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Prime Minister ^① *CC JR*

✓BI
WR

Agree publication of
this White Paper on 5 Nov,
subject to Wleynnes' agreement?

PRIME MINISTER

Yes

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

MS 26/10

It will be important to set the Passenger Transport Bill to control subsidies in London and the Metropolitan Counties in a context that commands as widespread support as possible. I feel the best way of doing this would be through a White Paper on the same day as publication of the Bill - probably 5 November.

In this way, I can not only set the initial guidance figures in the context of what we are aiming to do, but set out our approach to public transport subsidies and establish ground on which to resist the main lines of attack which our opponents will undoubtedly launch. I expect these to be that the legislation is an assault on local democracy and that it is our aim to destroy local transport by removing all subsidies.

The White Paper will also provide an explanatory framework for the figures I am publishing as an indication of what are likely to be the levels I shall set as soon as the legislation enables me to do so. The advantage of making these available now is that there will be no excuse for authorities to fail to take them into account in their preparation of plans and budgets for next year. The relevant paragraphs (24 and 25) explain the relationship with other figures we are setting local authorities. Following MISC 21 today the schedule of figures, which is still provisional, is to be finally settled before the White Paper has to be sent to the printers at the end of this week.

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I hope you and colleagues will agree that the balance I have sought to strike in the White Paper is the most appropriate one, both to reassure our own supporters about our determination to see that the interests of ratepayers are properly taken into account and to ensure that better value is obtained from transport undertakings. The document will undoubtedly be scanned to see what we have to say about major reorganisation and allocation of transport responsibilities, particularly in the light of the Select Committee Report. Clearly we cannot anticipate the outcome of the work of MISC 79 and other bodies, but I think it is essential that we should end on a firm note that we are deeply dissatisfied with the present situation and, by implication, reinforce cautious tendencies among local authorities to have regard to our policies on subsidy expenditure. I therefore very much hope that there will be general agreement with the concluding paragraph I have included in the White Paper which is intended to show that we are moving forward with determination.

As time is so short, given the requirement for early introduction of the legislation, I should be most grateful if colleagues could let me know by Thursday if they have any revisions they would wish to suggest. Friday would be the deadline for getting to the printers.

I am copying this to other members of the Cabinet, the Chief Whip and to Sir Robert Armstrong.

JH.
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DAVID HOWELL
26 October 1982

FILE

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10 DOWNING STREET

CCHD SO CAZ da
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 HMT D/Ind ewo
 FLO KPO CO
 DES DHSS
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From the Private Secretary

28 October 1982

Dear Richard,

White Paper on Public Transport Subsidy in Cities

The Prime Minister was grateful for your Secretary of State's minute of 26 October to which was attached a draft White Paper on public transport subsidy in cities.

The Prime Minister has commented that the last sentence of the White Paper goes some way beyond agreed policy. Subject, therefore, to the deletion of the last clause in this sentence, and subject to the agreement of colleagues, the Prime Minister agrees to publication of this White Paper as proposed.

I am sending a copy of this letter to the Private Secretaries to the other members of the Cabinet, Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Richard Bird, Esq.,
Department of Transport.

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PROVISIONAL PROTECTED EXPENDITURE LEVELS FOR REVENUE GRANTS IN 1983/4 (£M CASH)

<u>COUNTY</u>	<u>PROVISIONAL PROTECTED EXPENDITURE LEVELS</u>	<u>COMPOSITION OF LEVELS</u>	
		BUS + OTHER	S20 GRANTS
Greater London Council - revenue support	125 ⁽²⁾	125 ⁽²⁾	-
depreciation and renewals	95 ⁽³⁾	95 ⁽³⁾	-
Greater Manchester Council	46 ⁽²⁾	28 ⁽²⁾	18 ⁽²⁾
Mersey	40	25½	14½
South Yorkshire	40	37	3
Tyne and Wear	18 ⁽⁴⁾	16½	1½
West Midlands	28 ⁽²⁾	22½ ⁽²⁾	5½ ⁽²⁾
West Yorkshire	44	35	9

Footnotes:-

- (1) Protected expenditure levels are the amounts of revenue grant which the Secretary of State thinks appropriate. Revenue grant is defined in the new Transport Bill and covers grants under Section 3(1)(a) of the Transport (London) Act 1969 and under Section 13 of the Transport Act 1968. Grants to reduce children's fares are included. The payment for concessions for the elderly and disabled is not affected by the Bill and the sums involved are not included in these totals.
- (2) These amounts are still under consideration by Ministers.
- (3) This sum reflects the different funding arrangements for London. [Note for Ministers: This £95m. scores in public expenditure terms under capital expenditure and is irrelevant to DOE targets.]
- (4) Assumes £7m. application of cash reserves to meet operating deficit.

