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The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H OET

9 December 1983

Dear Norman

TRANSPORT CONSUMER BODIES: ROLE IN RELATION TO FARES

We have agreed that the London Regional Transport Bill has to maintain the present position that the consumer body (which will be the London Regional Passengers Committee) will not be legally authorised to consider fares and charges. There are overriding technical reasons for maintaining that position in the LRT Bill, whatever the merits. But I shall certainly be pressed to say what is our policy. L Committee last week (L(83)21st Item 2) invited me to clear the policy with my colleagues and that is the purpose of this letter.

The position is that, unlike the other Nationalised Industry Consumer Councils, the transport ones (the Central Transport Consultative Committee, the area Transport Users Consultative Committees, and the London Committee) have been expressly precluded from considering fares and charges. I had a very helpful discussion with Alex Fletcher about whether we should change this. We agreed that it would be quite wrong to make any provision which would enable me to

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give specific directions to British Rail or London Regional Transport about fares. We agreed also that given the very large Exchequer subsidies, it would be wrong to allow consumer bodies to make recommendations on fares without regard to the financial target set by Government, which must be overriding. For my part I think that this means that their proper role is to look at relativities of the many fares on offer and so the structure of the tariff, but not at the general level of fares. They must certainly be in no position to delay necessary fare increases in any way.

I would be ready to see general legislation on these lines, when there is a suitable opportunity. I should like to announce the new policy on the second reading of the LRT Bill and I annex the text of what I propose to say. Since I very much hope that we can have the second reading of the Bill during the week beginning 12 December, I should be grateful if any comments could reach me no later than midday on Monday 12 December.

I am copying this letter to the Prime Minister, to the Lord President of the Council, the Lord Chancellor, the Secretaries of State for Energy, Scotland and Wales, the Lord Privy Seal, the Chief Secretary, the Chief Whip, and to Alex Fletcher and Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

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DRAFT FORM OF WORDS FOR SECOND READING OF LRT BILL

Consumer Bodies and Fares

1. I now come to the important matter of the role of the new consumer body in relation to fares.

2. At present, the consumer bodies dealing with transport - the Central Transport Consultative Committee, the area Transport Users' Consultative Committees, and in London, the London Transport Passengers' Committee, all have fares and charges specifically excluded from their statutory remit.

3. In December last year, the Government published a document "The Nationalised Industry Consumer Councils: A Strategy for Reform" in which we said that we were considering whether this exclusion should continue.

4. We have given very careful consideration during the preparation of this Bill both to the general principle involved here and to the possible use of this Bill as a vehicle in which to incorporate any change to the existing law in this respect. The general principle is that the industries must work to the financial objectives set by Government, and they must determine the level of fares without

being subject to specific directions. But we accept that within that framework, there is a role for the consumer bodies in relation to the structure and relativities of fares.

5. On the second point, it would not be appropriate to make a change of this kind in a Bill whose scope is limited to the London region. The Government intend however to deal with the matter on the above lines if and when a suitable legislative opportunity arises.

6. Meanwhile, I am glad to say that the Chairman of British Rail, Mr Bob Reid, has agreed that his Board will consult both the Central Transport Consultative Committee and the new LRPC about fares and charges, on an informal basis, in advance of any new legislation. I am sure that the Board of LRT, when appointed, will also agree to do the same thing in relation to the London Regional Passengers' Committee.

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9.12.83

LRT BILL

Members may find the attached brief useful in their consideration of the new London Regional Transport Bill

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LONDON REGIONAL TRANSPORT

This Bill implements proposals set out in the White Paper 'Public Transport in London' (Cmnd 9004) published in July 1983, for reform of the structure and organisation of London's public transport system.

A. The Government's Objectives:

- The Government wishes to restore a stable framework for the planning of public transport in London.

- It wishes to reduce unnecessary costs and provide better value for money on the London Transport system for travellers, ratepayers and taxpayers.

- It wishes to bring bus and underground services into the same policy framework as BR Commuter Services and to improve co-operation between the two operations.

