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MR TURNBULL

cc Mr Redwood
Mr Letwin

LONDON REGIONAL TRANSPORT - CONCESSIONARY FARES

I am minuting you purely for your own information in connection with Nicholas Ridley's letter (dated simply 'March') to Peter Rees. The question of concessionary fares and LRT will occur again, possibly quite soon.

It is unfortunate, but unavoidable, that Mr Ridley has to take a position on concessionary fares in London ahead of conclusions from the wider review of bus policy which is now in process. We recognise, of course, that the issue is politically very sensitive.

Nevertheless, we suggest that any commitments Mr Ridley makes:

(a) should be confined to LRT;

(b) should be made subject to review after, say, two years of operation;

(c) should not prevent the Boroughs from charging beneficiaries enough to cover all administrative costs and (if the Authorities so wish) some of the substantive costs as well.

If we make open-ended commitments in London and allow it to be understood that some sort of read-across will apply to the Mets and Shires we shall seriously curtail the scope for bus subsidy reduction elsewhere in the UK.

The wider review of bus policy mentioned above is concentrating on deregulation, competition and the impact of both on subsidy. Concessionary fares are quite a large part of bus subsidy - some £200m in 1983/84 against general revenue support of £500m. Because of the peculiar way in which concessionary fare benefits are provided, subsidy to them inevitably leaks into general subsidy. The custom of

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every local authority in the country is to pay concessionary fare subsidy to bus operators, not to bus passengers. This is akin to subsidising greengrocers so that they can provide concessionary sprouts to old age pensioners. What we shall try to do in the bus policy review is to see if acceptable means can be found of moving subsidy across to the users. If such a means can be found, it might have to await the abolition of the Mets, but at that stage we might wish to apply it to LRT.

R.Y.

ROBERT YOUNG

Policy Unit
16 March 1984

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London Transport

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cc NO

SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
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BF with Treasury response
(Treasury responded by phone direct to DoT)
DoT table 3 new clauses - see CRD document letter on file
AT 17/4

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

March 1984

Dear Peter

CONCESSIONARY FARES

Having decided that the right thing to do was to include provision in the LRT Bill for a uniform concessionary fare scheme in the event of boroughs failing to agree, we need to agree before the new Clauses are taken in Committee how I am to deal with some points that will undoubtedly be pressed. I am having a meeting with our backbenchers on Thursday evening and they too will want to know about our thinking.

I see three points being pressed particularly hard. They are:

a. what level of charge would be regarded as acceptable?

b. how are the financial consequences of an imposed uniform scheme to be recognised in the block grant?

c. will concessions applying to BR be eligible?

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Officials have prepared a factual note* setting out some of the arithmetic and discussing what is possible in relation to the boroughs. I intend to be drawn as little as possible on the question of charges, on the basis that this is for the boroughs to decide. Although we will be inviting a continuing hostile campaign, I intend to try and get away with not mentioning any figure, which could only be a hostage to fortune.

On grant implications for local authorities, I think we need to clear up quickly whether we shall consider sympathetically disregards against targets, or not.

On the question of concessions on BR, we shall be heavily pressed on whether the scheme will have the present GLC concession allowing holders of OAP passes to get half price travel on BR services in London, which indeed the GLC want to make into a free scheme. The line I intend to take is that there is no need for a uniform scheme because the importance of BR services varies so widely between one part of London and another. But it should be open to boroughs to buy from BR additional travel for their local pass-holders and I propose to amend the Bill to allow this. I will do everything to impede the GLC's proposed extension of the present scheme, so that it will be for the boroughs to take the decisions.

Once we have agreed a line on the above we can deploy it not only in the further LRT Bill debates, but

*(attached)

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at the meeting the London Boroughs Association have sought with Patrick Jenkin and myself.

I am sending a copy of this letter to the Prime Minister and the Chief Whip because of the political sensitivity as well as of course to Patrick Jenkin. I now understand that you and I are to meet; with Patrick Jenkin, on Thursday morning to discuss this.