DRAFT WHITE PAPER

PUBLIC TRANSPORT SUBSIDY IN CITIES

- Revise of 25th October 1982

1. Efficient transport is vital to the economic and social life of our great cities. London and the six Metropolitan Counties - Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire - house more than a third of the population of England. Millions of others work, shop or visit there.
2. Both private and public transport have major and essential roles to play. The car is for many the first choice. But the streets could not cope if everyone tried to travel by car and many people do not have the option of doing so. It is therefore of deep concern to all who live or work there that the systems for running and financing public transport operate smoothly and effectively.
3. This process has been threatened by recent uncertainties about the role and the legality of subsidy. That is why the Government is now bringing forward legislation to remove the uncertainties. A clear and consistent legal framework is needed for the payment of reasonable levels of subsidy. The legislation will also improve value for money by requiring Authorities to seek greater efficiency by reviewing and if necessary reforming management structures. It will develop further opportunities for the private sector to provide urban passenger transport, by requiring the Transport Executives to review which services and facilities should be put out to competitive tender so that they can be provided most economically.

THE ROLE OF PUBLIC TRANSPORT SUBSIDY

4. The provision of public transport, like other services, must reflect demand. The amount of travel by bus has been falling steadily for 30 years, averaging about 3½% a year. The principal cause is the seven-fold increase in private motoring in the same period. In many of our large cities journey patterns have changed as people and jobs have moved out of the centres. Public transport is labour-intensive and the cost has been rising sharply. Operators have therefore found it increasingly difficult to meet their costs through fare income and to provide reasonable service levels in the face of the combination of falling demand and rising costs. Appropriate adjustment cannot be

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achieved over night. The gap has been bridged by increasing levels of subsidy.

5. Far and away the lion's share of total subsidy to public transport in England is spent in the areas of the Greater London Council and the six Metropolitan Counties. Between them they are receiving some £300m - two-thirds - of the Transport Supplementary Grant (TSG) allocated by central government to support local transport in England. In addition around £250m - approaching 30% of the Government's annual grant to the whole of the railway system - goes to commuter services in the London and the South East sector. These figures reflect the very considerable importance the Government attaches to maintaining effective local public transport.

6. Because transport subsidies are so large, can escalate so rapidly and sharp changes in their level are so disruptive it is important that decisions about them are taken on a well-informed basis, with the expenditure directed to clearly defined purposes. In the Government's view some of the recent and proposed big increases in the subsidy bill have not been justified. It is not acceptable for subsidies to be squandered on excessive costs, poorly tailored services or unnecessarily low fares. That would produce the worst form of runaway deficit financing, and would be neither in the best interests of local rate-payers nor in the national interest.

7. Subsidy needs to provide demonstrable benefits over and above the straight financial gain to those who use public transport. Rising costs are not in themselves a legitimate reason for rising subsidy. Indeed the willingness to pay subsidy can itself be a cause of rising cost, because it reduces the incentive for stringent control of costs. The need for subsidy has to be demonstrated. It should be paid only if its benefits are manifestly greater than the disbenefits of the extra taxes and rates needed to finance it. The Government's proposals will lay on London and the Metropolitan Authorities a requirement to describe and evaluate properly the benefits it regards as justifying any subsidy it proposes to pay.

8. Nor is keeping down the fares in itself a sufficient reason for subsidy; for it only transfers the cost of paying for services from users to taxpayers and ratepayers. General fare subsidies are not a sensible way of redistributing income from rich to poor - those who commute farthest on public transport are not usually the worst off.

There must be genuine transport benefits, such as the provision of specific services in areas or at times that could not support a viable public transport service; or the alleviation of road congestion through the attraction of drivers from their cars. Such benefits should, wherever possible, be specified, measured and assessed. The actual numbers who transfer from their cars to public transport because of low fares, for example need to be set against the expenditure involved. In evidence to the Select Committee in February the GLC recognised that their low fares policy was not expected to make more than a 1% difference to traffic levels, and this reflects experience elsewhere. In general, where subsidies are offered it should be demonstrated that the benefits so obtained are well worth the costs involved.

9. Those costs fall to a significant extent on local ratepayers. It is appropriate for local people to contribute through the rates to the cost of necessary subsidy to local transport. But any subsidy increases the total burden of rates and taxes, and excessive subsidies have required large sums from local ratepayers, many of whom benefit little from the services and may be poorer than those who do. Old people for example often travel cheaply, but high subsidies hurt them with high rate bills. High rates add to industrial and commercial costs and reduce the number of jobs. The whole issue of subsidies and the speed with which they can mount creates local tensions and uncertainties, which may then be reflected in political responses which can be damaging to the sensible long-term planning of transport undertakings. Such damage can be aggravated if hasty and indiscriminate subsidies induce higher costs.

10. Londoners have suffered special problems over the last year or so as a result of a political decision to plunge ahead with artificially low fares. Huge rises in subsidy were required when the GLC increased the costs of London Transport and rushed through hastily-considered major cuts in fares. The Courts, following the challenge by Bromley ratepayers, found that the GLC's supplementary rate to finance those fare cuts was unlawful. The GLC had failed to maintain a proper balance between the ratepayers, taxpayers and travellers. Fares were then increased by 100% in the Spring. These events caused large rate increases and damage and disruption to London Transport.