- It wishes to reduce the shabbiness of the system by redirection of resources towards cost saving investment.

- It wishes to ensure fully professional management at all levels.

- It wishes to encourage greater competition in the provision of transport services in London by creating smaller and more accountable units; by contracting out by LRT of more work to the private sector, where the private sector can do it more effectively, and by divesting the public sector of unnecessary roles.

B. The Need for Change

1. Political Interference

The above objectives cannot be achieved while London's transport is subject to the irresponsible political whim of County Hall. London Transport has become a political battleground. For example,

i) The 'Fares Fair' experiment was ill conceived. It led to a (successful) Court challenge, and left London's ratepayers and travellers paying more for transport.

ii) The Labour GLC raised LT wages in 1981 above the original proposal of 8 per cent to 11 per cent when the bus drivers had already accepted 8 per cent.

iii) They made LT in 1981 increase the number of LT staff by over 500 people.

iv) More recently, the GLC has packed the LT Board with its own nominees in an attempt to prevent the professional members of the LT Board pushing ahead with sensible cost savings. The most recent nominees were:

> Arthur Latham - Chairman of the London Labour Party, member of Tribune Group - supports Left-wing causes including the Soviet-backed regime in Afghanistan;
>
> Merle Amory - 25 year old Left-wing secretary and member of Brent Council - supported Ken Livingstone's campaign to be nominated Parliamentary candidate for Brent East.

v) In November the GLC staff committee decided that Nick Lester, Chairman of the London Transport Passenger Committee - the consumer watchdog for LT should not give up that post on becoming an officer of the GLC. Conservative GLC members attacked the decision as the Chairman of the LTPC should be independent of public transport and the GLC. Plainly Mr Lester will no longer be so.

vi) Under the Transport Act 1983, LT produced a 3 year plan for the 3 year period beginning in 1984-5. This contained proposals for sensible cost savings including:

- fares to be kept constant in real terms;
- bus mileage to be reduced slightly, tailored to demand;
- Underground mileage to remain constant;
- Costs to be reduced by over 9 per cent over the period of the plan by means of a 2 per cent reduction in unit costs and the reduction in bus mileage already referred to;
- increased marketing and promotion of LT's services;
- reduced level of revenue support.

The GLC have proposed to modify the Executive's plan in a number of ways - by:

- increasing the levels of bus and underground mileage above the level necessary to meet demand;
- deferring the extension of one person operation until a 'searching' independent appraisal of its advantages and disadvantages has been carried out;
- increasing the level of revenue support.

2. The measures in the Bill provide the only way to bring BR Commuter Services and LT services under common policy and financial direction. Without it, co-ordination of services and co-operation between them was difficult. The Secretary of State for Transport will be establishing liaison arrangements to ensure that better co-operation takes place.

3. While political interference has been far reaching, inadequate pressure to control the costs of LT has led to:

- real unit costs rising by 67.1 per cent (bus) and 47.8 per cent (underground) since 1970;
- high fares - up by 85 per cent in real terms between 1970 and 1982;
- Subsidy up thirteenfold in real terms from £6.5 million in 1970 to £369.8 million in 1982.

The GLC has pretended that the argument is about the balance between fares and subsidy. But this has been allowed to obscure the real problem - the increase in the total cost of public transport in London - a cost which has to be paid for by somebody.

4. Public transport is, as the Select Committee on Transport said

'a matter of national, as well as local importance'.

It is therefore entirely appropriate that the Secretary of State should assume responsibility for policy and finance.

C. The Bill's Provisions

General Description. The Bill transfers control of the London Transport Executive from the GLC to the Secretary of State, and renames it London Regional Transport. There will be central Government funding of LRT with a contribution to the Exchequer from London's ratepayers. The Bill requires subsidiaries to be established for the bus and underground undertakings, and includes plans for the involvement of private capital in these and in other subsidiaries of LRT, and for the disposal of parts of LRT's operations. The Bill also makes provision for other bus operators to operate either under agreements with LRT or indepe dently of LRT under Road Service Licences from the Traffic Commissioners. A single new consumer body is to be established for LRT and for British Railways Board services in and around Greater London. There are reserve powers under which LRT would assume responsibility for financial support of BR Board services in the London Region.

