

cc NO

NBPM AD 7/12



Treasury Chambers, Parliament Street, SW1P 3AG

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

6 December 1983

Nicholas Ridley

PROTECTED EXPENDITURE LEVELS (PELs) FOR TRANSPORT 1984-85

Thank you for your letter replying to mine of 29 November. I have also seen Patrick Jenkin's letter to you of today's date. I am grateful to Patrick for assuring me that, with the benefit of legal advice and notwithstanding anything said last year, he regards the nature of PELs as maxima as sufficient to rebut any suggestion that they prejudice the reasonableness of his targets. I am prepared on that basis, and in the light of what you will be saying in decision letters to Passenger Transport Authorities, to agree to the PELs set out in your letter of 8 November.

My remarks about the way that possible fare increases are described still stands. And I take it that remarks about the future path of fare attributed to you in the press since the LRT Bill was published do not weaken our agreement that the net Exchequer contribution should not rise. Clearly one way of achieving this is a real increase in fares in London.

I am copying this letter to the other members of E(A) Committee and to Sir Robert Armstrong.

Your man R.E.

PETER REES

local Gov relations

7 DEC 1983





NBPM

AT 5/12

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Dear Mr Ridley

5 December 1983

PROTECTED EXPENDITURE LEVELS FOR TRANSPORT 1984/85

I have seen the Chief Secretary's letter of 29 November to you.

The terms of my letter to you of 22 November stand. I accept that in the extended discussions last year on the compatibility between targets and PELs there was a general feeling that when taken together with our expenditure targets we should not let PELs imply cuts of more than 10% on other services. But as I understand it these discussions were taking place against the background of a Department of Transport policy to the effect that PELs represented a reasonable view on what should be spent by local authorities on public transport. As a result of the discussions the nature of PELs changed. PELs became maximum levels which you considered justified by way of support for public transport. Section 4(5) of the 1983 Transport Act makes this clear, and you have, as I understand it, accepted that in deciding whether it could afford to spend up to PEL, each authority would need to take account of the expenditure targets issued by me.

On the basis that this remains the current policy of the Department of Transport, then with the benefit of advice by my own lawyers I can confirm that in my view my position in any court action against me about the reasonableness of my expenditure targets will not be prejudiced by the existence of the PELs proposed by you in your letter of 8 November.

I am copying this letter to the other members of E(A) committee and to Sir Robert Armstrong.

Yours sincerely

A.H. Davis

PP PATRICK JENKIN

Approved by the SAs
and signed in his
absence

Local Gov: Relations: 1978

5 DEC 1983

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6 7 8 9 10 11 12



C. 100
NBPM at this stage

AT 20/11

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley QC MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

29 November 1983

Dear Secretary of State,
PROTECTED EXPENDITURE LEVELS (PELS) FOR TRANSPORT 1984-85

Thank you for your letter of 8 November. I have also seen Patrick Jenkin's letter to you of 22 November. I would be prepared to accept a set of PELs summing to broadly the same cash total as last year, were it not for the implications with regard to other spending signals we are giving to local authorities.

As you say, PELs have not had a uniform impact, and they have been disregarded completely by three authorities. I appreciate, too, that PELs indicate the maximum levels of subsidy which are offered special protection under the law, and that in fixing their budgets authorities need to take a view on what they can afford to spend within their targets. But the impact on our policies is bound to be weakened in cases like Tyne and Wear, where spending up to PEL and remaining within the target would imply a 15 per cent cut in other services, apart from the police and debt charges, and more if expenditure on police was allowed to rise in line with costs.

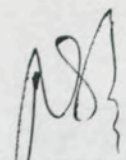
With that as background, I am not sure that Patrick Jenkin's letter gives sufficient assurance that the levels of PELs proposed offer no threat to targets. I realise that no authority has challenged the reasonableness of targets this year. But with the markedly more severe targets and holdback we have agreed for 1984-85 the risk of authorities doing so must have increased. Whatever we might say about PELs being maxima, we should not give currency to figures for revenue support that are too far out of scale. It is as well to remember that spending above PELs is not itself illegal, so that lower PELs would not entail a definitive judgement on the maximum subsidies which are reasonable.