They also led to inconvenience and in some cases hardship to people who live and work in London. Ratepayers are still shouldering the £125m bill for the six months of the high-cost/low-fares policies which the GLC adopted. The uncertainty and damage was increased by the GLC's delays in approving London Transport's budget and investment proposals. Ratepayers' money was ^{instead} used to finance a publicity campaign to change the law so that the GLC might without risk of further challenge revert to the policies that had been found unlawful.

11. These actions have had consequences outside London as well. Following the events in London questions were inevitably raised about the legality of some of the policies being pursued by the Metropolitan Authorities and about the provision of subsidies under the Transport Act 1968, which is similar to the Transport (London) Act 1969 but with some important differences in wording. There were two actions in the High Court earlier this year and Authorities have had a variety of advice from leading Counsel on the lawfulness of their subsidies. Uncertainty about the legality of subsidy payments, both in London and in the Metropolitan Counties has been created which is damaging and the inadequate basis on which some subsidy decisions are being taken has been revealed. Now the GLC are considering a further regime of sharp fare cuts and rate increases, which could lead to fresh legal challenges and create further confusion and damage to London's transport.

12. The Government have therefore concluded that legislation is needed to remedy this and provide for a reasonable, stable and lawful subsidy regime.

THE PROPOSED LEGISLATION

13. Under the Passenger Transport Bill now being brought before Parliament, detailed planning and decisions about services, fares and subsidy will continue to rest with local authorities and their Transport Executives. But this will be within an overall framework that encourages coherent forward planning and efficient use of resources, taking account of all the competing claims and the need for the private sector to invest in growth. The Transport Executives and the GLC and Metropolitan Authorities will be required to set out annually on a common basis their proposals for fares, service levels and subsidy, leading to guidance by the Secretary of State for Transport on the

level of subsidy. It will put beyond doubt that subsidy payments up to the level indicated by the Secretary of State are to be a proper exercise of the power of the Authority. Councillors will be given a firm basis for lawful decisions. Should an Authority nevertheless decide for a higher level of subsidy, ratepayers will continue to have the right to challenge expenditure where they think it is unrea-
unreasonable.

14. The new legislation will provide that what is a reasonable and lawful level of subsidy will be determined on a common basis for London and the Metropolitan Counties. There is no justification for the present difference in financial duties. The level of subsidy decided by the Secretary of State will reflect the total national resources available, the benefits which the subsidy would provide and the current and past levels of subsidy in the area.

15. The Monopolies and Mergers Commission in their recent report on the bus industry have drawn attention to the desirability of comprehensive three-year rolling plans for bus undertakings. The Government believe that such plans will provide the right framework for transport provision and are building three-year planning into the legislation. Agreements between Transport Executives and the British Railways Board for the provision of rail services in the area of the Metropolitan Authorities (under Section 20 of the Transport Act 1968) already run for a three-year period. The Government also believe that London and the Metropolitan Counties must take their subsidy decisions on a properly informed basis. This is particularly important and urgent in these cities, where hundreds of millions of pounds of subsidy are involved and where the relationships between those providing services and those providing subsidies have become in many cases blurred.

16. The Transport Executives will be required to prepare three-year plans covering financial prospects, capital provision and the most effective options for balancing services and fares in relation to costs, revenues and travel needs. The Secretary of State will provide initial guidance each year about the factors to be taken into account. The aim will be to build on and develop the existing arrangements for preparing annual budgets and forward plans, so as to improve their value. Discussions will be held with Authorities and Executives about how this can best be achieved. Metropolitan Authorities and the GLC will consider these plans in the light of their own responsibilities and of

the resources available and seek adjustments they think desirable. In doing so they will need to balance the interests of ratepayers and transport users, to assess the costs and benefits of what is proposed and take account of advice given by the Secretary of State. The plan, together with any proposed modifications, will then be submitted by the Authority to the Secretary of State, no doubt in association with the annual Transport Policy and Programme, which is used as a basis for bids for Transport Supplementary Grant. The Secretary of State will issue as soon as possible thereafter his guidance about the amount of subsidy for the year ahead.

17. Payments by an Authority for concessionary fares for the elderly and disabled will not be included within these figures. Following the House of Lords decision in the Bromley case, the Government immediately introduced legislation in the Travel Concessions (London) Act 1982 to give the GLC the same powers as other Authorities to pay for travel concessions for the elderly and disabled. The new Bill will not affect the powers of the GLC and the Metropolitan County Councils to pay for such concessions.

18. Under this new system of planning and guidance figures it will be easier for subsidising authorities and for ratepayers to identify what benefits are being provided in return for the subsidy, and whether these benefits are being provided in a cost-effective way. The result should be better value for money from the subsidy. And it will be easier for the ratepayer to reach a view on whether the level of subsidy proposed in his area is reasonable and adequately takes account of those considerations and procedures to which his councillors should have regard.