Yours ever
Nicholas

NICHOLAS RIDLEY

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CONCESSIONARY FARES POLICY - PUBLIC EXPENDITURE IMPLICATIONS

Introduction

1. Ministers have promised new clauses in the LRT Bill to provide for a reserve scheme on concessionary fares which may involve endorsing public expenditure above the present provision. This would be triggered only if Boroughs fail to agree on a standard scheme. The scheme will allow free travel off-peak on production of a permit. The full cost of each permit will be set by LRT. Boroughs will pay LRT the full cost but will be able individually to issue permits to eligible residents on terms and conditions including charges which will be subject to the Secretary of State's approval.

2. The ability to charge for permits which the new arrangements preserve means that the public expenditure cost would still be partly subject to local discretion because some Boroughs may decide to give the passes free, whereas others may propose a charge. The Secretary of State would not have the power to prescribe charges: his power will be limited to disallowing any proposed charge he considers excessive.

3. Despite the local discretion retained, the new system will inevitably place the Government under pressure to disclose what, in its judgement, constitutes a reasonable maximum charge. In particular pressure from the LBA for a prior indication of what the maximum will be - to facilitate their attempt to agree a voluntary scheme - is inevitable and would be very difficult to resist. This paper sets out the block grant and public expenditure implications in relation to existing provision, and the options for Ministers.

Existing PES provision

4. Concessionary fares outturn has been consistently above provision. It has never been eligible for TSG, and the only allocation between local authorities has been in GREs, the formula used being pro rata to numbers over 65. 1984/85 provision is £189m. The detailed figures in Annex 1 show substantial overspending in London and the Mets and spending below GREs in the Shires. The national provision has never been based on a specific view about the appropriate level of concession. It falls £60m short of financing a half-fare off-peak scheme.

The present GLC scheme

5. The GLC scheme, whose retention is so strongly supported politically, is an extremely generous one compared with the average Shire County scheme. It is free after 9.30am on LT buses and tubes (with GLC about to make it after 9.00am) and half fare on BR. In 1985/86 it is likely to cost £75m. The cost compares with a GRE of £32m.

The scheme under the new legislation

6. The reserve scheme proposed, since it is limited to off-peak only, and excludes BR, will reduce costs by £11m to £64m. But to bring the expenditure down to the GRE level and hence into line with the present public expenditure provision would require a uniform charge of about £40 per annum to pensioners for the permit or £55 per annum if Supplementary Benefit recipients were excluded. Charges at this level would avoid the problems with GREs, targets and rate-capping discussed below but it is unlikely that any Borough would propose such high charges. Take up would be so reduced that most pensioners would in effect, be thereby deprived of concessionary travel. Even if the Government considered so high a charge was consistent with the basis on which the clauses are being introduced to expose it would have little impact.

7. Problems could arise if Ministers set the maximum charge Boroughs may levy below the level necessary for expenditure to equal provision in GREs. The Boroughs could accuse the Government of inconsistency if they penalised authorities having prevented them from avoiding the penalties by raising charges. The Table below estimates the size of the gap between approved expenditure and provision based on Ministers approving maximum charges of

			Extra cost compared with GRE
£2 charge	with	no exemption	£30m
£10 "	"	Supplementary Benefit exemption	£24m
£10 "	"	no exemption	£22m
£20 "	"	Supplementary Benefit exemption	£17m
£20 "	"	no exemption	£14m
£40 "	"	Supplementary Benefit exemption	£7m

As decisions on levels of charges will thus impact only at the margin, Ministers will wish to consider what position is sustainable given the widespread public concern.

Implications for Public Expenditure

8. If Ministers have indicated a particular charge, the LBA will press for adjustment of GREs and targets and for an assurance that rate limitation will take it fully into account. Any adjustment for one or more of these will require additional public expenditure provision to accommodate it.

9. GREs. Annex 2 argues that there is no strong case for adjusting GREs for concessionary fares in the light of the new provisions in the LRT Bill. Retaining GREs at the present level will simply mean that the London Boroughs will have to levy an appropriate rate to cover the relatively generous concessionary fares scheme in the capital. In any case, GREs could be adjusted in line with the expenditure involved, only by increasing PES provision to nearly six times the extra costs shown in Para 7 above. They would also give entirely the wrong signal to authorities outside London.

