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(S1) 40th Meeting

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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 22 DECEMBER 1981 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Lord President of the Council

The Rt Hon Norman Fowler MP
Secretary of State for
Social Services

The Rt Hon Sir Michael Havers QC MP
Attorney General

Sir Ian Percival QC MP
Solicitor General

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Mr Wyn Roberts MP
Parliamentary Under-Secretary of
State, Welsh Office

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J L Moore

SUBJECT

TRANSPORT SUBSIDIES AND FARES

TRANSPORT SUBSIDIES AND FARES

The Committee considered a memorandum by the Secretary of State for Transport (E(81) 131) on the implications for transport subsidies and fares of the House of Lords' judgement in the case of the Greater London Council (GLC) versus the London Borough of Bromley.

THE SECRETARY OF STATE FOR TRANSPORT said that the House of Lords' judgement made clear that it was unlawful for the GLC to increase subsidies to London Transport (LT) in the manner and to the extent they had in 1981 in order to cut fares and run more uneconomic services. The judgement did not, however, rule out reasonable support for LT, and it accepted that the level of support which had been provided by the GLC before the Labour Party had taken control in ~~1980~~¹⁹⁸¹ had been consistent with their obligation under the Transport (London) Act, 1969. LT claimed that they could not raise fares before 21 March 1982 and the immediate problem for the GLC was how to finance the shortfall which would arise until then. It was possible that they would be able to do so temporarily from their own resources but they might have to ask the Government for short-term help to bridge the gap. The GLC would also need to consider, in the light of the judgement and of a revised budget from LT, what should be the increase in fares in March and what action should be taken to deal with operating costs. An increase of 63 per cent would be necessary in the Spring of 1982 to restore fares in real terms to the levels of a year earlier; the increase would be of the order of 100 per cent if, additionally, it were decided to cover the £125 million deficit which LT would have built up by then on account of the fares reduction in October 1981 and of increases in costs resulting, in part, from excessive wage settlements in 1981 and the recruitment of additional staff. If the Leader of the GLC, Mr Livingstone, came to see him, the Secretary of State for Transport would make clear that the Government would not introduce legislation to enable the GLC to continue with its present subsidy policy but that it would be willing to consider what action was necessary to help LT overcome the immediate problems which had been created by the GLC's unlawful actions. If the GLC refused to behave responsibly, there might have to be legislation, and urgent consideration would need to be given to the alternatives including that

of imposing External Financing Limits on LT, and on Passenger Transport Executives, as envisaged in the Bill which had been prepared on a contingency basis and was attached to his memorandum E(81) 130. Until such time as LT had prepared a revised budget and GLC had made proposals it would, however, be premature for the Government to reach conclusions on the action, including any legislation, which might be necessary. He would report further to the Committee early in the New Year. In the meantime, in the emergency debate that afternoon in the House of Commons on LT fares, he would again make clear that it was for the GLC to put forward proposals to deal with the situation which had arisen; he would not give any commitments on action by the Government.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the judgement placed great emphasis on the general duty of the GLC to hold the balance fairly between ratepayers and the users of public transport. This had wider implications, which he was still considering, for all local authorities and the way in which they financed not only transport but all their services. The situation was also affected by the block grants system which provided for holdback of grants from authorities not meeting certain requirements. It was not yet possible to advise what would be the effect of the judgement on individual London ratepayers. Councils were receiving conflicting legal opinions on whether the GLC had to repay the existing precept to them and also on whether they had to repay those ratepayers who had already paid supplementary rates demanded of them. The councils would look to the Government for advice on this and, if necessary, for a short Bill to clarify any uncertainties. He was considering all these questions urgently and would make proposals to the Committee in the New Year.

In discussion the following were the main points made -

- a. In the Debate that afternoon the House should be reminded that since the change of political control in May 1981, the GLC had acted contrary to the advice clearly and repeatedly given to them by the Government. Any large increase in fares in Spring 1982 would be the result of policies which the GLC had chosen to follow in the face of this advice.

- b. Rather than describe any possible fare increase in percentage terms it would be better to give examples in terms of the actual increase on a £1 ticket. It should be made clear that in part such an increase would be a matter of restoring the 32 per cent cut in fares made by the GLC in October 1981 but that a further increase was necessary to deal with the costs of over-manning, inefficiency and high wages which the GLC had condoned and encouraged.

- c. The judgement recognised that while LT were expected to break-even over a period, taking one year with another, there would be particular years in which it was not possible for them to do so; what was improper was for the GLC to cause LT to set out deliberately to run at a loss. On this basis it was clear that on the one hand the judgement ruled out a policy of deliberately running at a substantial loss for a period of time and that on the other hand it recognised that LT could make occasional losses in particular years. It was less clear what the judgement implied for a policy of regularly budgeting for a small loss; perhaps a subsidy was acceptable if there was no way of reducing it by charging higher or lower fares. These implications of the judgement would need to be considered further. Meanwhile the Government's policy, which was in favour of reasonable subsidies, could be reaffirmed.

- d. It would be wrong if those London ratepayers who had already paid their supplementary rates ended up worse off than those who had not yet done so. If necessary a Bill might have to be introduced to clarify any doubts on this score. In the meantime no commitments should be made. In practice it might be difficult to treat the two groups identically; for example, it was unlikely that ratepayers would receive interest on supplementary rates they had paid and which were subsequently returned to them. It might well be that some supplementary rate would still be necessary - perhaps at a different level from the present supplementary rate - to deal with the losses which had already occurred.

e. The present prospect was that the financial penalty would fall on a combination of the ratepayer, the tax payer and the user of LT services but not on those in the GLC who had been responsible for the policies now shown to be unlawful. It was therefore for consideration whether the District Auditor should be asked to look into the actions which had been taken by the GLC; the outcome could not however be predicted and it was not clear that there would be advantages in such a course.

f. Further consideration would need to be given to the transport subsidies provided by the Metropolitan counties and to possible fare increases in 1982 by the PTEs. While the legislation applying to the Metropolitan counties was somewhat different, it seemed that the general principle, that there was a duty on local authorities to hold the balance fairly between ratepayers and beneficiaries of services, applied to the Metropolitan counties as well as to the GLC.

THE PRIME MINISTER, summing up the discussion, said that in the Debate on London Transport fares that afternoon Ministers should not give any commitments to specific action. It should be made clear that in the first place it was for the GLC and for LT to make proposals to deal with the situation; in particular, there should be no endorsement of LT's claim that fares could not be increased before 21 March 1982. Any discussion of prospective fare increases should not be in terms of percentages, and should point to the cuts in fares and to the excesses in costs which the GLC had caused LT to pursue despite repeated warnings given to them by the Government. At the same time, there should be no implication that the Government was washing its hands of the problem; the House should be told that the Government was now carefully considering all the relevant legislation. The Committee would consider early in the New Year, and on the basis of further proposals from the Secretaries of State for Transport and for the Environment, what further action, possibly including legislation, was necessary.

The Committee -

1. Invited the Secretary of State for Transport to arrange for Ministers speaking in the Debate that afternoon on London Transport fares to be guided by the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Transport, in consultation with the Secretary of State for the Environment and with the Law Officers, to arrange for officials of their Departments, of the Treasury, and of other Departments concerned, to consider further the implications for transport and other local government policies of the House of Lords' judgement, and in doing so to take account of the points made in their discussion; and to report.
3. Agreed to resume their discussion, in the light of further reports from the Secretaries of State for Transport and for the Environment, in the week beginning 11 January.

Cabinet Office
22 December 1981