19. Second, where the plans provide for a level of subsidy which falls within the level indicated by the Secretary of State, councillors and passenger transport undertakings will not be subject to the present uncertainty about the likelihood of challenge on their reasonableness. It will not necessarily be unlawful for an Authority to adopt a subsidy policy in excess of the indicated level. But if they do so, they will not have the protection of the new provisions and the councillors will know they run the risk of surcharge should their action be challenged by the Auditor and found by the Courts to be unlawful.

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20. Third, transport operators will be able to provide and plan services in a more stable and longer-term framework. They will have an indication relatively early of the resources likely to be available in the following year together with a more general indication of prospects for two further years. The three-year rolling plans will allow proper consideration to be given to projects with long-term benefits and costs. This has not been possible when year-by-year pressures, ad hoc decisions and concentration on revenue budgets has been so intense.

GUIDANCE FIGURES

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21. In giving guidance figures the Secretary of State will relate the Government's view of what can be afforded nationally on revenue support to the particular circumstances in each area. A factor will be the extent to which subsidies in each area provide comparable value for money. In assessing value for money, account will be taken both of the benefits to users of public transport and of the benefits to other road users in terms of reduced congestion and accidents. It is not possible to measure all the benefits of subsidies, particularly the longer-term effects. The Secretary of State will take account of local authorities' views on these matters, but considerable weight will be given to those more direct economic and social benefits which can be measured on a comparable basis in different areas. Officials of the Department of Transport will discuss with those concerned the information and procedures needed for this purpose.

figures
22. The first guidance \wedge will apply to subsidy in the financial year 1983/84. There will not be time between now and the enactment of the provisions to follow the planning cycle outlined above. The figures for 1983/84 will therefore be based largely on assessments by the Secretary of State of information in the Transport Policies and Programmes that have been submitted to him and his judgement of the circumstances of the Authorities concerned, including recent fares policies and service changes. The schedule at the end of this White Paper sets out the figures which the Secretary of State proposes to publish for next year, once legislation provides for this. Authorities have said they would like this early indication of the proposed figures in order to take account of them in their preparation of budgets and rate requirements. The Secretary of State will of course be looking at any evidence which arises during the passage of the Bill which he feels is relevant, before advising on the effective figures immediately after Royal Assent.

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23. Work will begin early in 1983 on the preliminary stages of the cycle for 1984/85, to include the discussions described above. The broad object of the cycle as a whole will be to ensure equitable treatment between Authorities having regard to their different circumstances, the resources available and, on a comparable basis, the costs and benefits to be derived from subsidy.

THE RELATIONSHIP BETWEEN THE GUIDANCE AND TARGETS FOR LOCAL AUTHORITY
CURRENT EXPENDITURE

24. The figures will establish a legal basis for Authorities to provide a reasonable level of subsidy. In setting them, the Secretary of State will be indicating the maximum level which he considers should be exempt from challenge. It will be for Authorities to select any level of subsidy up to this. If they decide on a higher level, they would not have the protection the legislation provides. The figures ^{will}, among other things, take account of the circumstances of Authorities and if necessary, the extent to which, and the speed with which, it is reasonable for them to move towards more balanced policies. The provision of figures by the Secretary of State does not mean that he considers it necessary that Authorities should spend that amount on subsidies for public transport. Authorities will have to decide what they can afford to spend in the light of their overall budgets and the targets set by the Secretary of State for the Environment. They will have to take such targets into account when drawing up their budgets and rate demands and when deciding on the amount of subsidy. The target set by the Secretary of State for the Environment for total expenditure, and the hold-back arrangements in the block grant, will not in themselves affect the protection from legal challenge afforded by the Bill.

25. In the initial years at least, the figures will not necessarily be the same as the expenditure figures which the Secretary of State accepts for the purposes of Transport Supplementary Grant (TSG). They will indicate what is a proper exercise of powers at that time but the Secretary of State may decide that the Government should not give financial support to such a high level of subsidy and may therefore decide to accept for TSG a lower level of expenditure.

BETTER VALUE FOR MONEY

26. The processes described above should improve the value to be obtained from subsidy. Two other provisions in the legislation will help Councils and undertakings to secure better value for money. First, Authorities will be required to review the management structure and operations of their undertakings with a particular view to identifying whether small and more accountable units within the whole would bring greater efficiency. Some Authorities have already begun to review these aspects with the assistance of management consultants. The Government wishes to encourage this. The experience in the bus industry indicates that above a certain size there is no operating efficiency benefit. Co-ordination and integration can be achieved without a monolithic approach.

27. Second, Executives will be required to review where tenders to carry out certain of their activities would be appropriate and should be sought. Activities here cover both the provision by persons other than Executives of transport services and the supply of services such as catering and maintenance that are ancillary to the provision by the Executive of transport services. Executives already contract out some work of both types. Most rail services are contracted from BR and in most counties some bus services are contracted from NBC. But most bus services and main ancillary

services are provided directly by the Executive's own staff with no obligation on the Executives to consider systematically whether others could provide them more effectively and more cheaply. Wherever others can better carry out such activities they should have the chance to bid for the contract and go on to provide the service. This is especially true of the ancillary services, for the oversight of these can distract management attention from the central task of planning and running the bus services. But the search must not be confined to these; there may also be scope for some outside provision of bus services - especially perhaps for meeting these by other than traditional means for special types of transport services, for example those late at night or at week-ends. The requirement to review the scope for tendering plus the obligation to adopt such tenders where, but only where, they are more effective and cheaper will help to get better value for money both directly and because it will act as a spur for the constant self-scrutiny of the Executives' directly provided services. The Executives will be required to report annually on the progress they have made, so that councillors and ratepayers may assess this.

