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PRIME MINISTER (1)

FINANCIAL OBJECTIVES FOR LONDON REGIONAL TRANSPORT

Bob Young suggests:

(i) separate targets for the subsidies for buses and underground;

(ii) More ambitious cost savings. Lord Cockfield believes that the 2½% reduction in unit costs should be in cash terms ie 6-7% in real terms. Bob Young thinks even more can be achieved which should

(iii) allow the subsidy savings to be achieved with smaller fare increases than the 12-15% suggested by Mr. Ridley.

(iv) More emphasis on competition by allowing fares for buses and the tube to reflect their different cost structures and less emphasis, under the guise of cooperation, on equalisation and cross subsidy. (There is nothing wrong, however, in coordination in the sense of better linking of the various services.)

(v) Severence costs to be accounted for separately and not recovered through fares, as proposed.

Agree these suggestions be put to Department of Transport?

Yes put

AT

26 June 1984

VSCADL

25 June 1984

MR TURNBULL

c Mr Redwood

FINANCIAL OBJECTIVES FOR LONDON REGIONAL TRANSPORT

We strongly support Mr Ridley's intention to set and publish objectives for LRT. But his proposals could be better defined. We suggest the Prime Minister might voice the following questions and observations:

1. Is it right to set an overall subsidy target for LRT?

   The creation of LRT provides for the creation of separate bus and underground subsidiaries - wisely so, since the two do not perform equally well or badly. For instance, in 1982, London Transport buses soaked up five times more subsidy than the underground, and still produced a deficit twice as large. The overall target of £95 million looks commendably tough, but it might be capable of further improvement.

2. Should there be less emphasis on co-operation between transport modes and more on competition?

   Outside London, Mr Ridley is going hard after competition between bus undertakings, and between bus and rail. Within London, travellers have the underground as a third choice. The last thing we want is a bus-rail-tube fares cartel masquerading as co-ordination.

3. Would competition overcome the threatened rise of 12-15 per cent in fares? We regard a rise of that magnitude as politically unwise, and probably unnecessary. There must surely be scope for differentiation in fare increases?

4. What does a 2.5 per cent per annum fall in unit costs actually mean?

Lord Cockfield's observations are entirely relevant. We hope Mr Ridley means a 2.5 per cent fall in cash terms, which is equivalent to around 6-7 per cent per annum in real terms. The scope for staff reduction at London Transport seems to us way beyond the 8,000 forecast. From LT's 1982 accounts, we calculate that the bus operation could shed 5,000 staff, and the underground 4,000 <u>now</u> just to get back to 1978 levels of productivity. Investment in more automation is one way of lowering unit costs - but what about competition?

5. If there is a case for treating severance costs separately (and we think there is) do they have to be so high?

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£20 million per annum for 3 years equates to an average of £7,500 per person for the 8,000 job losses forecast. This is nearly twice the going rate for (say) private sector manufacturing.

6. We think that paragraph 2 of Mr Ridley's draft objectives for Keith Bright "Tasks for London Regional Transport" should be improved. By their place in the text, these are prominent points. We see the main task not so much as the improvement of services - we have buses and tubes in profusion already - but as a better matching of supply to demand. We suggest replacing the first two tasks with:

"- to match the supply of bus and underground services in London to demand at acceptable levels of quantity, quality and value for money;

- to reduce costs and the call upon funds from taxpayers and ratepayers".

Paragraph 6 of the draft objectives will of course need completely rewriting if the Prime Minister and Mr Ridley agree with the points above.

R.Y.

ROBERT YOUNG

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FILE (RAMABK) R M

E(NI) HMT DTI D. Energy
DOE (D.Trans) D.Emp
SO Chief Sec CO
CDL

10 DOWNING STREET

B/c: Mr. Young

From the Private Secretary

28 June, 1984

FINANCIAL OBJECTIVES FOR LONDON REGIONAL TRANSPORT

The Prime Minister has seen your Secretary of State's letter of 19 June to the Chancellor of the Exchequer and the draft letter to the Chairman of London Regional Transport which was attached. She was broadly content with the proposals but has asked for the following points to be considered.

BF

First, is there merit in setting subsidy targets for buses and underground separately; this would be consistent with the intention to establish separate bus and underground subsidies and would enable costs, revenues and deficits to be identified more clearly.

Secondly, she wonders whether the cost reduction target is sufficiently ambitious given the known inefficiency that LRT has inherited. Faster reduction in costs would allow the subsidy savings to be achieved with smaller fare increases than the 12 - 15% suggested. She agrees with Lord Cockfield that the reduction in unit costs should be specified in terms of cash.