Themes of the Bill

i) New Organisation and Structure

LRT will be formed in two main stages. The first stage involves a transfer of the existing body, LTE from the control of the GLC to the Secretary of State for Transport. The main change will be to the constitution of the body LTR which will be subject to the normal policy and financial controls appropriate to nationalised industries. The Board will be appointed by the Secretary of State. At the second stage, LRT will form two subsidiaries under the Companies Acts which will become the operating companies for the bus and underground services respectively.

It is likely that the main board will comprise people with general management and financial qualifications with separate membership from the Boards of the subsidiaries. The main subsidiaries will be able to form sub-subsidiary companies in the normal way under the Companies Acts. LRT itself will be able to form further subsidiary companies for the runnings of its ancillary operations. These will provide services on a competitive basis to the operating companies of LT.

ii) Competition and Privatisation

The Bill encourages competition and privatisation in several ways.

- It encourages LRT to contract out services where it makes economic sense to do so.

- It allows LRT to make arrangements with other operators for the provision of services under agreed terms and conditions.

- It provides a power for LRT to dispose of parts of their operations to the private sector, or to arrange for the participation of private capital in their own services or in joint ventures.

- The independent operators who do not wish to operate services under agreement with LRT will be able to apply for a licence from the Metropolitan Traffic Commissioners.

- LRT will be able to provide facilities - such as bus garages and car parks for the use of private bus and coach operators.

iii) New Ratepayer/taxpayer Contribution

The Bill removes the new LRT from the Local Government grant system altogether. Instead a simplified mechanism is proposed.

- The Secretary of State is empowered to make grants to LRT with the consent of the Treasury.

- He is empowered to collect, by means of a levy on the London Boroughs, a contribution from Greater London Ratepayers towards his expenditure in grants to LRT. The amount to be raised should not exceed two-thirds of the estimated expenditure on grants. The amount to be raised will be specified in an annual order, subject to negative resolution. This order will set out the factors taken into account and the method of calculation used. The proportion of ratepayer contribution may be altered by order, subject to an affirmative resolution. This recognises the 'national' importance of London's public transport system. It will be good news for ratepayers because the proportion of the total grant to LRT they will pay will be lower than it is at present (80 per cent); because it is expected that the total subsidy to LRT will be reduced; and because it still gives ratepayers an incentive to look for better value for money from London's public transport system.

iv) Consumer Representation

A single new consumer body will be set up, combining the present TUCC for London (the watchdog for BR's London services) and the London Transport Passengers' Committee (LTPC) (the watchdog for LT). The new body will be called the London Regional Passengers' Committee (LRPC). It will be appointed by the Secretary of State and will have a duty to consider and make recommendations on matters affecting the service and facilities provided by LRT, by operators under agreement with LRT and by British Rail.

This proposal reflects the Government's objective of ensuring that BR and LRT work more closely together. It will mean less confusion to passengers who will be able to focus their views on London's transport services on one body instead of two. It will remove the anomaly of the TUCC for London dealing with LT rail closures while the LTPC deals with other LT issues.

v) LT/BR Liaison

London Regional Transport and the BR Board will have a duty to co-operate with one another in the exercise and performance of their respective functions, to co-ordinate the passenger transport services provided by these companies on their subsidiaries. The new arrangements will provide scope for closer co-operation because:

- they will be subject to the same political control and policy framework. The present different financial and policy frameworks has proved a major obstacle to progress, as both Chairmen have publicly acknowledged.

- The Secretary of State will be setting up new liaison arrangements between the two operators and will give his personal authority to this work.

- The new consumer body will be able to identify needs in this area.