28. The Secretary of State, when accepting expenditure for TSG, will take into account the progress made by the Authority and Executive in seeking cost-effective management structures and securing value for money from contracting out services.

THE FRAMEWORK FOR THE FUTURE

29. The proposals set out in this White Paper are directed to achieving better public transport in some of our major cities. The Government believes that the way to provide a sound and stable basis is to plan realistically within the resources available, to have an effective system for doing this and clear responsibilities for operating services in an effective way. The framework for local transport decisions needs to encourage the balanced and accountable use of resources, better value for money and continued responsiveness to changing needs. The Government believes this will provide a permanent and stable basis for those whose job it is to provide transport services.

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30. There will continue to be a need for services planned in this way irrespective of the outcome of the consideration currently being given to wider issues of the organisation of transport responsibilities in our cities. In the case of London, the Select Committee on Transport has analysed a number of weaknesses in the present organisational arrangements and made far-reaching recommendations about how these might be tackled. The Government is currently considering these recommendations as part of its own examination of the problems of urban transport and will also shortly be receiving the recommendations of the Serpell Committee which is looking at the provision of London and South Eastern railway services. A major consideration for the Government is the need to ensure that public transport is given a firm and assured future, and that the institutional arrangements provide for this. The proposals now being brought forward in legislation tackle the immediately urgent defects that have emerged in the arrangements established in London and the Metropolitan Counties in 1968 and 1969. The Government believes this is necessary to provide stability. The Government is also examining whether a more fundamental re-organisation of transport responsibilities in cities is now required and will be setting out in its reply to the House of Commons Select Committee on Transport its proposals for change in London where it recognises that the present arrangements are no longer tolerable.

local Govt .

COPIED TO:

Private Secretaries to:

CDL

S/S for Trade

Chief Sec's Office

Lord President

S/S for Scotland

S/S for Industry

S/S for Wales

S/S for the Environment

S/S for Education

S/S for Health and Social Services

Minister of State, Environment (Tom King)

Attorney General

Chief Whip

Sir Robert Armstrong

bcc: J. Vereker



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
 Secretary of State
 Department of Transport
 2 Marsham Street
 London SW1P 3EB

28 October 1982

David

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

I am broadly content with the draft White Paper which you circulated with your minute to the Prime Minister of 26 October.

However, I think it is important that the White Paper should make it absolutely clear that the Bill will not affect the need for authorities to comply with targets for total spending, and that the protection it affords should be construed as limited to the extent that payment of subsidy is consistent with their observance. For reasons with which you are familiar, we shall still have to tell authorities that they may not be able to afford to spend up to the limit set by the guidelines if they choose to spend such amounts on other services that their total expenditure may exceed their target.

To avoid misunderstanding on the part of readers, I think that the overriding importance of targets should be brought out early in the paper, at the time that the guidelines are first explained. This could be done by inserting as the fourth sentence of paragraph 13:-

"It will, of course, still be necessary for authorities to take account of the targets for total expenditure set by the Secretary of State for the Environment (see also paragraph 24 below). This may affect the amount an authority can spend on transport."

The paragraph would then continue:

"But with that proviso, the proposed legislation will put beyond doubt....."

I suggest that paragraph 14 should then begin:

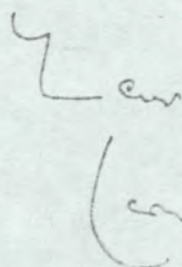
"The new legislation will provide that what is a reasonable and lawful level of subsidy so far as transport considerations are concerned will be determined on a common basis for London and the Metropolitan Counties."

In the last line of paragraph 18 it would be better to say "those considerations and procedures relating to transport": and in paragraph 19 I believe it is necessary to add at the end of the first sentence the words "on transport grounds".

I understand that my officials have already suggested an alternative version of paragraph 24, and I hope it will be acceptable. Indeed, I trust you will agree that all these changes are consistent with the understanding that we have reached on the position of the guidelines in relation to targets and, in particular, with the agreement we have reached on the target for the GLC.

Finally, I doubt if we should go so far as to say in the final paragraph of the White Paper that the present arrangements for London "are no longer tolerable". That would let the GLC see itself as already condemned in its transport function, with nothing to lose whatever actions it took. We have not, after all announced or even concluded our decisions on what should be done. I would therefore prefer that the White Paper should end by saying simply that the Government will be setting out its proposals for change in its reply to the House of Commons Select Committee!

I am sending copies of this letter to the recipients of yours.