10. It will be very difficult to justify not adjusting targets to cater for the net cost of a scheme which the Government has in effect made mandatory on the London Boroughs. We expect that on abolition, the Secretary of State will have reasonable flexibility to set targets for successor authorities for 1986/87 having regard to those functions which they are inheriting from the GLC or the MCCs though this may have to be included in the abolition legislation. It would therefore be possible to set targets allowing for whatever level of net expenditure on concessionary fares Ministers were prepared to endorse.

11. However, to give assurances to the Boroughs now, or indeed during 1985/86 could have damaging implications for GLC's 1984/85 target and set a dangerous precedent for other transferred services. Furthermore, it would be extremely difficult to justify special treatment for London in 1986/87 which was not extended to the Metropolitan Areas. But special treatment of London with or without the Mets would undoubtedly create problems with the Shire Counties who would view this as an example of a reward for past overspending. The presentational problems would be compounded because the Metropolitan Areas and London will be favoured in targets through their past overspending on concessionary fares.

12. The alternative route of disregarding a proportion of concessionary fares in London poses similar difficulties, since, like targets, disregards must be framed by reference to principles applicable to all authorities. Furthermore, a suitable disregard would be difficult to define, and being more explicit than an adjustment to target methodology it would be the more difficult to restrict its application to London and the Metropolitan Districts.

13. As far as selective rate limitation is concerned no decisions have yet been taken on how the powers in the Rates Bill would be operated in 1985/86 much less 1986/87 and subsequent years. Selection will depend primarily on spending in relation to GREs. But authorities who are already high-spenders on that basis will not be substantially disadvantaged by the relatively small additional spending on concessionary fares. If post abolition targets allow for the cost of the mandatory scheme, expenditure at this level is unlikely in itself to push any authority into the selective scheme, or prevent it meeting its expenditure limit if it is selected. But it is difficult to see how Ministers can give any assurances at this stage without prejudicing their position viz-a-viz the GLC in 1985/86.

Implications for other services

14. Ministers will also want to consider the implications of any assurances about the treatment of conessionary fares expenditure on other services affected by abolition. Substantial pressures are already building up for special treatment of a number of GLC services, including support for the arts and grants to voluntary bodies. Assurances that provisions will be made to allow a generous concessionary fares scheme after abolition could be taken as evidence of a general willingness to endorse the continuation of the existing level of GLC spending.

Implications for the Metropolitan Areas

15. Whatever intermediate position is selected for London will have implications for the other 6 Metropolitan Areas. Existing schemes there vary somewhat but are free off-peak in 4 of the 6, with 1 having half-fare all day and 1 a flat 10p fare all day. Total expenditure at £104m (1984/85 budgets) is £60m above their total GREs (£44m). The treatment of concessionary fares post-abolition has yet to be decided. If they become the responsibility of the Metropolitan Districts similar target adjustments or disregards would have to be conceded as for the London Boroughs. If they become the responsibility of the new Joint Boards, the Secretary of State would not be able to approve precepts allowing significantly less generous schemes than that implied for London by the level of charges he approves for London Boroughs. Taking account of these implications for the Met Areas will treble the public expenditure cost of the options illustrated in the Table in Para 7. Because of the explicit nature of disregards, a disregard would almost certainly have to extend to the Shires as well.

Conclusion

16. The new clauses in the LRT Bill will probably be put down on 16 March and be considered by Committee during the following week. Members can be expected to be briefed by the LBA and individual London Boroughs to press for GRE, target and rate-capping guarantees to cover expenditure on a reserve scheme. The LBA are also expected to renew their request for the Secretaries of State for the Environment and Transport to receive a deputation seeking such assurances.