It is hoped that closer co-operation will mean that resources are allocated in the best interests of London as a whole, and that wasteful duplication is removed. Possible early initiatives might include:

- Improvements at major BR/LT interchange stations;
- rationalisation of services;
- Joint use of facilities for eg. rolling stock storage and maintenance;
- Better fares structure;
- Common ticket offices and ticket inspection at interchanges;
- Joint publicity and marketing initiatives;
- Joint purchasing initiatives.

vi) Reserve Powers

If the voluntary arrangements do not work well, powers exists in the Bill to extend the remit of LRT to cover BR's London Commuter Services. The reserve powers would be introduced by order for a maximum of 8 years.

- LRT would assume responsibility for the strategic oversight of all public transport serving London.

- LRT would assume responsibility for setting the PSO for BR's London and South East Services.

- LRT would allocate subsidy amongst its own subsidiaries and BR services.

D. Questions and Answers

Q. LT no longer accountable to Londoners?

A. LRT will be accountable to Parliament through the Secretary of State for Transport. London's public transport is a vast system of national importance it is right that it should be nationally accountable. The Government will be improving the machinery through which Londoners can express their views. The new consumer body will cover both LRT and BR Services. LRT will have a duty to prepare a strategy statement setting out in general terms the policies they intend to follow with a view to the discharge of their general duty. They will have to consult in preparing the statement, with BR, the London Boroughs and the new LRPC. This will provide Londoners with more information about the service. The first statement will be prepared within one year of the establishment of LRT.

Q. Is it wrong for Government to levy a rate precept on London's ratepayers?

A. Ratepayers elsewhere pay towards the cost of their public transport. It would be unfair if London's ratepayers paid nothing at all. The new financial arrangements provide for the national taxpayer to pay one third of the grant to LRT to reflect the national importance of London's public transport. This is a higher proportion than the taxpayer contributes at present. Ratepayers will benefit from reducing levels of subsidy overall. Another point to make is that it is important that Londoners should have an incentive to seek better value for money and better efficiency. They would not have such an incentive if the taxpayer paid the whole subsidy.

Q. Why are concessionary fares not included in the Bill?

A. The establishment of LRT need make no difference to pensioners. The GLC will continue to pay for concessionary fares for the next two years. After that, the Government has made it clear that it intends to transfer responsibility for concessionary fares to the London Boroughs. The LBA has agreed in principle that the Boroughs should assume responsibility and they will be working towards a scheme over the next 2 years (see attached press release).

Q. Will fares rise and services be cut under this legislation?

A. There is no reason why the establishment of LRT should lead to massive fare increases. No one wants to see massive fare increases at any time, but obviously someone has to pay the bill if costs are unnecessarily high. It is plainly the case that there is considerable scope for cost savings on LT so that subsidy could be reduced substantially without massive fare increases. When the Government assumes responsibility, LRT will work towards these savings. At present the GLC are imposing extra costs on LT. On services, we have to recognise that patronage on bus services in particular has been declining on many routes. A failure to tailor services to meet demand means higher costs. It is ridicuous - as the GLC do - to focus attention solely on the number of miles operated. What matters is reliability. LT are making some progress here. We shall expect LRT to continue it.

Q. Won't competition lead to the creaming off of good routes and damage integration?

A. No. Where LRT contracts with other operators to run services, they will be able to direct subsidy as they wish and slot the new service into the rest of the network. Where an outside operator applies to the Traffic Commissioner for a Road Service Licence, the Traffic Commissioners have to be satisfied that the benefits to the public of a new service outweigh the disbenefits that might arise from a reduction in cross subsidy to other operators. LRT will encourage co-ordination with these services, which may run anyway on routes where there is no need for services to be co-ordinated with other bus services.

Q. Why not a larger strategic authority covering BR's services as well?

A. We believe that we should try in the first instance to achieve better co-operation between LRT and BR through voluntary means. In the past, it has been difficult for them to co-operate as they have been subject to different political disciplines. If the voluntary arrangements do not work well in practice, then reserve powers exist to extend LRT's responsibilities to cover BR as well.