Thirdly, she wonders whether there should be more emphasis on competition between buses and underground by allowing fares to reflect their different cost structures and less emphasis, under the guise of co-operation, on equalisation and cross-subsidy. There is no objection, however to co-operation in the sense of better linking of the various services.

Finally she has noted that £20 million for three years for redundancy payments works out at about £7,500 for each of the eight thousand jobs lost. This is about twice the going rate in private sector manufacturing.

I am sending a copy of this letter to the Private Secretaries to the members of E(NI) and to Richard Hatfield (Cabinet Office).

(A. Turnbull)

Miss D. Nichols,
Department of Transport

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Cc NO

NBPM
AT
5/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

4 July 1984

Dear Nicholas

LONDON REGIONAL TRANSPORT: OBJECTIVES

Thank you for your letter of 19 June to Nigel Lawson; I understand that our officials have subsequently discussed the issues. I have also seen the Prime Minister's comments in Andrew Turnbull's letter of 28 June.

I too am generally content with the objectives which you are proposing for LRT; and in particular I believe that you are right to go for a tough target for revenue support. We need to give LRT management clear incentives to root out inefficiencies and, on this basis, I am prepared to accept the figure of £95 million as the target for revenue support for LRT as a whole in 1987-88.

I have more difficulty with your intention for LRT in the intervening years. You talk, for example, in your covering letter about LRT's investment not being artificially constrained. As Arthur Cockfield cogently pointed out in his minute of 12 June to the Prime Minister on BR East Coast Main Electrification, there are two aspects to every capital project "is it worthwhile?" and "can we afford it?". LRT cannot be exempted from the normal scrutiny of its investment projects and it would not be fair to other colleagues to pre-empt the IFR and the Public Expenditure Survey by earmarking funding for LRT. To the extent that LRT can find any extra worthwhile investment from increased efficiency and productivity, a much easier decision emerges.

I can however accept that LRT may need more than the existing PEL-related revenue support of £132 million planned for 1985-86 to meet transitional costs that might arise from redundancy payments. If you were able to persuade colleagues that up to an extra £20 million could be switched to LRT from local authorities spending within the White Paper Planning Totals I would have no objection, provided it were ring-fenced to

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be spent only on transitional costs. Clearly no more should be spent than is necessary.

Copies of this go to the Prime Minister, members of E(NI) & Sir Robert Armstrong.

Yours ever Peter

PETER REES

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/ecNO Transport: Lond Regional Transport

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NBPM

AS 21/6

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

20 June 1984

Dear Nicholas,

FINANCIAL OBJECTIVES FOR LONDON REGIONAL TRANSPORT

You copied to me your letter of 19 June to Nigel Lawson.

There is a risk of confusion or misunderstanding about what is meant by a "2½% a year reduction in unit costs".

Where costs increase a 2½% increase in cash is an increase of less than 2½% in real terms.

But where costs fall a 2½% reduction in cash is a reduction of more than 2½% in real terms.

What?

Presumably we mean 2½% reduction in cash. Possibly we should say so: otherwise people may draw the comfortable but wrong conclusion that we mean in real terms.

I am copying this letter to Nigel Lawson, the other members of E(NI) and Sir Robert Armstrong.

Yours,

Arthur

COCKFIELD

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1

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~~Local Govt relations~~

Transport: London Transport

21 JUN 1984

20 JUN 1984

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
LONDON

19 June 1984

Dear Nigel

FINANCIAL OBJECTIVES FOR LONDON REGIONAL TRANSPORT

I am writing to seek your agreement, and the agreement of colleagues, to setting medium-term objectives for London Regional Transport at the inception of the new organisation.

I want the target for revenue support to be as tough as we can realistically make it. This year the GLC will be paying revenue support of £190m. I propose a target of £95m for LRT for 1987/88. That will take us to the end of Dr Bright's current term of appointment. This would be consistent with my advice to Metropolitan Counties to plan to reduce bus revenue support to PES levels over the next 3 years.

I should not want to conceal from colleagues the difficulty of a target of this kind. Its achievement will depend crucially on a number of factors. First and foremost it relies on LRT delivering at least the 2½% a year reduction in unit costs which they believe to be achieveable by holding down wages and reducing total manpower by nearly 8,000, including 3,400 redundancies. This in turn depends on a programme of cost-saving investment which will involve, for example, extending single manning of buses and trains, automating ticket sales and restructuring the rail and bus engineering facilities.

It is crucial to the attainment of our objectives for revenue support that this investment should not be artificially constrained.

The path we take towards the objectives will determine the pattern of fare increases. This is the major political problem we face. Our earlier discussions assumed that revenue support for 1985-86 would be £132m, based on the 1984-85 PEL. To get revenue support down to this figure, fares would have to rise by at least 12-15%, even if we bring the timing forward to 1 January, 1985 in line with BR. The size of the fares increase would become public knowledge in the Autumn. It would be very damaging politically and would be strongly opposed by London members in Parliament, as was made very clear during the passage of the LRT Bill. It would also be far out of line with British Rail's intended 6% increase.

