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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LONDON TRANSPORT: HOUSE OF LORDS JUDGEMENT

Memorandum by the Secretary of State for Transport

1. The House of Lords judgement in the case of GLC v Bromley makes it clear that it was unlawful for the GLC to increase subsidies in the manner and by the amount they did in order to cut fares and run more uneconomic services. But it does not rule out reasonable support for London Transport (LT). It accepts that the level of support which was provided by the GLC before the change of control was consistent with its obligation under the Transport (London) Act 1969 which sets the financial framework for the operation of London Transport. The judgement places great emphasis on the general duty of the GLC to hold the balance fairly between ratepayers and the users of public transport.
2. As regards the Metropolitan Counties, the details of the legislation are somewhat different, but this same general principle about a balance should hold good. Litigation is already pending in some areas.
3. The GLC and London Transport now have to pick up the pieces. In the first instance it will be for LT to construct a new budget on the basis of the judgement. There have been some alarmist

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statements about what this might involve, including fare increases of 150% next March - the earliest feasible date for an increase - and the loss of 15,000 jobs. These appear to have been based on the assumption that LT would need to make good the deficit incurred as a result of the cheap fares policy this year and reach break-even in three years. But this appears to be going much further than the judgement requires. To put matters in perspective, the increase needed next spring to restore fares in real terms to the level of last April - which the House of Lords considered to be consistent with LT's obligations - would be 63%.

4. But this takes no account of the £125m deficit which LT will have built up by March. This figure is made up of £65m due to the fares cut in October plus a further £60m for the uncovered deficit from the previous financial year, other inflated costs following the excessive wage settlement in June, the additional staff they have been forced to take on and the general effects of the recession. The Unions have already said, naturally enough, that they will fight any reduction in staff numbers.

5. London Transport will face an immediate cash problem in covering the cost of the GLC's policy until they are able to increase fares next March. It is not clear how far the GLC will be able to finance this shortfall. If they cannot they may well ask us for short term help to bridge the gap.

6. The GLC will then need to decide what to do next year. We must assume that London Transport will put forward a revised budget for 1982 which is intended to be consistent with the Lords' judgement. This will involve taking account of the inherited deficit from 1981, the practicability of increasing fares and making economies. That will still leave a substantial deficit to be financed by the GLC from its rate precept. The GLC would then have to consider whether the revised budget struck a fair balance between ratepayers and transport users.

7. It is not possible, immediately, to say what implications the judgement will have for the individual ratepayer. There is doubt about whether the existing precept should be repaid, by the GLC to the Boroughs and in particular whether the Boroughs can repay the ratepayers who have already paid. There is therefore doubt as to what extent ratepayers as opposed to farepayers will have to meet the cost of the current deficit. These problems are being considered urgently in consultation with the Secretary of State for the Environment. The question is how best we can maintain the initiative and ensure that public opinion recognises that the whole of the blame rests with the GLC.

8. In this connection, although the final responsibility lies with the GLC and LT, we shall need to consider what is the maximum fare increase that the public will accept without blaming the Government, and how the financial consequences are to be handled.

9. In his public statements Mr Livingstone has said that he would ask to come and see me. If he does so I shall agree to meet him and consider whether there is anything we should do to help LT overcome the immediate problems which have been created by the GLC's unlawful actions. He is reported, however, as saying that he will ask for legislation to enable the GLC to continue with its subsidy policy. If so, I shall make it clear that we have no intention of introducing any such legislation. I made all this clear in the speech I made in the House on Friday December 18 in the debate on Mr Neubert's Motion on transport in London and the South-East.

10. The Law Officers agree with my view that, so far as the GLC is concerned, the Lords' judgement does not prevent the kind of subsidy payments which the Government would favour. It is too soon to know whether Parliament and the public will accept that this is so. When I see Mr Livingstone I shall need to ensure that the GLC are prepared to handle fare increases, in a way acceptable to the Government. This may well involve some help in respect of short term financial problems. If they do ask us for help I might want to bring in outside consultants to look at the figures and advise on what would be

a sensible financial regime. I shall of course keep in the closest touch with the Secretary of State for the Environment about this.

11. Even if the GLC decide to behave sensibly and put forward a proper budget a change in the law might be needed, but it is not possible to reach any conclusions on this in advance of considering their proposals. If the GLC refused to behave sensibly, then some change in the law might be urgent and necessary, but it would be preferable to avoid this, and we should need to consider changing the relationship between the GLC and London Transport either on the lines of my EFL Bill or in more radical ways. It would be a great mistake to reach any conclusions too hurriedly.

12. I recommend:-

a. that I should see Mr Livingstone as soon as possible, on the basis set out above;

b. we continue to take all available means of informing the public about the real nature of the Lords' judgement; and

c. I report again to the Committee, very early in the New Year. At that stage I would give the Committee my estimate of the likely financial implications and any indication as to how far the GLC were prepared to co-operate.

d. In the meantime it would be inadvisable to proceed with my EFL Bill - (E(81)130 refers).

D A R H

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