/Press Release attached

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JM/CR

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MRS LYNDA CHALKER MP

Release Time: 20.00 hours/MONDAY, 28th November 1983 813/83

Extract from a speech by Mrs Lynda Chalker MP (Wallasey), Parliamentary Under Secretary of State for Transport, speaking in London to a meeting of Richmond and Barnes Conservative Association, at the White Hart Hotel, Mortlake, on 28th November 1983

Speaking to Richmond Conservatives, Mrs Lynda Chalker, Parliamentary Under Secretary of State for Transport, assured London's pensioners that "there is no intention to deprive pensioners of travel concessions when this GLC is abolished."

"Concessionary fares for the elderly in London are of vital importance. There are one million pensioners involved. Their anxiety has been irresponsibly stirred up by the GLC in a campaign carefully designed to obscure the real issues about London. Pensioners in London have been frightened, but they need have no fear of the Government. It is the GLC with their massive rate borne subsidies, who are the bad news for Londoners.

"Concessionary fares have rightly been regarded by successive Governments as part of the local government package of services for the elderly. We agree, just as the last Labour Government argued that "local discretion to take account of local conditions and priorities is valuable and must be retained". When the GLC is abolished in 1986, the London boroughs will assume responsibility for concessionary fares. The London Boroughs Association agreed in October: "the Association considers that on the setting up of LRT, the Boroughs should assume responsibility for concessionary fares." The real issue is not whether there will be a concessionary fares scheme, but the type of concessionary fares scheme that the boroughs choose to operate in two years' time. The LBA has agreed in principle to work out further details of the scheme and to put forward proposals. This is not something which can be done quickly, but the London boroughs have two years in which to devise a workable scheme.

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"Certain London boroughs have refused to discuss the issue. Brent, Greenwich, Hackney, Islington, Lambeth, Lewisham and Southwark have refused to discuss the creation of the scheme for concessionary fares, because they are running a political campaign against the abolition of the GLC, paid for with ratepayers' money. The rest of the boroughs are beginning the discussion of what is involved in such a scheme.

"There is no intention to deprive pensioners of travel concessions when the GLC is abolished. It is ridiculous to assume that no scheme can be prepared. I have to conclude that GLC does not wish a scheme to be prepared, for they are busy backing those Labour boroughs who refuse to work on the scheme which can help over 250,000 pensioners in these boroughs.

"I have three simple messages for Londoners:

First, don't listen to scare stories.

Second, don't let the Labour GLC fool you that the new arrangements to get a better deal for London travellers with LRT is in any way tied up with the concessionary fares issue; it is not.

Third, just ask yourself about the motives of GLC politicians, aided and abetted by the Labour Party. These are people deliberately working on fears of pensioners as an instrument in their campaign to keep themselves in office. That's not London Government, that's political manipulation.

"Finally, let the boroughs have the time to resolve the many intricate aspects of this Local Government changeover without the interference of the GLC.

That is what is needed, and that is what this Government is determined to achieve."

END

/9 Appendix

APPENDIX - DEVELOPMENTS SINCE THE BILL'S PUBLICATION

A. The Labour Party is increasingly appearing to act as an outrider for the GLC Labour Group in its opposition to the creation of London Regional Transport.

At the press conference convened by the GLC, John Prescott, MP, Labour's front bench spokesman in the Commons on Transport spoke third after Ken Livingstone and Dave Wetzel.

Mr Livingstone reiterated the grounds of the GLC Labour Group's opposition to the Bill, claiming it would lead to higher fares, reduced services and removal of pensioners' concessionary fares - answered above in this brief.

B. The GLC is running a campaign including advertisements under the slogan 'Kill the Bill' at the ratepayers' cost to protect the present inefficient and expensive arrangements. These advertisements feature not only London Transport vehicles (Come in No:9, your time is up), but also use the London Transport symbol. The Chairman of London Transport, Dr Keith Bright, has said firmly that the issue is one for politicians to decide and not his Executive. London Transport has told the GLC that it is in no way associated with the campaign and should cease to use its logo.