Last year, as you say, it was felt that we should not let PELs imply cuts of more than 10 per cent on other services. There is no magic in that particular number, but the cuts implied in 1984-85 significantly exceed that amount in Tyne and Wear and (if police expenditure is protected) Greater Manchester. Outside the GLC, none of the targets for 1984-85 requires a cash cut of more than 6 per cent on this year's budget, and even that is a long way from the cut of 2½ per cent implied in the event for other services by PELs this year. There seems to be a problem here of credibility which has not yet been resolved. In the case of Tyne and Wear, the PTE seem able once again to be able to draw on reserves to keep the level of fare increases comparatively low. I would have thought that in their case, at least, you could reduce the PEL proposed, but changes should be possible in others as well.

I realise that the implication of our figures, especially if we reduce them in the way I have proposed, is that fares should be increased above the level of inflation. In some cases the changes would be dramatic. But I think we must follow through our declared policies with consistency, recognising in the case of South Yorkshire and Merseyside, for example, that percentages tend to exaggerate the effects of increased in the present very low fares. The position is especially important in London, since the PEL will be taken as implying a level of support for LRT after vesting day. In view of what the GLC are saying, I assume you will want to comment publicly on your intentions on fares when their PEL is published.

I am copying this letter to the other members of E(A) Committee, and to Sir Robert Armstrong.

yours sincerely


PETER REES

(approved by the Chief Secretary
& signed in his absence)

Local Gov
Relations Pt 18

30 Nov 1983





NBPM
AF 22/11

ce NO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/16588/83

Your ref:

22 November 1983

Dear Nick,

Thank you for sending me a copy of your letter of 8 November to Peter Rees about 1984/85 protected expenditure levels for transport (PEL's).

I agree with your proposals, and that you should make an early announcement.

I note what you say about the issue of the consistency between PEL's and expenditure targets. I agree that we must continue to emphasise that PEL's are upper limits only. To meet its expenditure target, an authority may not be able to meet its PEL.

I am copying this letter to the other members of E(A) committee, and to Sir Robert Armstrong.

Yours ever
Patrick

PATRICK JENKIN

U.S. GOVT
Lower
Relations
pt 18

22 Nov 1983



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NBP 07 BT

16/4



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400

Switchboard 01-213 3000

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

16 November 1983

Nick

PROTECTED EXPENDITURE LEVELS FOR TRANSPORT
1984-85

Thank you for sending me a copy of your letter
of 8 November to the Chief Secretary. I am
content with your proposals.

Copies of this letter go to colleagues on E(A).

[Handwritten initials]

Local Govt: Relativität 18.

Prime Minister



CCNO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury
Parliament Street
LONDON
SW1

8 November 1983

Dear Peter

PROTECTED EXPENDITURE LEVELS FOR TRANSPORT 1984/85

The purpose of this letter is to seek your agreement, and that of colleagues to the Protected Expenditure Levels (PELs) for 1984/85 which I propose to set for the GLC and the Metropolitan Counties as I am required to do by the Transport Act 1983. These constitute my guidance on the maximum amount of revenue support for which these authorities should have protection against legal action by their ratepayers.

David Howell exchanged correspondence with Leon Brittan earlier this year about the statutory advice given to London Transport and the PTEs for preparing their plans. It was agreed that this should be on the assumption that PELs for 1984/85 would not be greater in total in cash terms than those for 1983/84 (with special provision for Tyne and Wear, where the 1983/84 PEL had been abated to take account of their substantial drawing on reserves).

The proposals from authorities total £548m, nearly £200m above the initial advice. This is totally unacceptable. However I have to set the PELs at a realistic level if they are to exercise an effective constraint on subsidy levels and to enable them to be successfully defended in Court if necessary. Furthermore they will be seen as a signal of the Government's intentions about the level of expenditure envisaged for the new London Regional Transport body, and the rate-capping and budgetary control of the new joint boards (PTAs) following abolition of the metropolitan county councils.

The figures I propose are set out below.