LEON BRITTAN

Local Govt. Central/Local Relations,
P7-14

UNIVERSITY OF
TORONTO

20 OCT 1982

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

NBPM
mwr 2/11

29 October 1982

Dear Chief Secretary

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

Thank you for your letter of 28 October commenting on my draft White Paper.

I am afraid that I cannot accept the amendments you suggest to paragraph 13. Our officials have been trying hard to find a form of words which we can both accept but it appears that there may be a difference of view between us about the intention underlying the Bill.

As I understand it, the purpose of the amendment to the draft which you are suggesting is to make it clear that the protection afforded by Clause 5(2) of the Bill for expenditure up to my guideline should apply only in the context of what is lawful under Transport legislation.

It envisages that expenditure within the guideline might still be challenged if an authority's total current expenditure exceeds its target. However I am advised that as the Bill stands, any level of subsidy up to the guideline would be protected in these circumstances. If the White Paper casts doubt on this, there would inevitably be probing amendments during the passage of the Bill which would place me in a very difficult position.

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I could not agree to amend the Bill to meet your point since this would actually reduce its effectiveness in containing public expenditure. If reasonable transport subsidies by over-spending authorities were not protected by my guideline it would greatly reduce the incentive for them to keep within them. This would be particularly dangerous in the case of the GLC.

I quite understand your wish for the White Paper to make it clear early on that authorities must take their decisions on subsidy in the context of their overall targets. I am attaching a suggested redraft of the end of paragraph 13 and beginning of paragraph 14 which I believe meets this point. I must finalise the text for printing at proof stage on Monday afternoon. If you see any difficulty I should be grateful if you would let me know as early as possible on Monday morning.

I am copying this to the recipients of our earlier correspondence.

Yours sincerely

Sue Faulkner
PRIVATE SECRETARY:

for DAVID HOWELL

(Approved by the Secretary of State and signed in his absence).

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WHITE PAPER ON PUBLIC TRANSPORT IN CITIES

Suggested re-draft

Para 13, line 13

..... The proposed legislation will state that subsidy payments up to the level indicated by the Secretary of State for Transport are to be a proper exercise of the Authority's power. Councillors will then be able to take decisions on the overall amount of current expenditure, taking account both of the targets set by the Secretary of State for the Environment and also of the guidance by the Secretary of State for Transport. If nevertheless, the Authority should decide for a higher level of subsidy, councillors will know that they run the risk of surcharge should their action be challenged by the Auditor and found by the Courts to be unlawful.

Ratepayers will continue to have the right to challenge expenditure above the indicated level where they think it is unreasonable.

There is a need for a common framework for determining subsidy in London and the Metropolitan Counties, and there is no justification for the present difference in financial duties. The legislation will provide a common framework and a common financial duty. The level of subsidy

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*cc J.V.
Local Govt*



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT
AND ENVIRONMENTAL SERVICES

*NB PM
ms 2/4*

2 m's

My Ref: H/PSO/17455/82

1st November 1982

D. D. D.

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

below

I have seen a copy of your letter of 29 October to Leon Brittan.

I am sorry that you are not willing to accept Leon's suggestion for amending paragraph 13, which would have made it clear beyond any doubts that the expenditure targets will be paramount. That was one of the points on which I thought we had agreed at Leon's meeting on 26 October. However, I would not wish to press the point, provided that paragraph 25 is retained; this makes it clear that local authorities "will have to decide on the amount within their transport guidance figure that they can afford to spend on subsidy in the light of the expenditure targets".

But while that resolves the immediate question of the text of the White Paper, I am afraid that there may still be an underlying ambiguity about the relative status of the expenditure targets and the transport guidelines. I should therefore be grateful if you would ensure that my Department is consulted on what you propose to say about this both on Second Reading of your Bill and in Standing Committee.

I am sending copies of this letter to the recipients of our earlier correspondence.

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TOM KING

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Prime Minister 2



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Wh
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The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster
and Paymaster General
Management and Personnel Office
Whitehall
SW1A 2AZ

4 November 1982

Cecil

The Transport Bill, whose main purpose is to control public transport subsidies in the GLC and the Metropolitan Counties, is to be published on Friday. A White Paper will be published simultaneously. An inevitable implication of our intention to squeeze down public transport subsidy next year is that even allowing for considerable service cuts and possible efficiency savings, fares will have to rise significantly in real terms everywhere except in Manchester and London. As soon as the GLC and Metropolitan Councillors have had time to study the guidance figures, they will no doubt make much of this and accuse us among other things of directly pushing up the cost of living.

I thought it might therefore be helpful for you and other Cabinet colleagues to know the line I shall be taking. This will be that the figures envisaged

- cannot and do not ignore the need to contain the growth of public expenditure. Transport cannot be immune;
- aim to mitigate the damaging impact of high rates on householders and businesses;
- create stability by clarifying what is a reasonable balance between the interests of travellers and those who provide subsidies. People will then be able once more to plan their affairs and their finances;

and transport undertakings to concentrate on greater cost-effectiveness.

