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E(82) 1st Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 14 JANUARY 1982 at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

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 James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries
and Food

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 Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Paymaster General

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Lord President of the Council

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

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

The Rt Hon Sir Michael Havers QC MP
Attorney General

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 RELATED ISSUES

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TRANSPORT SUBSIDIES AND RELATED ISSUES

Previous Reference: E(81) 40th Conclusions

The Committee considered a memorandum by the Secretary of State for Transport (E(82) 2) and a report by officials, attached to a minute by the Secretaries (E(82) 1), on transport subsidies and related issues.

THE SECRETARY OF STATE FOR TRANSPORT said that, following the House of Lords' judgement in December on the Greater London Council's (GLC) cheap fares policy for London Transport (LT), the GLC had considered a revised budget put forward by LT for 1982 and agreed that LT's fares would have to be doubled from 21 March 1982. This would leave LT with a current deficit in line with what he had accepted for the purpose of transport supplementary grant and with an accumulated deficit which would have built up to £125 million by March as a result of the cheap fares policy. It was agreed that the current deficit would not be unlawful and that there were three options for dealing with the accumulated deficit: it could be met by a further fares increase in 1982; the GLC could make a grant to LT in 1982-83 which would mean an addition to their rates precept on the London Boroughs in that year; or there could be legislation to enable the London Transport Executive (LTE) to borrow to finance the deficit, with the loan repaid over a period of up to 5 years. The Attorney General had advised that GLC's approval of the revised budget for LT in 1982 need not be conditional on any further increase in fares during the year. There were objections to GLC's dealing with the deficit by a grant in 1982-83: unless the Government were to waive the Rate Support Grant rules, the extra expenditure would lead to grant penalties in the year which would add to the burdens on the London ratepayers who would then blame the Government; any waiver of grant would have to be paid for either by extra grants or by taking grant from other local authorities. He recommended that the best course was to tell the GLC that the Government would be willing to introduce legislation to enable the LTE to borrow to fund the deficit over a 5-year period; in the face of this offer, it would be very difficult for the GLC to try to embarrass the Government by repaying the deficit with a grant which would force up the rates in 1982-83. It would also be desirable for the legislation to include powers to enable him to authorise Passenger Transport Executives (PTEs) in the metropolitan counties to borrow similarly to deal with accumulated deficits they had incurred as a result of cheap fares policies.

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Following the House of Lords' judgement, it was clear that the GLC could no longer finance concessionary fares offered by LT to the elderly and disabled. The London Boroughs had now informed him that they would be unable to take over responsibility for these subsidies, under the powers available to them in 1982-83. He recommended that the Government should introduce a Bill which might need the Royal Assent by 1 April to extend to the GLC the powers already available to other local authorities to finance concessionary transport fares. If the Committee approved these proposals he wished to write to the Leader of the GLC to inform him that the Government considered that there was no requirement in law for further fare increases in 1982 after those on 21 March; would be willing to introduce legislation to enable the GLC to borrow to fund the accumulated deficit of £125 million; and would legislate to enable the GLC to finance concessionary fares. He would advise the Association of Metropolitan Authorities (AMA) that, following the House of Lords' judgement, the Government considered that the law required them to reduce their subsidies to the PTEs on the principles applicable in the case of the GLC and of LT. While these measures would deal with the situation in 1982, it would be necessary to consider further the need for legislation to enable payments of reasonable subsidies, should they be thought necessary, to LT and the PTEs; and also to consider important longer term issues about the role of the GLC in controlling LT, the co-ordination of decisions on all forms of transport in the London Metropolitan area and the possible role of the private sector. This further work would need to take account of the report which the Select Committee on Transport would make later in the year on transport arrangements in London.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, following the GLC's decision to reduce their subsidy to LT in 1981-82, about £60 million of grants which had been withdrawn from the London Boroughs could now be paid to them and a prospective grant holdback of £30 million would no longer be made. He wished to announce this quickly and to arrange for the grant payments to be made to the London Boroughs in February and March so that they could refund that part of their supplementary revenue attributable to grant loss as well as that part due to the direct cost of GLC's concessionary fares policy. To avoid further problems over grant penalties, he agreed that it would be better to legislate to enable the GLC to finance concessionary fares and, if necessary, to enable the LT to finance their accumulated deficit from borrowing over a 5-year period. Subject to the Attorney General's further consideration and advice from Counsel, it seemed that there was no objection in law to the scheme.

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Proposed by the London Boroughs Association whereby those ratepayers who had already paid the supplementary rate unlawfully raised for transport purposes should be credited with the appropriate amount for the rate in 1982-83, and those ratepayers who asked for a refund should be given it, though without interest being paid. If individual boroughs feared that the legal position was uncertain, he would be willing, in order to protect them from the possibility of surcharge, to grant a special sanction to them under Section 161 of the Local Government Act 1972. There was a risk that some boroughs would not want to comply with the LBA scheme but he would make clear that he wished to see uniformity of treatment for London ratepayers.