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We must recognise, as we did for British Rail, the problem of transitional costs. Severance payments will cost LRT in the region of £20m a year. These are not large sums in absolute terms. But they have a substantial impact on fare levels and I think it would be wrong to ask farepayers to bear the brunt of these short-term costs. If we can agree temporary additional funding of this order, Keith Bright might just be able to keep the 1 January fares increase within single figures.

I propose to set out our objectives for LRT in a letter to Keith Bright, just as I did for Bob Reid. I enclose a draft. I am also proposing to write to Keith Bright and Bob Reid jointly about London underground and surface rail services, developing our theme of better co-ordination of public transport in London. These letters would be made public.

To sum up, I seek your agreement and that of colleagues to setting objectives for LRT on the basis I have described, and in particular to the specific target I propose for revenue support and to special help towards the transitional costs of redundancy payments. I believe that, with that help, Keith Bright will accept the challenge to meet the £95m target for 1987/88.

I am copying this letter to the Prime Minister, to members of E(NI) and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

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DRAFT LETTER TO THE CHAIRMAN OF LONDON REGIONAL TRANSPORT

1. Enactment of the London Regional Transport Act starts a new stage in providing better and more efficient public transport for the capital city. The Act sets the framework of duties for you and your colleagues, and prescribes how you are to publish your plans and strategies and consult on them with local authorities and others. Close working with British Rail is specially important, and I am writing separately to you and to the Chairman of the British Railways Board about that.

<u>Tasks for London Regional Transport</u>

2. Building upon the White Paper "Transport in London", I see four initial tasks for the new organisation:

- to improve bus and underground services for London within the resources available and to make the service more attractive to the public;
- to reduce costs, including fraud, and the call on taypayers' and ratepayers' money and generally secure better value for the community;
- to involve the private sector in the provision of services where that is more efficient and to make better use of publicly owned assets, including the sale of public assets which are no longer required;
- to promote better management through smaller and more efficient units with clear goals and measureable objectives.

3. This letter sets out the objectives I want you to pursue.

Costs, Subsidy, Fares and Investment

4. I want you to submit for my approval within an investment allocation that will be agreed by the Government, a programme of investment to modernise the public transport systems, making them more attractive to passengers and more efficient. In addition to necessary renewal of the equipment, you will want to bring forward as rapidly as possible investments which will save costs, and a steady programme to improve facilities for passengers, including inter-changes between bus, rail and underground services, long distance coaches, taxis and private transport. I shall expect you to secure this investment at the best price through competition wherever possible.

5. To reduce the present excessive call on ratepayers and taxpayers, the burden of revenue support will have to be reduced. To achieve this, a proper priority for investment is vital. I look to you to make a reduction in unit costs of a minimum of two and a half percent per year for the next three years. The most effective use of labour, and keen purchasing in the market, will both be important.

6. The improvement in efficiency can make a large contribution to achieving your prime financial target, which will be to reduce the level of revenue support from ratepayers and taxpayers to £95m in cash in 1987/88. Given control of costs, this does not in any way imply a programme of large fare rises. After any initial increase to redress the balance I would expect you to maintain a broadly stable relationship between fares, prices

generally and the fares on the British Rail London Commuter services.

7. In the light of these objectives and your plans to achieve them the Government will decide each autumn the provision for your total of external finance for the coming fiscal year; and your investment allocation.

Organisation and Control

8. I look forward to receiving by the end of the year your proposals under the Act for establishing separate bus and underground subsidiaries, and separate companies for other parts of your organisation. These should provide for the clear identification of costs and performance and clear responsibility for them, and for the involvement of private capital where appropriate.

9. In the case of the bus subsidiary, the organisation will need to allow your Board to set clear objectives for devolving accountable management to smaller units, for reducing costs per bus mile, for improving the match between supply and demand so as to increase average bus loadings, and for carrying forward vigorously a plan to bring in other operators, both public and private, to compete for the provision of services.

Disabled People

10. The Act requires you to have regard to the needs of disabled people and to report annually on the steps you have taken to cater for them. I expect you to keep their requirements in mind in developing your equipment, and co-operate with those financing

special services for the more severely disabled. I hope that one member of your Board can provide a focal point for considering the needs of disabled people.

Conclusion

11. In your efforts to provide better value for money in public transport you will have the fullest support of the Government and I am sure of the travelling public and of ratepayers. You will be strengthened by advice from the new London Regional Passengers' Committee covering bus and rail services.