More specifically, on London I shall say that the figures do not require any general fare increase (whatever the GLC claim); that it will be right for LT to continue to seek to remove some of the glaring fares anomalies but that this process must have regard to what can be afforded now; and that lower fares should be financed by the cost savings that could be secured in LT. I shall categorically refute that in London the cost of travel will be pushed up if they keep to the guidance figure.

On the Metropolitan Counties I shall seek to avoid being drawn on fares effects (our figures assume rises between 15% and 32% with over 100% in South Yorkshire). My line will be that my guidance figures are all well above the level of revenue support accepted for Transport Subsidy Grant in 1982/3 so that provided they contain their costs, there is ample scope for them to strike the right balance of fares and services. The provisions do not constrain the (generous) concessions to the elderly and disabled. But I shall take a more aggressive line on South Yorkshire that fares will certainly be expected to increase substantially from their present quite unrealistic level towards something representing better value for money.

On the overall point that the price increases in the Metropolitan Counties are inflationary, my response will be:

- first that what people have to pay in rates is also part of the cost of living - there is no avoiding rises in the RPI if costs are rising;

- second, the reason rises may be needed in some places is that fares were deliberately and irresponsibly cut regardless of cost;
- third, increases in public expenditure beyond what we can afford will undermine our counter-inflationary strategy on which our whole economic future depends.

Colleagues visiting metropolitan areas over the next few weeks might like to get further briefing from my Department especially on the effect of high fare subsidies on business rates and therefore jobs in these areas. I shall also be liaising closely with our London Parliamentary colleagues (as well as those with seats in the Metropolitan areas) and with our GLC and Metropolitan Authority councillors to get our message across.

I am copying this to the Prime Minister, other members of the Cabinet, the Chief Whip and to Sir Robert Armstrong.

*Yours
David*

DAVID HOWELL

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24 NOV 1962



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

The Rt Hon Tom King MP
Minister for Local Government
and Environmental Services
Department of the Environment
2 Marsham Street
SW1

MUS 80/11

9 November 1982

Ice To

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

Thank you for your letter of 1 November.

I was grateful for your agreement to the White Paper going forward in its present draft, including paragraph 25 from which you quoted.

The Bill is of course clear that payments up to the guidance are to be regarded as a proper exercise of power. I recognise however that it is very desirable that there should be careful handling of the relationship between the targets and guidance, or protected expenditure levels, and I am sure our officials need to keep in close touch about material to be prepared for Second Reading and for Standing Committee.

I am copying this letter to recipients of our earlier correspondence.

Yours

David Howell

DAVID HOWELL

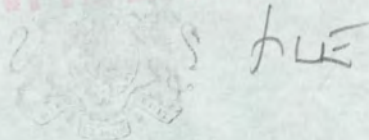
LOCAL GOV; RELATIONS BETWEEN CENTRAL
AND LOCAL GOV ; PT 14.

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RM.



By C. J. VEREKENY.

10 DOWNING STREET

From the Private Secretary

25 October, 1982

PASSENGER TRANSPORT BILL : GUIDELINES

The Prime Minister saw over the weekend a copy of your Secretary of State's letter of 22 October to the Home Secretary.

The Prime Minister has commented that she hopes that this issue can go to Legislation Committee during this week.

I am sending a copy of this letter to the Private Secretaries to members of MISC 21, Jim Nursaw (Attorney General's Office), Murdo Maclean (Chief Whip's Office), and Richard Hatfield (Cabinet Office).

M.C. SCHOLAR

R Bird, Esq.,
Department of Transport

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434



Prime Minister (2)

The Rt Hon William Whitelaw CH, MC, MP
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
SW1H 9AT

MUS 22/10

I hope this can go to
leg: committee
then bump into
me

22 October 1982

mt

Dear Secretary of State,

PASSENGER TRANSPORT BILL: GUIDELINES

I understand that a meeting of MISC 21 has now been arranged for next Tuesday. It is very important that we should settle at this meeting the guideline figures for public transport subsidies next year to accompany publication of my Bill the following week. My letter of 15 October to Michael Heseltine explained why I regard a 1983/4 transport subsidy guideline of £125million for London as essential and the problem of reconciling the proposed RSG target for London with this figure. I have since written to the Attorney General on the legal issues and I hope we shall have the benefit of his advice when we discuss this. Subject to his views there should not be much difficulty about the figures for the metropolitan counties. But as time is so short, I feel I ought to let you know in advance of the meeting of the very serious concern I feel about the political and practical problems we are facing over the London figures which are at issue.

It is already clear that the GLC will ignore the overall expenditure target which Michael Heseltine is proposing. It is so tight that GLC officers are advising the Council that they do not expect to receive any grant on even their minimum budget. The holdback arrangements will therefore exercise no restraint over the GLC's wilder excesses.

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My Bill offers the only prospect of preventing extra transport spending of some £100m in London next year, and the consequent increase in rate burdens. My advice from within the GLC is that we have a good chance of heading off Livingstone's proposed 25% fare cut provided that our guideline is clearly seen as reasonable and workable.