Ministers may therefore wish to decide:-

i. the maximum realistic charge that would not contradict the purpose of the reserve scheme and would be politically sustainable

ii. whether to assure the London Boroughs that sympathetic consideration will be given to adjusting targets or to agreeing disregards (but not adjusting GREs) for additional expenditure necessarily incurred on the reserve scheme up to the level decided on (i) above.

iii. whether to extend such action to cover the Metropolitan Counties.

iv. to take account of the public expenditure implications of decisions on (i),(ii) and (iii) above in determining local authority current expenditure for 1986/87 and subsequent years and the scope for offsetting savings.

ANNEX 1

CONCESSIONARY FARES EXPENDITURE

£m	PE Provision	Outturn
1981/82	139	156
1982/83	163	202
		Budget
1983/84	173	212
1984/85	189	235*

*rough estimate

£m 1983/84 EXPENDITURE COMPARED WITH GREs

Area	GRE	LA Budgets
LONDON	28.2	61*
MET COUNTY	39.7	94
SHIRE COUNTY	105.1	57

*subsequently revised to £65m

Annex 2.

IMPLICATIONS FOR GRE's

GRE's

On abolition the boroughs will receive GRE for concessionary fares for the elderly in place of the GLC. On the present basis of GRE (an equal amount for each person aged 65 or over) London's overall assessment will continue to be equivalent to about half the cost of the present GLC scheme. It would be possible to increase London's GRE to a certain extent within the national total by adopting one of the GRE formulae suggested by the AMA in recent years (e.g. allocating the total in proportion to elderly people on Supplementary Benefits). But none of the options tested so far is likely to increase London's GRE by significantly more than £3m (10%). Nevertheless if the cost of the mandatory scheme, net of the maximum level of charges the Secretary of State is repared to endorse, is substantially higher than GRE, Ministers will certainly come under pressure to increase the GRE.

GRE's have by law to be calculated on principles applicable to all authorities who share a particular function. London's GRE cannot therefore be set independently of those of authorities elsewhere, notwithstanding the different statutory framework created by the LRT Bill. All GRE's could be doubled by doubling the present GRE control total (about £175m in 1983/84). But that would involve a very high PES cost, and would give entirely the wrong signal on concessionary fares expenditure to authorities outside London. It seems very unlikely therefore that an acceptable way can be found to increase London's GRE to anything close to the cost of the existing concessionary fares scheme.

This need not put Ministers in an untenable position. The aim
of GRE's is to measure the cost
of a typical or average level of service as a basis for the block grant system. In the case of a highly discretionary service like concessionary fares, it is inevitable that authorities who provide a relatively generous scheme will spend above GRE, while

those who choose a much more restricted scheme (or have no scheme at all) will spend well below GRE. The equalisation mechanisms of block grant will ensure that authorities in the first group have to levy a somewhat higher than average rate poundage to fund their expenditure, and those in the second class a lower poundage. In London's case, if the cost of the mandatory scheme is well above average, it is appropriate that London ratepayers should face a somewhat higher poundage, on a par with what ratepayers elsewhere would have to pay for a scheme of equal generosity. This does not in itself imply "penalties" for overspending: they would arise only if the boroughs were set targets which did not allow for the cost of the mandatory scheme.

AI No further action needed

We seem to be having some problems with the attached.

You are awaiting the CST's response to Mr. Ridley's Concessionary Fares paper. CST's office seem reluctant to give us any idea of when, or even if, CST will be writing.

Is there any urgency on this? If so should we, or can you, have a word with John Grieve.

[initials]
17/4

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LONDON REGIONAL TRANSPORT BILL
CONCESSIONARY FARES

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Enquiries on this brief to:
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LONDON REGIONAL TRANSPORT BILL AND CONCESSIONARY FARES IN LONDON

1. Provisions for a Voluntary Scheme

As envisaged in the White Paper on Public Transport in London, the London Regional Transport Bill (clause 48) provides all the powers needed by London's local authorities to organise, on a voluntary basis, travel concession arrangements. It empowers the GLC to continue its existing scheme for old age pensioners and the boroughs to continue their joint scheme for disabled and blind people. It enables the boroughs to continue to provide a joint scheme for all three categories of eligible persons when they take over responsibility from the GLC.

