guidelines as I think necessary having regard to general economic conditions. It would provide that both the local authorities and the transport undertakings should have regard to the guidelines in exercising their powers to draw up and approve budgets, to propose and approve levels of fares and services and to give directions. Given the different circumstances of the local authorities concerned and the wide variations in the present degree of subsidisation the guidelines would have to set a separate figure for each authority if it was to have any practical value.

8. The guidelines would be settled administratively and would spell out the assumptions made in setting them about other non-commercial income which undertakings might receive, eg compensation for concessionary fares for the elderly. The effect of any devices which an authority used to try to circumvent the guideline could then be taken into account by the Courts if the amount of subsidy were challenged.

9. Setting guidelines of this kind might also be represented as a new erosion of local autonomy since they would amount to limiting how much local authorities should spend on a particular service. This approach would involve putting essentially political decisions in the hands of district audit and the Courts. But since authorities would be left with some discretion for departing from the guidelines if there were good reason to do so, this alternative might be open to less objection than setting EFLs.

<u>Timing</u>

10. If we proceed with the original EFL proposals it might be possible to have the necessary provisions ready in time to be introduced just before Christmas. They would probably have to be the subject of a separate Bill. The Parliamentary timetable would be very tight if the scheme was to be effective in 1982/83, although some element of retrospection would probably be acceptable so long as the proposed EFLs were announced in good time. But Royal Assent before Easter would be very desirable.

11. For guidelines, however, it would be essential for legislation to be enacted by the end of the financial year, except in the case of authorities requiring supplementary rates. The provisions would be very simple, probably only one Clause.

12. In either case, depending on which way the House of Lords decide the London Transport case, it could be difficult to publish any firm proposals in advance of knowing the terms of their judgement. Since we may not have the full judgement for some time, we should need to draft legislation on a contingent basis.

<u>Scope for Savings</u>

13. Transport subsidies by the GLC and metropolitan counties may account for some £400m of the total local authority overspend next year. It would be quite unrealistic to aim at recouping all of this. For example for London Transport even to get back to the level of subsidy under the last GLC administration would involve doubling fares and cutting services by 10%. Any attempt to reduce the overspend by taking new powers must involve setting EFLs or guidelines at realistic levels if it is to stand any chance of success. Otherwise we will not only lose public sympathy but will also fail to secure the co-operation - or at least acquiescence of the executives which is essential to the success of any form of control.

14. We shall need to make our own judgements about the balance between levels of subsidy and fare increases that we might expect. In setting EFLs or guidelines we shall also need to make assumptions about service levels, pay increases, other costs and productivity. These will become public knowledge and my officials may be cross-examined on them in Court. Annex A shows that savings of £200m to £300m could be achieved with fare increases of 25% to 50%. But some £50m of the saving arises from using the PES assumptions about labour costs and price inflation and if these were higher than assumed correspondingly bigger fare increases or service reductions would be needed.

Conclusions

15. Separate action on transport subsidies will be unnecessary if we ta[ke] firm control over local rate levies. Otherwise I should welcome the views of my colleagues on whether I should introduce the EFL scheme on the lines originally proposed in E(81)86 or the alternative approach outlined in paragraphs 6 and 7 above. In either case all I could say for the moment is that I shall consider whether new legislation is needed in the light of the House of Lords judgement. In the meantime, however, I should need authority to prepare the necessary provisions so that they could be introduced before the Christmas Recess.

D A R H

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1 December 1981

Relationship between levels of subsidy and fares increases - 1982/3.

BASIS OF OPTION	Unchanged low fares policies		Ceiling on fares increases of 25% *		Ceiling on fares increases of 50% **		PES allocation for Revenue Support	
National Total Revenue Support	£722m		£495m		£408m		£314m	
Saving in expenditure	0		£227m		£314m		£408m	
	Revenue support £m	Fare for 2-3 mile journey	Revenue support ceiling £m	Fare increase involved %	Revenue Support ceiling £m	Fares increase involved %	Revenue Support ceiling £m	Fares increase involved %
GLC	324	20-30p	202	25%	140	50%	89	75%
GMC	57	30p	42	25%	36	35%	36	35%
Merseyside	50	27p	35	20%	35	20%	35	20%
S.Yorks	55	8p	46	50%	43	100%	15	350%
T & Wear	41	22p	30	25%	24	50%	14	100%
W.Midlands	65	19p	35	25%	25	50%	20	60%
W.Yorks	56	30p	31	25%	31	25%	31	25%

* Except for S.Yorks, ceiling @ 50%, and counties where a lower increase will reduce support to the TSG accepted level.

** Except for S Yorkshire, ceiling @ 100%, and counties where a lower increase will reduce support to the TSG accepted level.

Assumptions
(i) Price inflation @ 9% as PES forecast.
(ii) Labour costs to rise by 4% in line with guideline for public sector pay. But first, "unchanged policies", column is based on counties' own projections.
(iii) 5% reduction in services [the most ever recorded by a big operator in one year]
(iv) Effect of recession based on analysis of recent impact, and published unemployment forecasts.
(v) Continuation of existing trends for effect of car ownership and population trends.

[redacted]