There is no question of setting a lower guideline. That would mean still higher fares after the huge increase this year when we have already said that they are too high as it is and our supporters have made their views known in the strongest possible terms. London Transport fares are already half as high again as those on BR. If they were increased further they would become even more inconsistent with other fare levels and would be higher than in any other city I know of in the world.

A further point is that the GLC for their part are likely to claim, on the basis of Counsel's opinion, that a cut in their subsidy which required further significant fare rises early next year could breach their statutory duty to Londoners under the 1969 Act. There would be three consequences of an unrealistic guideline:

- (1) Livingstone would disregard the guideline and go ahead with fares cuts;
- (2) there would be another period of instability and the guideline would probably prove a flimsy weapon for challenges by ratepayers;
- (3) we would be left with the odium of proposing unpopular fare increases while in practice failing to hold down public expenditure and rate rises.

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I think we should find ourselves in a quite indefensible position which we would have great difficulty in explaining to our supporters in London.

We are now at an absolutely crucial point in timing. My Bill did not go to Legislation Committee this week on account of the problem over reconciling the guidelines with overall expenditure targets. Unless we can settle this on Tuesday, it will miss next week as well. Yet if I do not introduce the Bill by 5 November, we will be at direct risk of failing to achieve enactment in time for the end of the financial year, even with a guillotine, with all that implies for our aim of restraining excessive spending. I must therefore ask my colleagues to agree that there are overriding political and practical reasons for deciding on a guideline of around £125m for London, and that we shape our overall policies on holdback and targets to allow the transport subsidies legislation to do its job.

I am copying this to the Prime Minister, other members of MISC 21, the Attorney General, the Chief Whip and Sir Robert Armstrong.

*Yours sincerely,
R. Bird*

for DAVID HOWELL

(Approved by the Secretary of State
and signed in his absence)

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HMU JOE CSO CWO
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DES WO JLN
NIO D/Ind file D/m

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10 DOWNING STREET

From the Private Secretary

20 October 1982

Dear Richard,

Passenger Transport Bill

The Prime Minister has seen your Secretary of State's minute of 18 October proposing two modifications to what was agreed at Cabinet on 12 July about curbing excessive subsidies to public transport in the GLC and the Metropolitan Counties.

The Prime Minister agrees to these two modifications, and does not think that it will be necessary to take the matter back to Cabinet.

I am sending copies of this letter to the Private Secretaries to the other members of the Cabinet, Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Richard Bird, Esq.,
Department of Transport.

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cc: [unclear]
Prime Minister (1)

Prime Minister

*Agree these
two changes?*

PASSENGER TRANSPORT BILL

Yes not

MUS 29/10

The Bill that Cabinet agreed on 12th July should be introduced as soon as possible to curb excessive subsidies to public transport in the GLC and the Metropolitan Counties is now drafted and will be taken by Legislation Committee on 20 October. During the process of drafting, I have given further consideration to two elements of the package I proposed and have agreed with Michael Heseltine and Leon Brittan that we should make two modifications.

The first is to drop the inclusion of a reserve power for taking over the role of the GLC or a Metropolitan County Council. In due course, probably after a General Election, we may be taking London transport away from the GLC anyway. But in the meantime I have come to the conclusion that to include the reserve powers in the Bill would weaken our hand and arouse the very resentments among our own supporters which have dogged earlier legislation. Also the inclusion of reserve powers might give some of the local authorities the incentive deliberately to try and make us use the powers, whereas I would prefer to see them left in the position where they are the ones at risk if they step too far. It seems to me therefore right not to include the powers in the Bill but to rely - as elsewhere in the provisions - on the discipline of the courts and the auditors to deal with authorities that step out of line. Under local government legislation which becomes law next year we will be able to order an extraordinary audit of local government expenditure and I believe this is the right weapon to use. The work we had done on the provisions means that were it essential the reserve powers could be introduced at short notice, but I have concluded it is tactically wrong to include them at this stage.

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The second point is the way we can encourage more private sector competition and participation through requiring executives to examine the possibility of putting services out to tender. Again, I concluded that a direct role by myself for example through an Appeal procedure, would be complicated, bureaucratic and probably unworkable because of the time it would take. Instead I shall be requiring statements on tendering to feature in the Executives' Annual Reports. I would also make clear that if I felt authorities were not getting the best value for money because of their failure to make much progress in this direction I would take this into account in deciding the level of accepted expenditure for transport supplementary grant.

Because these are changes following a decision by Cabinet, I thought it right to tell you what was proposed and what those of us most directly concerned had agreed was the best way forward. I very much hope you will agree it will not be necessary to take the matter back to Cabinet since to meet our target of getting the Bill through the House before the end of the financial year I am hoping to get agreement at L Committee to introduction for 4th November.

I am copying this to other members of the Cabinet, the Chief Whip and Sir Robert Armstrong.

DH.

DAVID HOWELL
18 October 1982

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Local Govt, Central/Local Relations, P44



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