The GLC and the boroughs are already allowed to arrange with LT for the provision of concessionary travel arrangements. They can also provide concessionary travel on BR but that has to be arranged through LT. Clause 48. goes further and allows the GLC and the boroughs to arrange directly with BR for the provision of travel concessions on BR services. Another addition is that the local authorities will be able to arrange concessionary travel on services provided by independent operators.

The Conservative dominated London Boroughs Association agreed in October 1983 in principle to a voluntary scheme.

2. The Free Travel Scheme

It remains the Government's view, a view shared by the last Labour Government - that it is for the local authorities to take decisions about concessionary fare schemes and to be responsible for funding them.

The Government believes that local authorities will agree a voluntary scheme readily and freely. But this should not be expected for some time. First, the London boroughs cannot possibly know now what the situation will be in two years' time when they will have to resume responsibility for concessionary fares. Second, Labour boroughs in the Association of London Boroughs have not been prepared to enter into the discussions that have been taking place with the other authorities in the London Boroughs Association.

In these circumstances, the Government decided to put the matter beyond all doubt and propose an ultimate safeguard for pensioners in London. The new clauses will have the effect of imposing a uniform scheme throughout London if the London boroughs cannot agree. This assurance will lay to rest the fears that have been aroused by the GLC's scaremongering allegations that old people will lose their concessionary travel passes.

3. The New Clauses

The new provisions will place on LRT - if no uniform voluntary scheme is provided - the duty to provide a travel concession scheme for pensioners, disabled and blind people in London. The scheme will allow permit holders free travel on LRT services at all times at weekends and Bank Holidays and at off-peak times on weekdays (that is between 9.30 am and 4.30 pm and after 6.30 pm until 1.00 am on the following morning). It will apply to travel on both bus and Underground services and any services provided by private operators under agreements with LRT.

The blind will have free travel at any time on all services.

There are 3 New Clauses. The first (clause 2) establishes the details of the free travel scheme. It places a duty on LRT to provide the scheme if by the beginning of any year it appears to them that a uniform voluntary scheme will not be in place throughout the following financial year. This clause establishes the nature of the statutory scheme by specifying the categories of people to whom it is to apply, the services on which the concessions are to be available, the nature of the concession and the times at which it is to be available to those eligible for it.

The second New Clause (New clause 3) provides for various administrative procedures governing the free travel scheme. It establishes the way in which LRT are to make permits available to the London borough councils and the basis on which LRT will charge for them. It specifies how and when the issuing authorities are to pay LRT for permits which they issue and provides a method by which they will account to LRT for the use of the permits supplied to them.

The third New Clause (New clause 4) lays down the circumstances which will have to be satisfied in order to bring the new statutory scheme into effect. The purpose of this third clause is to specify exactly what is meant by "uniform". The voluntary scheme must provide the same benefits to all those eligible in London within the same category of persons, and must apply the same conditions as to periods of validity.

4. Are the Concessions Less Generous than at Present?

This is the first time any Government has written into statute a comprehensive scheme guaranteeing concessions for London's pensioners. At present there is no statutory scheme whatsoever. The GLC argue that the statutory scheme should be identical to the current voluntary arrangements. Yet it is totally unreasonable to place a statutory burden on local authorities which will compel them for all time to finance the most expensive possible scheme, in the face of all the other calls on them for finance. Individual boroughs can continue to exercise their judgement by providing additional facilities under clause 48, even if the statutory scheme comes into being.

5. Charges

Under existing legislation, all local authorities have power to impose terms, limitations or conditions (which of course includes charges for permits) as they think fit in offering travel concessions. The Government would not want the operation of the reserve scheme, if brought into effect, to be frustrated by boroughs making exorbitant charges. So, as a further safeguard to pensioners and disabled people, the New Clauses include unique powers to make the imposition of any terms, limitations or conditions subject to the Secretary of State's approval.

JM/PAC
32 Smith Square,
London SW1

29th March 1984

Conservative Research Department