	<u>GLC/MCC Proposal</u> <u>1984/85</u>	<u>Proposed PEL</u> <u>1984/85</u>
GLC	232.0*	125.0*
GMC	62.1	50.0
MERSEYSIDE	70.7	43.0
SOUTH YORKSHIRE	Up to 68.0	36.0
TYNE AND WEAR	22.5	22.5
WEST MIDLANDS	38.75#	30.0
WEST YORKSHIRE	54.0	46.0
	<hr/> 548.05 <hr/>	<hr/> 352.5 <hr/>

* excluding depreciation and renewal met by capital grant

TPP bid. No plan formally submitted yet.

The small total increase (£5m) on 1983/84 PELs is more than accounted for by the increase in depreciation provision (£7m). After taking account of NIS reduction the real cut in current expenditure compared with 1983/84 PELs is 4½%. The cut is over 20% in cash compared with 1983/84 budgets. The individual PELs are based on thorough scrutiny of the plans produced by the PTEs (except West Midlands) and LT, and are the tightest I believe we can sustain. They allow for an overall reduction in unit costs and service levels totalling 5% - a reduction which I believe is achievable, but which certainly sets a tough standard and one which the PTE plans have claimed would be impossible.

In assessing the consequences for fares, our objective has been to set PELs at a level which would demand less drastic but still substantial increases from those authorities which have, on the whole, shown themselves willing to cooperate with Ministers. Even here, the increases would be of the order of 10%, or twice the rate of inflation we are working to achieve next year. Anything much in excess of that will pose very difficult problems for colleagues from those areas when they are called upon to defend the Government's decisions. For other areas, where there has been no sign of cooperation, the increases are much steeper. For South Yorkshire the increase would, on our reckoning, be well over 100%, and for Merseyside between 30% and 50%. The authorities themselves will claim that the implied increases are even higher. Overall, conurbation bus fares would increase by 20% - or four times the rate of inflation - even on the basis of my rigorous cost and

service-cutting assumptions. I believe that this is a fair package which recognises the real efforts that some authorities have made to meet us on acceptable levels of subsidy, whilst being properly stringent on those who have refused to co-operate. Anything less would in my view be difficult to defend and open to charges of inconsistency.

Our officials have discussed these proposals. I understand that your officials agree that the PELs for the Metropolitan County Councils are as stringent as we can afford to make them in the light of the fares implications, except that they have reserved the position on London pending our further discussions on LRT.

Colleagues will be concerned about two particular aspects of these figures - their implications for the unallocated provision and for targets. First, the drawing on the unallocated provision is £135m, rather less than last year. I recognise that we have cut the total unallocated provision to £625m for 1984/85 but colleagues will recognise that PELs are not figures which I am endorsing as the appropriate level of revenue support: they are limits above which authorities risk Court action. So it is misleading for the Associations to imply that they have the effect of pre-empting part of the unallocated provision. They have the same status as targets, not as allocated service expenditure.

Second, colleagues may recall that last year a considerable effort was made to check and ensure that targets and PELs were reasonably consistent. It was felt that if spending in line with PELs implied a cut of more than 10% in other services, it would put the targets at too great a risk of legal challenge. With DOE help my officials have done the same calculations for 1984/85. Assuming no cash cuts on police expenditure or debt charges, only for two MCCs is the implied cut in other services over 10% - Greater Manchester (11%) and Tyne and Wear (15%). In Tyne and Wear's case I understand that the PTE could make further use of reserves to reduce the problem. In the end, last year, this question of inconsistency was never raised by local authorities. The targets are in any case much tighter for 1984/85, requiring cuts of up to 34% (for the GLC). In the GLC and South Yorkshire cases the very tight PELs require much bigger percentage cuts than do the targets and so actually reduce the required cut on other services. My officials have discussed this aspect with DOE officials. They agree that the relationship with targets is defensible providing emphasis is placed on the role of PELs only as limits, as described above.

In the light of these considerations I would be grateful for colleagues' agreement to announcing these PELs, including the PEL for the GLC. I need to do so as quickly as possible if they are to have a significant impact in reining back revenue support for public transport in the conurbations. I am copying this to members of E(A) Committee.

Yours sincerely
Nicholas Ridley

10 JUL 1983

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10 JUL 1983