In discussion the following were the main points made -

a. It was agreed that there would be strong objections to financing LT's accumulated deficit of £125 million by a grant from the GLC which would lead to higher rates and so wipe out much of the benefit to the London ratepayers of the House of Lords' judgement. It was possible that the GLC would be able to finance the payment from their own resources, and the Department of the Environment were examining this urgently. If this turned out to be impracticable, it would be better in the circumstances to adopt the proposal for legislation to enable the LTE to borrow over a 5-year period. In principle it was objectionable to authorise such loans to cover revenue deficits and the new powers should be drawn so as to apply to the financing only of this particular deficit. LTE's powers to borrow in this way should not be subject to the consent of the GLC who might otherwise refuse to authorise the borrowing and go ahead with a grant with the objective of embarrassing the Government by the higher rates which would follow. The position on the PTEs was not yet clear but it was likely that they too would have to fund accumulated deficits. To avoid the necessity for separate legislation, the Bill dealing with the LTE should also provide for the Secretary of State for Transport to make orders enabling PTEs to borrow for similar purposes in appropriate circumstances.

b. Although there was a strong case for legislation to provide for GLC to subsidise concessionary fares, the urgent passage of this Bill could be disruptive of the present legislative programme and the Lord President of the Council would wish to consider the implications of this further. It might be possible to have Royal Assent somewhat later than 1 April if GLC were able under their present powers to finance concessionary fares for a short

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time in 1982-83. If necessary it might be possible to include the borrowing powers in the Transport (Finance) Bill. On the other hand, there could be advantage in including all the provisions in one Bill with a deadline. It would be difficult for the Opposition to try to delay the passage of such a Bill if this led to the disruption of concessionary fares for the old and the disabled in London.

c. The proposals discussed were appropriate for dealing with the situation in 1982 alone. It was essential not to give any impression that the GLC or the Metropolitan authorities would be able to continue to give substantial grants to subsidise revenue deficits on transport undertakings after 1982. It would be necessary, therefore, to consider in the next few months the need for legislation in the 1982-83 Session to provide for continuing subsidies to transport undertakings, should those subsidies be considered necessary.

THE PRIME MINISTER, summing up the discussion, said that the Committee took note of GLC's decision to double LT fares from 21 March, 1982. They agreed that there should be a Bill, which would probably need Royal Assent before 1 April, to extend to the GLC the powers already available to other local authorities to subsidise concessionary transport fares. Unless it were found that the GLC were able to meet LT's accumulated deficit of £125 million from their own resources, legislation would also be needed to provide for the LTE to borrow for 5 years to finance their accumulated deficit of £125 million. There might be advantage in combining this measure in a single Bill with the measure authorising the GLC to subsidise concessionary transport fares. The power to borrow should be specifically linked to this deficit, so that it did not represent any general extension of LTE's present borrowing powers; borrowing under the power should not be subject to the approval of the GLC. There would also be provision for the Secretary of State for Transport, by order, to allow PTEs to borrow similarly to deal with any accumulated deficits which they had similarly incurred as a result of cheap fares policies. The Lord President of the Council would wish to consider further with the Secretary of State for Transport the precise timing of the Bill and also the problems which it would cause for the management of the legislative programme. The Committee agreed that the Secretary of State for Transport, after consulting the Attorney General, should write urgently to the leader of the GLC to inform

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him of the Government's view that the budget now approved for LT in 1982 was lawful and that there was no requirement in law for further fare increases in the year; that the Government would be prepared, as an exceptional and once-for-all measure, to introduce legislation to enable LT to borrow over a period of up to 5 years to meet the accumulated deficit of £125 million; and that the Government would be prepared to introduce early legislation to confer powers on the GLC to finance a concessionary fares scheme. These decisions should deal with the immediate problems arising over LT's 1982 budget. Further consideration would have to be given to the need for legislation to enable the payment of any continuing subsidies in later years to LT and to the PTEs. This review of the longer-term options should also consider the role of the GLC in relation to LT, the co-ordination of decisions on transport in the London Metropolitan area and the possible role of the private sector, and also similar questions arising on the PTEs and the Metropolitan Authorities.

The Committee -

1. Agreed that there should be an urgent Bill to provide, as indicated by the Prime Minister in her summing up of their discussion, for the Greater London Council to subsidise concessionary transport fares and, if necessary, for the London Transport Executive and the Passenger Transport Executives to borrow over a period of up to 5 years to finance accumulated deficit resulting from cheap fares policies in 1981.

2. Invited the Secretary of State for Transport -

i. After consulting the Attorney General, to write to the Leader of the Greater London Council on the lines indicated by the Prime Minister in her summing up.

ii. To consult the Lord President of the Council on the timing of the proposed Bill.

iii. To advise the Association of Metropolitan Authorities that the Government considered that these authorities were required in law to reduce their subsidies to the Passenger Transport Executives on the principles applicable to the Greater London Council.

iv. To arrange for officials of his Department, together with officials of other Departments concerned and the Central Policy Review Staff, to examine the options for longer term arrangements, including the need for legislation, for London Transport and for the Passenger Transport Executives, and for the management, co-ordination and control of transport in London, as indicated by the Prime Minister in her summing up, and to make recommendations in time for discussion by the Committee as soon as possible and not later than July 1982.

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3. Invited the Secretary of State for the Environment -

i. After consulting the Attorney General, to inform the London Boroughs of the grant repayments which would now be made to them in 1981-82.

ii. After consulting the Attorney General, to inform the London Boroughs that the Government considered that it would be lawful for them to proceed with their Association's proposals for repaying supplementary rates raised in consequence of the unlawful supplementary precept in 1981 and that he would be willing to grant a special sanction to individual boroughs under Section 161 of the Local Government Act, 1972.

iii. To advise urgently whether it was practicable for the Greater London Council to finance from their own resources the London Transport Executive's accumulated deficit of £125 million.

Cabinet Office

15 January 1982